

# The Politics of Trade and Pressures on the Supply Chain

— economic, political and  
environmental issues

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**PARSONS  
BRINCKERHOFF**

# 1: OUR BUSINESS IS FACING GLOBAL AND LOCAL UNCERTAINTIES



**Economic & political factors – economic growth drives trade which funds new and expanded port investment. Politically, the world looks much more uncertain than for many years. Trade has ridden on globalisation, will this model change?**



**The environment – a critical path for port development. As economies recover, attention focuses again on this sector**



**Technical change – responding to evolving market needs (automation, vessel sizes, etc.)**

***What can the port industry expect from all of this?***

# 1.1: MACRO-ECONOMY – CONFIDENCE IS THE KEY

### Dow Jones Industrial Avg.



Source: Bloomberg

### Shanghai SE 50 index



Source: Financial Times

- Growth has been strong since Brexit and the Presidential election – are we in a ‘Phoney War’?
- Uncertainties and confidence both increasing – a paradox
- China has driven commodity and trade demand uncertainty here may be the most significant factor
- EU looking very problematic – no end to the Euro Crisis in sight
- What will happen with Trade Agreements?
- Next six months to shape the medium term outlook

- Billion dollar projects still determined by (very) short term considerations
- Actual demand is strong, but major projects on hold on a ‘wait and see’ basis
- Major uncertainty on the direction of trade
- Project bankability very difficult for large projects

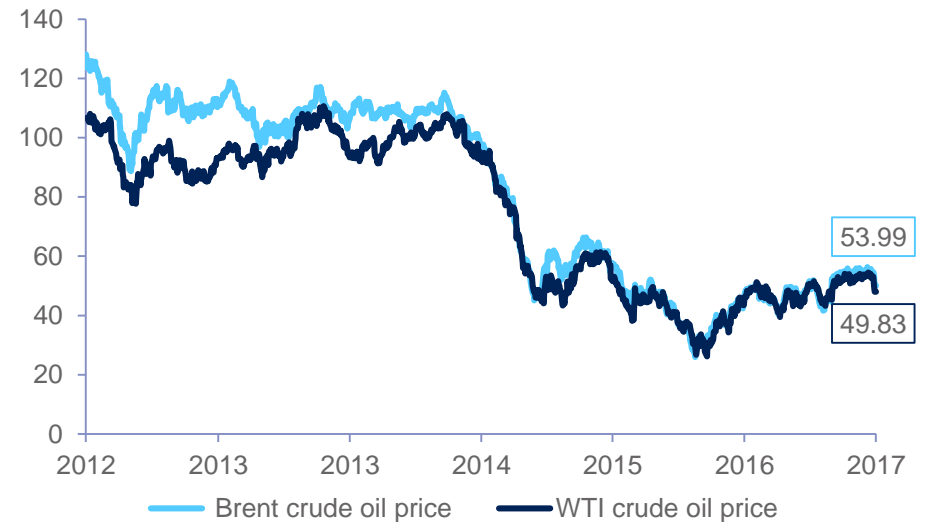
## 1.2: MARKET UNCERTAINTIES – COMMODITY PRICES ROLLER COASTER

### Spot Market Iron Ore Price Index (fines)



Source: Bloomberg

### Brent & WTI Crude Oil Spot Prices



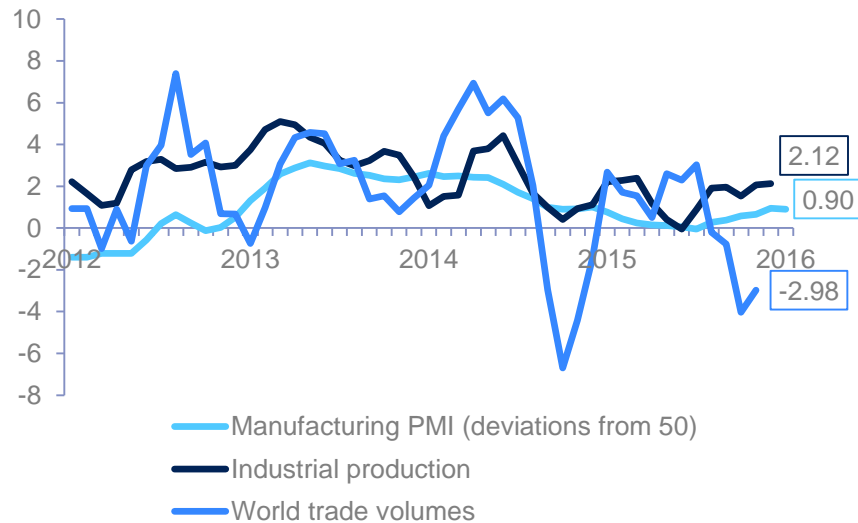
Source: Bloomberg

- Direct result is massive uncertainty in commodity prices
- Very difficult to forecast and justify new developments in this climate
- But position is complex:
  - Major dry bulk projects – great uncertainty
  - Containers – still strong (but slowing)
  - Liquids – increased demand / reorientation

