FUTURE OF THE GLOBAL ECONOMY AND INTERNATIONAL TRANSPORTATION:
WHICH ROAD WILL LATIN AMERICA TAKE?

30 November 2016
Merida, Yucatan
Over 25 Years of industry experience...

Specialized consulting for infrastructure with an emphasis in ports and harbors.

Processing Big Data to provide international trade business intelligence to increase and your market share, with two successful products, DuPort Data for ports DuTrade Data for enterprises

Outsourcing of labor intensive engineering services at hourly rates 45 % - 65 % lower than U.S commercial rates.
Buenaventura Challenge

Transshipment

731,000 TEUs

60,000 TEUs
Buenaventura Project

Aerial reconnaissance with Drones for port planning and design
Topics

THE WORLD – Is there growth out there?
WHERE ARE THE WEAK SPOTS & THREATS??
BIGGER SHIPS AND THE CANAL EXPANSION
TRANSSHIPMENT IS ALIVE AND WELL
The world outlook is . . .

Improving slowly

<table>
<thead>
<tr>
<th>Real GDP (%)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.1</td>
<td>3.1</td>
<td>3.4</td>
</tr>
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</table>

Source: Economist Intelligence Unit, IMF July 2016 World Economic Outlook
Big picture

- North America and Europe are pulling the train
- China exports are slowing because NA + EU are slow-moving
- Hence, exports from Latin America to China have slowed
- Asia’s incomes are still very low and not big enough to fill the shoes of a slowing NA and EU
- LAM has not developed a manufacturing base and an internal consumption market – this should be a long term strategic goal for the region
Trade’s share of the global economy is still climbing.

Globalization trend is *long-term* and has not reversed or stopped.

This was NOT a reversal of globalization.

Source: IHS Global Insight
TEU trade will continue to grow – but slower than before

5.5% = long term potential

- Container Trade: +1.0%
- Total Trade: +1.5%
- Real GDP: +2.3%
- World Population: +0.7%

But

\[ \Delta \text{TEU}/\Delta \text{GDP} \neq 3X \]

The new ratio is closer to 1, depending on the port’s size, location, market share, willingness to invest.

Sources: DUAGA
http://www.census.gov/population/international/data/idb/worldpopgraph.php
Closer to home, in the short term, the economic outlooks are fairly positive

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>3.1%</td>
<td>2.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Chile</td>
<td>2.1%</td>
<td>1.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>3.7%</td>
<td>3.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.5%</td>
<td>2.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Panamá</td>
<td>5.8%</td>
<td>5.7%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Perú</td>
<td>3.3%</td>
<td>3.7%</td>
<td>4.2%</td>
</tr>
<tr>
<td>USA</td>
<td>2.5%</td>
<td>1.8%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.2%</td>
<td>1.3%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Argentina    2.1%  -1.3%  +3.0%
Brazil       -3.8%  -3.2%  +1.0%
Venezuela    -5.7%  -10.0% -3.0%

Recessions, like wars, eventually end.
Is the *Pacific Alliance* working?

OPEN TRADE

FREE MOVEMENT OF CAPITAL

FREE MOVEMENT OF PEOPLE

Mexico has a lot to teach its partners to the south – how to build a manufacturing base and grow incomes
Is the *Pacific Alliance* working?

In the last 3 years, the Pacific Alliance has accomplished more than the other free-trade efforts in the last 30 years.

