Trade Trends in the Western Hemisphere

Impact of the Panama Canal Expansion and prospect of opening Cuba to U.S. Trade

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Consultor: Logitran Advisory Services, Corp.
Tipically, planners predict behavior focusing on predictable scenarios.
Problem is that Black Swans are usually outside of the planner’s radar screen.
The problem is that Black Swans are usually outside of the planner’s radar screen.
However, Black Swans can dramatically change the future, and make previous strategies fail.
• The Expansion of the Suez Canal
• The Construction of a Nicaragua Canal
• Lifting of the Cuba Embargo
• The Expansion of the Panama Canal

Are not Black Swans,
Their impact is predictable
• The Expansion of the Suez Canal
• The Construction of a Nicaragua Canal
• Lifting of the Cuba Embargo
• The Expansion of the Panama Canal

Their impact can be assessed with prospective planning, and a flexible outlook
PREDICTABLE SCENARIOS BASED ON CURRENT TRENDS

- Slower economic growth (Recession in Brazil)
- Growing Population
- Aging Population in Industrialized Countries
- Migratory Revolution
- Share Economy
- Globalization fundamentals still valid
- New and wider scope Trade Agreements (Pacific Alliance - Mexico, Colombia, Peru and Chile)
- Increasing risks due to terrorism / Security concerns
- Increasing social tension
- Religion diversity tolerance
- Lower demand from China

- Near sourcing/shoring
- Currency and commodity price declining
- Low Price of Oil
- Global Warming – Environmental concerns
- Fresh Water – a scarce resource
- More freight in fewer gateways / transhipment hubs
- Congestion
- New TICs / some disruptive (potential Black Swans) E-COMMERCE

- Ocean carriers continue to invest in larger vessels
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The Current State of the Industry: An Unhealthy Standoff

Terminal Operators

Economies of scale (larger ships)

Freight rates

Jean P. Rodrigue (TOC Americas)
The Current State of the Industry: An Unhealthy Standoff

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Economies of scale

Overcapacity / utilisation rates

Financial under performance

Falling freight rates

Alliances

Source: Drewry Maritime Research
• The Expansion of the Suez Canal

Their impact can be assessed with prospective planning, and a flexible outlook
Deepening Bypasses (37 km) to accommodate ships with draft 66 Ft
Dredging new channel (35 Km) From km 60 to km 95
SUEZ CANAL EXPANSION
### Analysis of the distance and time of navigation of some routes between Asia Europe and the East coast of the USA

#### The Shanghai-Rotterdam case

<table>
<thead>
<tr>
<th>Route</th>
<th>Distance (in nautical miles)</th>
<th>Hypothetical days of navigation (15 knots)</th>
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<tbody>
<tr>
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<td>Cape of Good Hope</td>
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<td>Strait of Magellan</td>
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#### The Yokohama-Rotterdam case

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<tr>
<td>Suez</td>
<td>11,133</td>
<td>31</td>
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<tr>
<td>Cape of Good Hope</td>
<td>14,448</td>
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#### The Hong Kong-New York case

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</thead>
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<tr>
<td>Suez</td>
<td>12,370</td>
<td>34</td>
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<tr>
<td>Cape of Good Hope</td>
<td>14,468</td>
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#### The Shanghai-Houston case

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<tr>
<td>Suez</td>
<td>13,932</td>
<td>39</td>
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<tr>
<td>Cape of Good Hope</td>
<td>15,176</td>
<td>42</td>
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### The impact of the Suez Canal's expansion

- **▲** Route where Suez is already more competitive
- **▲** Route where the potential competitiveness of Suez against Panama is considerable
- **▲** Route where the potential competitiveness of Suez against Panama is evident
- **=** Route where there are no significant effects

[www.srm-maritimeconomy.com](http://www.srm-maritimeconomy.com)
Opportunities To Triple-Dip via Transshipment.
Regional Development Strategy

http://www.sczone.com.eg/English/Pages/default.aspx
Ports & Logistics

Investment opportunities in the development of Ain Sokhna Port and East Port Said Port and the associated terminals and facilities: container terminals, bulk and general cargo terminals, logistics, warehousing and distribution centres as well as dry ports.

Maritime Services

With over 17,000 ships passing through the Canal every year, the SCZone is ideally located for the development of maritime related activities including ship building and ship repair services, bunkering, vessel scrapping and recycling.

Industry

The industrial areas of Ain Sokhna, East Port Said and Qantara provide vast land areas for light, medium and heavy industry. Potential opportunities are available in pharmaceuticals, food processing, automotive, consumer electronics, textile and petrochemicals.

ICT

With a rapidly-expanding and well-recognised ICT industry in Egypt, the SCZone offers investors high quality facilities to engage in research and development, software development and other activities.

Renewable Energy

The renewables sector is highly promising with strong potential for solar and wind farm development, and for the establishment of clean energy industries.