- Continued strong interest in container terminal investment and improvement (global)
- Limited dry bulk investment
- Oil/products and chemicals – increased storage demand and trading – new export terminals
- Generally, the focus is on margins not expansion (getting more from existing investments)

# 1.3: MACRO ECONOMIC OUTLOOK – QUO VADIS?

**World Trade, Industrial Production, and Manufacturing PMI** - (three-month average; annualized per cent change)



Source: IMF, 2016 (Oct)

**World GDP Projections - IMF**

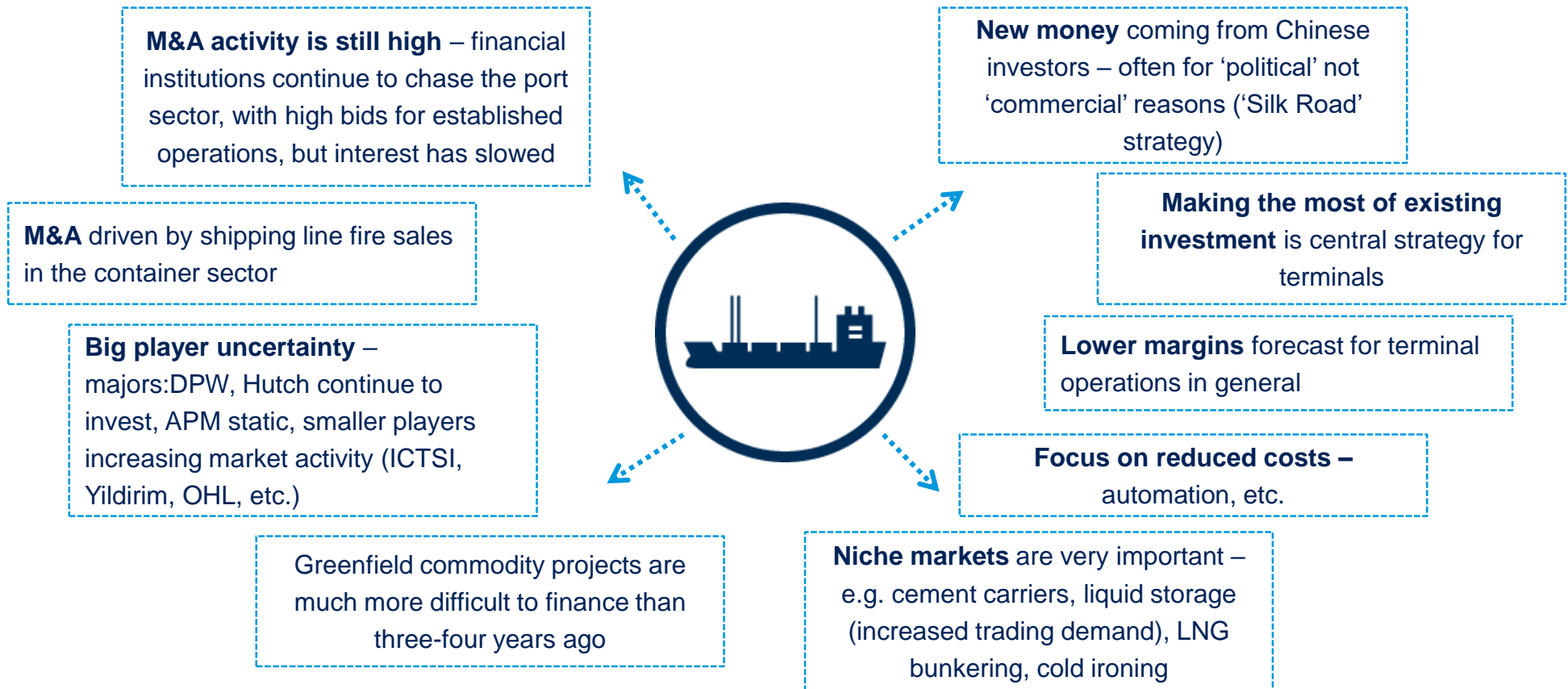
	2016	2017F	2018F	2021F
US	1.6	2.3	2.5	1.7
Euro Area	1.7	1.6	1.6	1.5
China	6.7	6.5	6.0	6.8
Developing Asia	6.3	6.4	6.3	6.4
Latin America/Caribbean	-0.7	1.2	2.1	2.7
Middle East	3.8	3.1	3.5	3.6
Sub-Saharan Africa	1.6	2.8	3.7	4.2
<b>World</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>	<b>3.8</b>