**Will the US join?**

**Probably not!**

Population = 200 million  
Income/capita = $10,000  
35% of LAM GDP  
8\(^{th}\) largest economy in the world

“... emerging as one of the most dynamic economic regions in the world” - IDB
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TRANSSHIPMENT IS ALIVE AND WELL
Too much idle capacity

- 325 ships not working = 1.5 million TEUs
- 8% of the fleet capacity
- 200 of these idle ships are >3000 TEUs (61%)
- 100 Panamax ships are idle
- Effect of the opening of the expanded Canal locks
- Some bigger, younger ships are being scrapped (6500 TEUs)
- Only 12 years old

Source: Alphaliner Newsletter No 15, 2016 and more recent
Some carriers didn’t make it

Hanjin Shipping -

Corporate Bond Credit Rating

Source: Alphaliner Monthly, May, 2016
Some are buying port operations

Long Term Unsecured Credit Rating History

Financial restructuring was too late to buy Hanjin

Now buying 25% of Algeciras

Source: Alphaliner 2016, Issue 15
Ports & Shipping News, #47, 2016
Deliveries down, scrapping up
Net new capacity in 2016 is only 1.5%

Source: Alphaliner, Clarksons Research
Looks like an oligopoly

<table>
<thead>
<tr>
<th>Alliance</th>
<th>Names</th>
<th>Global Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2M</td>
<td>Maersk, MSC</td>
<td>29.8%</td>
</tr>
<tr>
<td>OCEAN</td>
<td>Evergreen, OOCL, CMA CGM, COSCON</td>
<td>25.5%</td>
</tr>
<tr>
<td>THE</td>
<td>NYK, MOL, K-Line, Hapag-Lloyd (UASC),</td>
<td>15.7%</td>
</tr>
<tr>
<td></td>
<td>Yangming, Hanjin</td>
<td></td>
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</tbody>
</table>

Source: Alphaliner, DUAGA
Sign of life on the Transpacific!

Transpacific Annual Container Growth

Source: JOC Container Outlook
The “pivot” to Asia is already underway

Source: IHS World Trade Service
THE WORLD – Is there growth out there?

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TRANSSHIPMENT IS ALIVE AND WELL
We are starting to see upsizing on the Transpacific

- Used to be just Asia-Europe
- Effect of the Canal expansion
- Maersk expanding its service
  - Direct calls to Chile
- Buenaventura has received a 13,000 TEU ship (MSC)

Source: Alphaliner, May 2016, Clarksons Research
The fleet size is slowing, while ships get bigger and bigger

- 63% of the fleet capacity is in Neopanamx ships (>5,100 TEUs)
- Panamax ships of only 10 years are being scrapped

• In 2018, the average vessel will be 4,111 TEU

Source: Alphaliner Monthly Monitor 2016 10
13,000 TEU ship calls Buenaventura

MSC Trieste

Maersk is building 11 new ships at 20,000 TEUs each

Alphliner Newsletter 45 2016
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The best transshipment options are now becoming clear.
Another transshipment triangle is forming - Pacific

[Map showing connections between Lazaro Cardenas, Buenaventura, Callao, and Caribbean regions.]
But the solution to the low rates is clear

Cut capacity!!!!

*Example*

Asia-ECSA capacity has been cut by 40%
Rates have soared!

*Good news for the future*
New shipbuilding is down (only 71 new ships in Q1 2016)

*Source: BIMCO “The Road to Recovery”*
Mega Ships - Who will dominate?

Ships 18,000 – 21,000 TEUs

Current and on order for 2020

- **Maersk**: 31
- **COSCO**: 22
- **MSC**: 20
- **Others**: 36

Source: The Loadstar & Alphaliner Monthly, May 2016
The mega-ships are for -

- Asia – North Europe 69%
- Asia – Mediterranean 19%
- Transpacific (Asia – USWC) 7%
- Asia – Mid East 5%

Source: Drewry, 2015

Source: Drewry, 2015
The Mega Ships bring higher risks for shippers

• Shippers used to spread their risk
  • Multiple ships
  • Multiple shipping lines
  • Multiple ports

• Now, the risks are greater
  • FEWER lines, ships, and ports (but bigger ones)
Conclusions – Latin American Ports

• Don’t be afraid to invest
• Pay attention to your property and the hinterland – where the $value is
• Latin America - build more manufacturing strength, and export higher value products
• Ports are the key to regional integration