Other Areas of Opportunity

The integrated nature of the SCZone is such that there will be numerous opportunities for residential, commercial, mixed use developments, as well as key social infrastructure.
• The Expansion of the Suez Canal
• The Construction of a Nicaragua Canal

Their impact can be assessed with prospective planning, and a flexible outlook
According to the schedule provided by HKND, the main works, including construction of the world’s largest lock and full excavation of the waterway, will start by the end of 2016. A year before that happens, they are devoted to construct infrastructure facilities, logistics system and preparatory works for the West Port.

Source: HKND web page
Pang Kwok Wai indicated that the approval of the ESIA is a critical breakthrough and the Project is now moving forward as scheduled. In the next stage, the resettlement of 27,000 residents (6,800 households) is even more important and challenging than any other technical problems that might arise during the construction phase, he added.
Doubts towards the Project involve financing and economic operating issues, for example, according to one calculation method, the annual return is expected to be US$1 billion; then under the half split scheme with Nicaraguan government, how to reach the breakeven point and make it profitable. How would you respond to these doubts?

Pang Kwok Wai: The calculation method of many who doubt has serious defects. The Project is not only relying on the transportation, but also on the Free Trade Zone, Ports, tourism and etc. The economic feasibility study was carried out and completed by McKinsey & Company and now we are also doing further financial return projections.
Blue Banana, original concept by J.P. Rodrigue
The central location of Jamaica designates to the island as the main competitor in three branches of the Caribbean.

What would be the Potential Impact of the Construction of a Canal/Ports in Nicaragua?

Blue Banana, original concept by J.P. Rodrigue
• The Expansion of the Suez Canal
• The Construction of a Nicaragua Canal
• Lifting of the Cuba Embargo

Their impact can be assessed with prospective planning, and a flexible outlook
December 17, 2014
January, 2015
May, 2015
July, 2015
August, 2015
October, 2015
November, 2015
December, 2015
2016...

Resumen ejecutivo

Actualización sobre eventos en Cuba

<table>
<thead>
<tr>
<th>Estado Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Se reestablece de dialogo entre Cuba y Estados Unidos – 17 de diciembre 2014</td>
</tr>
<tr>
<td>• Se amplía las oportunidades de viajes y de remesas – enero 2015</td>
</tr>
<tr>
<td>• EE.UU. la saca a Cuba de la lista de Estados patrocinadores de terrorismo – mayo 2015</td>
</tr>
<tr>
<td>• Se reestablecen embajadas diplomáticas en ambos países – julio 2015</td>
</tr>
<tr>
<td>• Secretario de Estado John Kerry visita Cuba – agosto 2015</td>
</tr>
<tr>
<td>• Secretario de Comercio, Penny Pritzker visita Cuba – octubre 2015</td>
</tr>
<tr>
<td>• Secretario de Agricultura, Tom Vilsak visita Cuba – noviembre 2015</td>
</tr>
<tr>
<td>• Se abre el Puerto de Mariel</td>
</tr>
<tr>
<td>• Primera etapa del proyecto (28 hectáreas de parque logístico)</td>
</tr>
<tr>
<td>• Más de 100 empresas invierten en el puerto del Mariel</td>
</tr>
<tr>
<td>• Se establece acuerdo migratorio entre Panamá y Cuba en contribución a la seguridad migratoria – septiembre 2015</td>
</tr>
<tr>
<td>• Se reabren los vuelos programados de Estados Unidos a Cuba</td>
</tr>
<tr>
<td>• Se dialoga sobre acuerdos comerciales con Estados Unidos en inversiones en el puerto del Mariel</td>
</tr>
<tr>
<td>• Cuba logra el segundo lugar en destinos de cruceros por detrás de República Dominicana</td>
</tr>
<tr>
<td>• Se inicia la construcción del ferrocarril de la Habana al Puerto de Mariel ya que era el único puerto importante que no estaba conectado a las vías ferroviarias.</td>
</tr>
<tr>
<td>• Santiago de Cuba abre nuevas potencialidades a turismo</td>
</tr>
<tr>
<td>• El Presidente Obama apoya el fin del embargo de Cuba en la ONU</td>
</tr>
<tr>
<td>• El Presidente Obama ha indicado su interés en visitar a Cuba – diciembre 2015</td>
</tr>
</tbody>
</table>
En Desarrollo

- Puerto de Mariel
  - Cuba autoriza a empresas de Estados Unidos para instalarse en Zona de Mariel
  - Puerto de Mariel recibirá buques Postpanamax
  - En busca de inversionistas para el centro logístico de Mariel
- Puerto de Santiago de Cuba: en construcción
- Desbloqueo Económico de Estados Unidos
- La cadena hotelera Meliá concentrara en Cuba su expansión
- Legislación sobre comercio:
  - Agricultura
  - Productos farmacéuticos
  - Energía
Cuba could be “game changer” for the region

- Cuba’s geographical position could make it the main logistics and manufacturing center for the U.S.;
- Want nearer sourcing?
- The impact on tourism alone, could be dramatic.
- CHEC already began the development of a multipurpose terminal near Santiago, Cuba.