Source: INF, 2017 (Jan)

- **Macro economic outlook is now much more uncertain**
- **Chinese pressures have been mounting for some time. IMF projections are suspect**
- **Demand remains weak – high political risks**
- **Very difficult to finance some projects in this situation**

- **Most recent data from IMF stresses recovery in US but Euro Area uncertain**
- **But looks shaky for southern Europe and especially for China – significant revision to forecast anticipated**
- **Anticipate reduction in China GDP forecasts to 3.5-4%?**
- **Middle East – some recovery in growth**
- **Commodity exporters still reeling**

## 1.4: IMPACT ON THE PORT BUSINESS



***Much tougher environment with concentration of terminal investment in fewer, much larger, organisations***



## 1.5: SOME SCENARIOS

1

### BUSINESS AS USUAL

We have had many years of globalised growth and this has driven port investment. This was already slowing by early 2016. Some further slowdown anticipated in the container trades. Rebalancing of markets to slower demand growth

2

### INTERRUPTED GROWTH

Short term upheaval in trade followed by pragmatic policy adjustments. This is a more volatile outlook, but has the potential for a rapid bounce-back

3

### PROTECTIONISM

Seems more likely than for many years. Import tariffs will directly hit container flows, with limited stimulus to domestic demand. Under these conditions reciprocal moves seem certain. Will force a readjustment on shipping and ports

***You pay the money and make your choice  
Long term cost of protectionism will be too high, but political gestures  
unavoidable. Today 'Interrupted Growth' is the favourite.***

## 1.6: FINANCING PROJECT DEVELOPMENT – NEW CHALLENGES



**Projecting demand and project revenues – much more difficult in this situation. Modelling scenario risk is central to the process**



**Bankers looking to reduce risks – equity shipping line involvement increasingly sought after (but counterparty risk remains)**



**Greenfield projects – except with cargo interest support – are very difficult**



**Attention now focusing on modernisation of existing facilities in terms of marketing (terminal combinations) and operations (automation, cost reduction)**



**Flight to quality' marginal projects are off the agenda**



## 2.1: INTRINSIC FACTORS – MAJOR CHALLENGES

### SHIP SIZE DEVELOPMENT

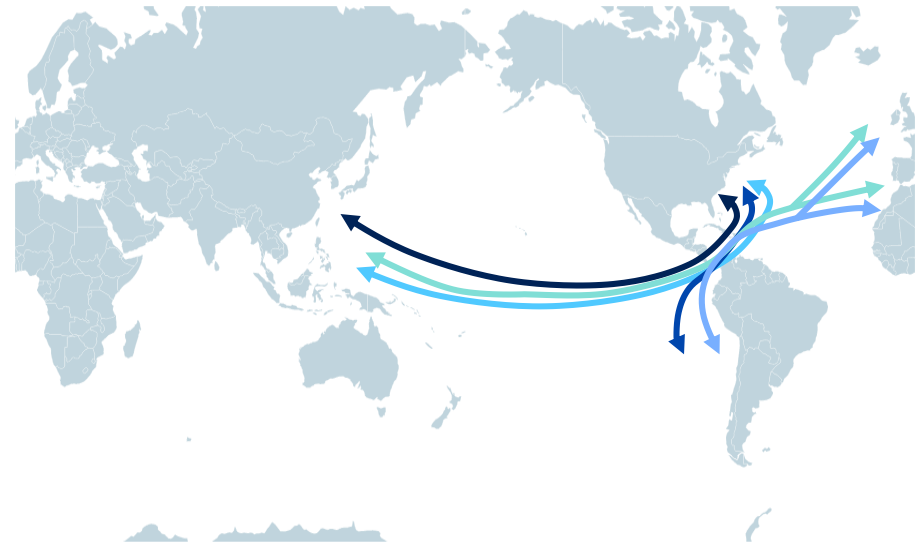
- Ship size development – a major driver of port development and still underway
- Not just a matter of vessel handling but also much larger consignment sizes

