Market & Industry Trends: Impacts on Latin American and Caribbean Ports

Scudder Smith
Principal Consultant
Parsons Brinckerhoff

AAPA Seminar
February 4, 2009
Discussion Topics

- The Global Economy is in Serious Decline
- Panama Canal Expansion Has Begun (third set of locks)
- A New US President has Taken Office with the Promise of Hope and Change
- Messages:
  - The World is Tightly Connected
  - Everything May Not Be As It Seems (Don’t believe all common knowledge)
Discussion Topics

- The Global Economy is in Serious Decline
- Panama Canal Expansion Has Begun (third set of locks)
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What Decade are We Talking About?
Market

Shape and Timing of the Recession: Impact on Trade

AAPA Container volumes, BEA US Real GDP
Market

What Kind of Recession?

Investment
Consumption
Government
Exports – Imports

2001: Investment
Current Recession

Real Residential Investment Began to Decline in 2006 Q1

Residential Investment

For exporters of wood products, the US recession began in 2006
Market Dynamics and Trade

Consumption Continued to Grow

Percent Change in Real Consumption, US BEA
Market Dynamics and Trade

Consumption Was Boosted by Historically Low Savings Rates

Savings rates below 1% were recorded in 2005-2007, the first time these rates have been below 1% since 1932-1934

Source: US BEA
Market Dynamics and Trade

Friday, the BEA reported preliminary GDP figures for 2008 Q4 showing consumption falling 3.5% after a Q3 drop of 3.8%
Market Dynamics and Trade

Consumption Growth in is Uneven by Major Category

Real Durables Consumption

Consumption growth (and decline) is very uneven

Within Latin America and the Caribbean, Motor Vehicle (HS 8703) Exports are Concentrated in Mexico
Within Latin America and the Caribbean, Motor Vehicle Parts (HS 8708) Exports are Concentrated in Mexico and Brazil
Consumption, Nondurables

Consumption of apparel has leveled off in 2008 after years of steady growth
Exports, Apparel

The share of apparel exports from Other Latin America/Caribbean have declined but not as sharply as in Mexico

Share of US import value, US Census
Consumption, Beverages

Juices/drinks down
Wine and coffee steady
Exports, Beer

After gaining share for the past 15 years, Mexico’s share of exports to the US has declined in 2007-2008.
Chile and Argentina are the 5th and 6th largest exporters of wine to the US, and these shares have been increasing.
Consumption, Fresh Fruit

Consumption of fresh fruit continues to climb

99% of US banana imports are from Latin America

Direct US Consumption Impacts

- Highest impact on Mexico
- Relatively small direct impact on Mexican ports
- Modest impact on exporters of durable goods, e.g. Brazil
- Modest slowdown for some nondurable exporting countries, e.g. Central American apparel exporters
- Relatively little impact in other nondurable categories (e.g. coffee, beverages)
- Further decline in exporting of construction-related goods (but higher potential in recovery)
Carrier Impacts – Orderbook

American Shipper 1/13/2009

No 4th quarter containership orders

Need a way to gauge how far demand has fallen for container lines? Not one containership was ordered in the last three months of 2008, according to AXS-Alphaliner.

"It is the first time in at least two decades that no containership orders were recorded for three months in a row," the Paris-based maritime research company said in its latest newsletter. "Meanwhile, a few existing orders have been canceled or converted to other ship types."

The containership order book has fallen to 6.2 million TEUs, its lowest level in 15 months. In the first nine months of 2008, 204 vessels were ordered, with a total capacity of 1 million TEUs. On Jan. 1, the world's containership fleet stood at 4,659 ships totaling 12.3 million TEUs of capacity, 13.2 percent higher than the year before. The total capacity of ships, cellular or non-cellular, running on liner trades increased 11.1 percent to 13 million TEUs.
Carrier Impacts

- Further industry consolidation
- Consolidation and shifting of service patterns
Pamama Canal Expansion

- Planning/Referendum
- Financing
- Project Overview and Status
- Completion in 2014 (100 years)
- Impacts
## Expansion Financing

<table>
<thead>
<tr>
<th>Multilateral Agencies</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Investment Bank (EIB)</td>
<td>$ 500 million</td>
</tr>
<tr>
<td>Japan Bank for International Cooperation (JBIC)</td>
<td>$ 800 million</td>
</tr>
<tr>
<td>Inter-American Development Bank (IDB)</td>
<td>$ 400 million</td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>$ 300 million</td>
</tr>
<tr>
<td>Corporación Andina de Fomento (CAF)</td>
<td>$ 300 million</td>
</tr>
</tbody>
</table>
Pamama Canal Expansion