**THE FINANCIAL TIMES, JUNE 16, 15****

**Opinion: Could Cuba be Vietnam in the Caribbean?**

Richard E Feinberg-Hanoi may have lessons for Havana
CORREDORES ECONÓMICOS INTEROCEÁNICOS MULTIMODALES

WANT MORE IMPACT OF NEAR SOURCING?
VEHICLE EXPORTS FROM MEXICO, 2014
• The Expansion of the Suez Canal
• The Construction of a Nicaragua Canal
• Lifting of the Cuba Embargo
• The Expansion of the Panama Canal

Their impact can be assessed with prospective planning, and a flexible outlook
New Panama Canal makes thousands of ships redundant

BULK: The expansion of the Panama Canal will make thousands of ships in the Panamax fleet redundant, projects Drewry in comments to ShippingWatch. This puts shipowners in a dilemma that could ultimately impact the whole industry.

New Panama Canal could mean comeback for Capesize

BULK: When the Panama Canal opens the new and expanded locks, new opportunities will arise for the many Capesize vessels, which make up one of the most troubled segments in the whole maritime sector.
Potential Impact of the Panama Canal in Trade Patterns to/from the U.S.

Source: ACP
POST-PANAMAX SHIPS ALREADY OPERATING IN LATAM
Excess capacity on South America routes leading to a negative circle

Total capacity deployed on Latin America related trades by vessel size (2011-2015)
What will happen to shipping after the Panama Canal Expansion?

- Larger ships are only sustainable if there is demand.
- Potential shift in trade patterns with change in entry ports for cargo to the US.
Networks after Panama Canal expansion

Example carrier today:
9 services

Large Alliance network after Panama Canal expansion

To USEC: 39k TEU
5 x 4500 via Panama
2 x 8500 via Suez

To LatAm: 10k TEU
1 x 5500
1 x 4500
South of Panama:
- Utilisation drops <50%
- Frequent delays

To USEC: 42k TEU
5 x 8500 via Panama

To LatAm: 10k TEU
1 x 5500 to Mexico
2 x 1500 feeders to WCSA via Panama
- Shorter transit time
- Higher utilisation
- Better schedule reliability
AND: 2 vessels saved!
## Panama vs Other Hubs

<table>
<thead>
<tr>
<th></th>
<th>TS Market Volatility</th>
<th>Connectivity Index</th>
<th>Facilities/Capacity by 2018</th>
<th>TS Rate Index</th>
<th>Nautical Miles to Shanghai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panama</td>
<td>416</td>
<td>45.6</td>
<td>8.2</td>
<td>85</td>
<td>8500</td>
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<tr>
<td>Manz/LC</td>
<td>283</td>
<td>38.9</td>
<td>9.1</td>
<td>90</td>
<td>6800</td>
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<tr>
<td>Buenaventura</td>
<td>406</td>
<td>33.6</td>
<td>6.2</td>
<td>60</td>
<td>8700</td>
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<tr>
<td>Callao</td>
<td>380</td>
<td>30.9</td>
<td>6.0</td>
<td>105</td>
<td>9300</td>
</tr>
</tbody>
</table>

### TS Growth by 2020

- **WCSA**: x2
- **Central America**: x3
- **Cross Trades**: x4
Panama Market Briefing

Model after Canal expansion

- Services already crossing the Canal likely to increase the size of vessel to Post Panamax and reduce port calls
- Increase of direct services to South America
- Caribbean cargo from F.E likely to be TS in the Atlantic
- Some current Suez Services likely to return to transit Panama Canal direct from F.E to USEC
- USEC cargo from F.E likely to cross the canal instead of been discharged in USWC
Innovating to remain competitive = Generating “Cargo Stickiness”

- Parts Distribution and Repair Centre
- Air Freight Distribution Centre
- Land Transport to/from Central America
- On dock Crossdocking Operator for Regional Products
TRANSSHIPMENT

Sources of competition can rather easily be imitated by competitors thus making it hard to create a sustainable competitive advantage.

Paradigm shift in the role of ports

- The role of ports has changed from a place that receives, stores and delivers cargo
- A place where value is added
Supply Chain - VAS
Coordinate Procurement, Delivery, After-Sales Service, Distributed Production and Linking Sales with Production

Modern Logistics - IT
Order Processing, Inventory Management, Transloading, Distribution Networks, Reverse Logistics, Customization

Traditional Logistics - Physical
Transport, Consolidation, Storage, Forwarding, Clearance, Transshipment, Packaging
STRATEGIC FORESIGHT
Foresight is the ability to take a forward view. It enables action to be taken today with reference to, and within the context of, the possible futures.
The Beginnings of Strategic Planning and Risk Management...

God Consulting LLC tells Noah about a possible future...”it is going to rain my friend, for a long while...”

Noah designs a strategic plan, measures the risks, and executes

If you see it coming... and you don´t prepare, it is YOUR FAULT

Noah saves his family, and all living species
The best way to predict the future is to create it.
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