### TERMINAL AUTOMATION

- Terminal automation – this is the focus for container terminals. Well advanced in Europe – now developing in North America

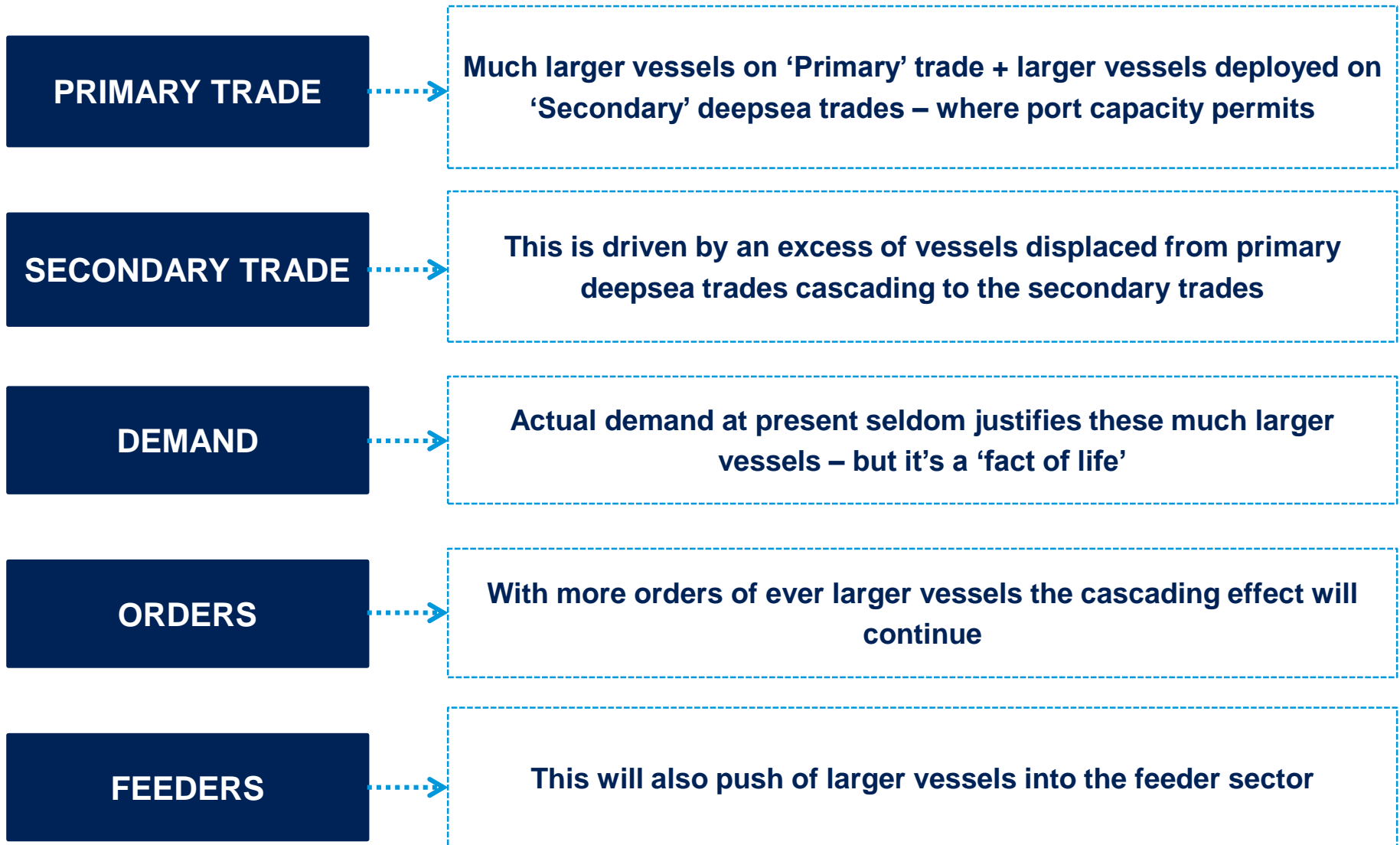
### PANAMA CANAL

- Panama Canal expansion fallout still not certain – possible revitalisation of All-Water services?

