Today’s Objective

To offset your morning caffeine rush with a discourse on the application of the kinked oligopoly demand curve theory to pricing ancillary port services in a market basket of local currencies!
Agenda

• Finish on Time……
• …..And Have Some Fun
• Take a Look Back
• Review What’s Changed?
• Assess the Question: Is It Still a Seller’s Market
A Look Back

- Recognizing of course that hindsight is always 20-20
The Seller’s Market Chronology

- 2000: The emergence of China
- 2002: PMA Lockout of the ILWU
- 2004: Southern California rail crisis and subsequent POLA/POLB congestion
- 2005: Proliferation of landside transport capacity warnings
- 2004-2007: The great terminal transaction spree
## The great terminal transaction spree

<table>
<thead>
<tr>
<th>Approximate Timeframe</th>
<th>Seller</th>
<th>Buyer</th>
<th>Reported Price (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/04</td>
<td>CXS (World Terminals)</td>
<td>Dubai Ports</td>
<td>$1.1</td>
</tr>
<tr>
<td>10/05</td>
<td>P&amp;O</td>
<td>Dubai Ports</td>
<td>$6.8</td>
</tr>
<tr>
<td>4/06</td>
<td>HPH: 20% equity</td>
<td>PSA</td>
<td>$4.4</td>
</tr>
<tr>
<td>6/06</td>
<td>ABP</td>
<td>Goldman Sachs</td>
<td>$5.1</td>
</tr>
<tr>
<td>7/06</td>
<td>Callao Peru Concession</td>
<td>Dubai Ports</td>
<td>$0.6</td>
</tr>
<tr>
<td>11/06</td>
<td>OOIL Vancouver &amp; NY Terminals</td>
<td>Ontario Teachers Pension Fund</td>
<td>$2.4</td>
</tr>
<tr>
<td>12/06</td>
<td>Dubai Ports U.S Holdings</td>
<td>AIG</td>
<td>$0.8</td>
</tr>
<tr>
<td>5/07</td>
<td>Maher Terminals</td>
<td>RREEF (Deutsche Bank)</td>
<td>$2.2</td>
</tr>
</tbody>
</table>
The preceding slide excludes

- Macquarie Bank’s purchase of Halterm
- Morgan Stanley’s purchase of Montreal Gateway Terminals
- Goldman Sach’s purchase of 49% of SSA
- Non-container transactions
- Numerous concession awards around the world
## Market Fundamentals 2004-2006

<table>
<thead>
<tr>
<th>Demand</th>
<th>Supply</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• China-driven container trade boom</td>
<td>• Capacity perceived as tight</td>
<td>• Markets awash in cash due to sustained strong equities markets</td>
</tr>
<tr>
<td>• Strong U.S. economy</td>
<td>• Increasing environmental complexity</td>
<td>• The rise of the private equities</td>
</tr>
<tr>
<td>• Growing Atlantic Coast trade</td>
<td>• Longer lead times</td>
<td>• Infrastructure emerging as a preferred investment</td>
</tr>
<tr>
<td>• Plethora of new, mega vessel container orders</td>
<td>• Few new projects in the pipelines</td>
<td>– Toll roads led the way</td>
</tr>
</tbody>
</table>

*Norbridge*
What Changed?
What Changed?

✓ Financial Markets
✓ Demand
✓ Supply
✓ Perception & Rhetoric
Financial Markets

- Secondary mortgage crisis which triggered
- A credit crisis
- Which triggered Federal Reserve interest cuts
- Which triggered a rapid depreciation in the dollar
- Which in part spurred higher oil prices
- Which collectively has reduced investors cash reserves and appetites
Container traffic began slowing in the latter half of 2006 and was flat in 2007.

*Note: 1. Throughput is for top 25 U.S. and Canadian container ports, which account for more than 95% of all such flows.
2. Excludes AK, HI, Guam and Puerto Rico (largely domestic) traffic
Source: AAPA; Port Reported Throughput; Norbridge Analysis
The bell-weather West Coast ports are experiencing import declines while exports grow.

Major West Coast Port Container Traffic Growth
January-April 2008 vs 2007

Source: Port authorities; Norbridge analysis
Increasing Supply: On-line and in progress projects as reported

- Prince Rupert: Phase 1: 500K TEU
- Evergreen Tacoma
- Norfolk
  - New APMT terminal: 1M TEU
- Mobile: New term: 350K TEU
- Savannah CT-9
- Bayport Phase 1
- Lazaro Cardenas Phase I: 700K TEU
- Jacksonville MOL
- Tampa

Norbridge
Increasing Supply: Projects currently in planning as reported

- **Prince Rupert:** Phase 2: 1.5M TEU
- **Vancouver Terminal II**
- **Melford, Nova Scotia:** 1.5M TEU
- **Long Beach New Pier S:** 198 Acres; TEU TBD
- **NYK, SSA Tacoma**
- **Los Angeles TraPac Redevelopment**
- **Corpus Christi**
- **Lazaro Cardenas Fut. Phase:** 2M TEU
- **Charleston, SC Navy Base Terminal:** 1.3M TEU
- **Jacksonville Hanjin**
- **Tampa**
Increasing Supply: Projects in concept phase as reported

- Vancouver Lynnterm
- Los Angeles LAXT
- New York Auto Conversion
- Philadelphia Keystone
- Punta Colonet
- Bayport Phase II
- Galveston
- Mobile: Phase II
- Portsmouth Craney Island
Perception and Rhetoric

- Long-term capacity concerns remain
- However, slowing of trade, latent capacity and an expanding new capacity pipeline have tempered the recent, heightened concerns
- The long-term consequences of $100-$\_ fill in the blank oil have yet to be understood
- The ILWU contract, together with the export boom, will shed significant light on just how much potential latent capacity can be tapped
- The capacity shortfall rhetoric has definitely declined in the past 6+ months
The bottom line

- Demand is significantly below projections
- Net cash flow is lower
- Returns are significantly below projections
- Lenders are concerned
So…….is it still a Seller’s Market?
It depends on how one views the glass

Half Empty

Half Full
Half Empty?

- Fundamentals will remain negative
- Fuel prices and inflation will exacerbate the situation
- Capacity will increase
  - Latent
  - Expansion
- Returns will remain depressed
- Back to the “bad old days”
Half Full?

- Fundamentals will recover
- Oil will return to sustainable levels (under $100/bbl)
- Trade will rebound
- Labor contracts, environmentalism and costs will delay/limit expansion
- Demand/supply will become more balanced
The real answer

- IT DEPENDS
- On the geography, the timeframe and the port/terminal industry
- Europe could be
- Northern Asia will probably not be
- China/Southeast Asia could be
- North America is difficult to say
North America: Complicating Factors—to name a few

- Availability of public funds
- Environmental regulation and policies
  - Keep a close eye on southern California
- ILWU contract terms and conditions
- Ports’ and terminal operators’ pricing strategies
- Carriers’ terminal acquisition strategies
Questions?

• jbrennan@norbridgeinc.com