- Deepening of Pacific and Atlantic entrance channels
- Deepening and widening of the Gatun Lake navigation channel
- Construction of new access channel for Pacific Locks
- Construction of new Post Panamax Locks and water saving basins in the Atlantic and the Pacific
- Increase the maximum operating level of Gatun Lake
Pacific Locks
Expansion – Larger Ships

Existing Locks – Maximum Vessel: 4,400 TEUs

New Locks – Maximum Vessel: 12,600 TEUs
Water Saving Basins

New Locks will use 7% less water than current locks
Pamama Canal Expansion Impacts

- Doubling of Capacity
- Larger Ships
Pamama Canal Expansion

Doubling of capacity should lead to trade growth
Expansion – Larger Ships
Pamama Canal – Larger Ships

■ Container shipping

  Lower costs – opportunity
  Availability of capacity – imperative

■ Where does it make sense?

  Northeast Asia – US East Coast and Gulf
  Continuation of trend

■ Where can it occur?
## Pamama Canal Expansion

Where can it occur?

<table>
<thead>
<tr>
<th>U.S. East Coast</th>
<th>MLW</th>
<th>U.S. Gulf</th>
<th>MLW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>38’</td>
<td>Houston</td>
<td>40’</td>
</tr>
<tr>
<td>New York / New Jersey</td>
<td>43’</td>
<td>New Orleans</td>
<td>35’</td>
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<tr>
<td>Philadelphia</td>
<td>38’</td>
<td>Tampa</td>
<td>43’</td>
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<tr>
<td>Baltimore</td>
<td>40’</td>
<td></td>
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</tr>
<tr>
<td>Norfolk</td>
<td>48’</td>
<td>Los Angeles / Long Beach</td>
<td>50’</td>
</tr>
<tr>
<td>Wilmington</td>
<td>42’</td>
<td></td>
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<tr>
<td>Charleston</td>
<td>47’</td>
<td>Oakland</td>
<td>50’</td>
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<tr>
<td>Savannah</td>
<td>42’</td>
<td>Portland</td>
<td>35’</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>38’</td>
<td>Seattle / Tacoma</td>
<td>50’</td>
</tr>
<tr>
<td>Miami</td>
<td>39’</td>
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</table>
Pamama Canal Expansion

Where can it occur? In New York the Bayonne Bridge blocks access to four out of five terminals.
Pamama Canal Expansion

Norfolk as a destination will become more desirable with the completion of the Heartland Corridor.

- Will reduce over 200 route miles versus existing routing
- Reduced Transit Time
- Greater Efficiencies
- High Speed Double Stack
Pamama Canal Expansion

If insufficient infrastructure development is completed on the US East Coast, this will tend to spur the expansion of transshipment patterns.

Where could this occur?

- Current transshipment ports
- Cuba?
- Louisiana?
- Puerto Rico?
- Jones Act?
Pamama Canal Expansion

Scenarios:

**Resurgence of West Coast**
- Lower volumes change perception
- Lack of sufficient investment in Atlantic
- Halt in DC development

**Direct Services**
- New York fixes Bayonne Bridge
- Investment is made in South Atlantic

**Transshipment**
- Major new port(s)
Summary

The US and global economic outlook is cause for significant short-term concern, but the impact on Latin American ports may be relatively mild.

US trade growth is likely to slow compared to recent historic norms. The rule of thumb that container trade as a multiple of GDP growth has expired.

Trade within Latin America is likely to grow faster than trade with the US.
Summary

The economic downturn is likely to slow the pace of landside capacity development on the Pacific and Atlantic Coasts:

Possibly slowing coastal shifts in the short term
Slowing the development of direct NE Asia-US East Coast services, accelerating Caribbean and Gulf transshipment

The growing overcapacity in the container fleet will spur new thinking in liner service patterns.

Panama Canal expansion impacts in container trade will be focused on specific trade lanes and commodities.

Infrastructure development can have dramatic and far-reaching effects on maritime trade patterns (Norfolk, Bayonne Bridge)
Scudder Smith
Principal Consultant
Parsons Brinckerhoff

smithsc@pbworld.com