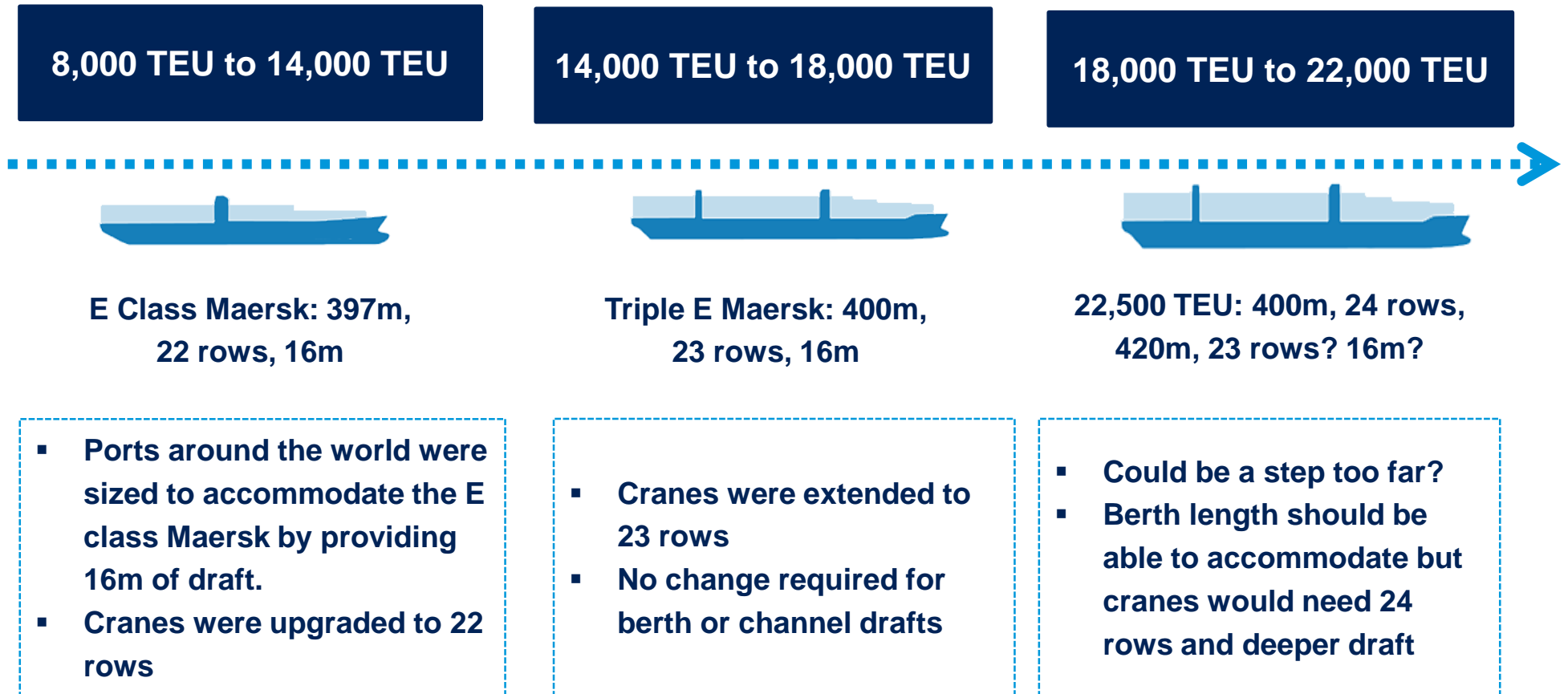


- Asia – North Europe/ Mediterranean
- North Europe/ Mediterranean – WCSA
- ENCA - WCNA
- Asia – ECNA
- Asia – Caribbean

## 2.2: SHIP SIZES – A REVOLUTION IS UNDERWAY



## 2.3: SHIP SIZES – A REVOLUTION IS UNDERWAY



***Ports have adjusted as the increases were incremental. The next size of container vessels could result in significant capacity redundancy. Berth length, turning circle, draft and air draft are critical***

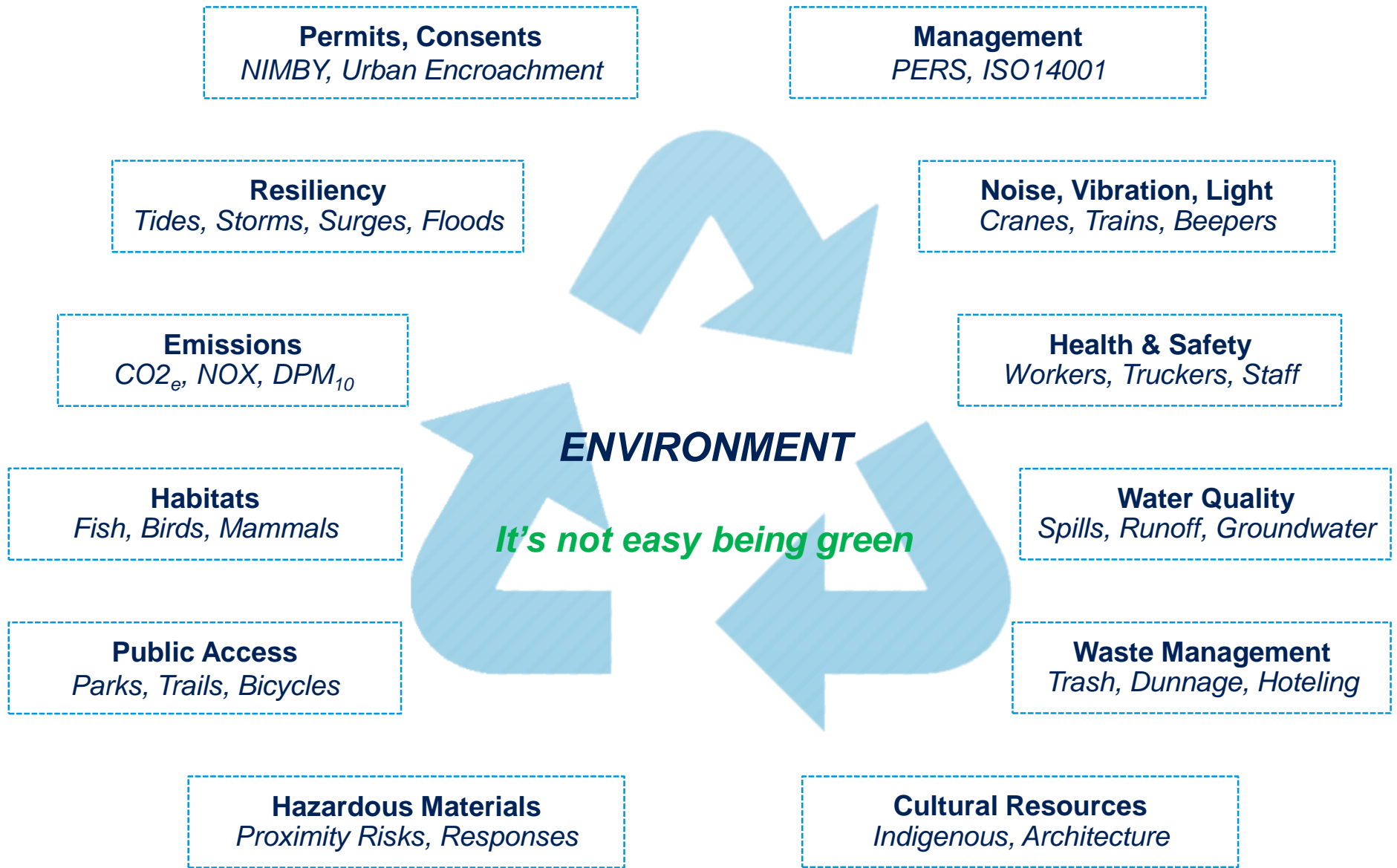
## 2.4: TERMINAL AUTOMATION

- Container terminal automation well advanced at the global level
- Driven (and constrained) by labor issues
- All major new terminals are utilising automated systems – to varying degrees
- Very difficult to retrofit these systems and best suited to optimum layouts
- At present, productivity of automated terminals is little better than best practice in conventional facilities
- This will change in the near term and become essential for handling the largest vessels and consignment sizes



***All high volume container terminals will look like this in the future***

### 3.1: ENVIRONMENTAL ISSUES CURRENTLY FACING PORTS



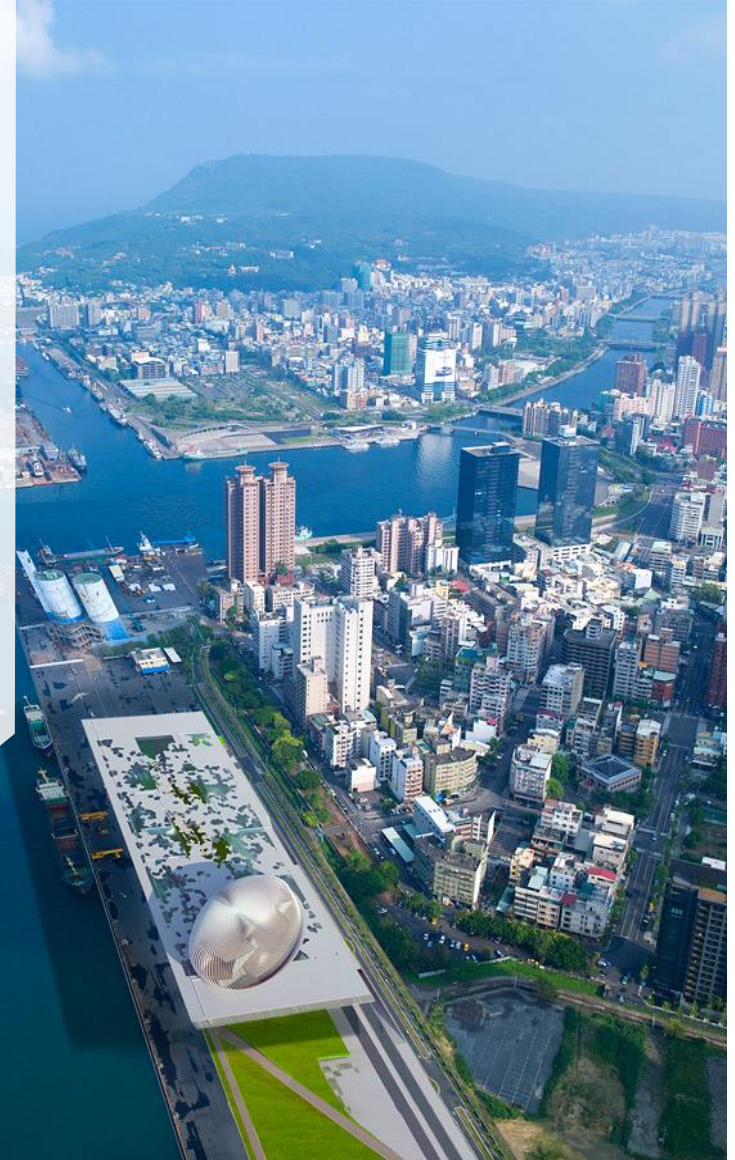


## 3.2 THE FUTURE READY SPACE...

### SUSTAINABILITY

#### ‘Sustainability governance’ or ESG

- Energy conservation and efficiency – sweat assets
- Renewable energy (biogas, solar, wind, wave)
- GHG emissions management – not consistent across sector
- Construction impact – largely ignored
- Supply chain – growing interest
- Climate change adaptation/resilience – high on the agenda, but difficult to prioritise actions
- CSR – Materiality Assessment, annual reporting
- ‘Beyond the gate’ – social, community, charity





### **3.3: WHAT IS TOPICAL? OUR CLIENTS ARE TALKING ABOUT...**

#### **CURRENTLY TOPICAL**

- Air quality
- LNG
- Renewable energy
- Energy efficiency and audit
- Climate change mitigation/adaptation
- Carbon neutrality
- Biodiversity

#### **DRIVERS (TRENDS)**

- Power of the retailer (Fast Moving Consumer Goods)
- Influence of lenders
- Transport & master-planning



## 4.1: CONCLUSION & TAKE-AWAYS



### Macro-economic & political risks:

- Outlook very unclear – wide range of possible scenarios will make funding for development difficult to secure
- Danger of protectionism – a direct threat to trade and port volumes
- What happens when interest rates rise? – potentially lower growth and more expensive investments



### ‘Industry risks’ (and opportunities):

- Ship size increases – major driving force in containers
- Cascading of larger vessels pressures smaller terminals
- Need for terminal productivity improvements and automation
- Making better use of existing port investments



### ENVIRONMENTAL RISKS

- Environmental pressures – shoreside power, emissions, green terminal development, and climate resilience, etc.
- Need to adopt (and define) best practice – a lot to learn from different regional systems and other sectors (e.g. innovation in construction and rail)

# ***THANK YOU***

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