

# Global Supply Chain Management: Cairo

## The Suez Canal and the Changing Face of Middle East Logistics

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# Summary

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- **Global supply chain trends**
  - Supply chain perspective
  - Lean manufacturing and distribution
  - Extended supply chain visibility, management
  - Customer-supplier linkage
- **Trade and shipping through the Suez Canal today**
  - The majority of Middle East trade is conducted with Asia and Europe
  - The Suez Canal handles mostly Asia-Europe traffic
  - Suez traffic is increasing as South Asia volume increases
  - And larger ships are ordered
  - Ever-larger ships
- **Panama vs. Suez?**
  - Panama largely serves the USEC-Asia trade
  - Panama is constrained
  - The Panama Canal expansion program
  - Suez handles mostly Asia-Europe traffic today
  - Suez's Asia-USEC WB alternative
  - The Suez Canal can offer shippers lower cost for some traffic
  - Services planned or currently in operation
- **Key success factors for a supply chain strategy**
  - Window of opportunity for new routes
  - Major players are taking an interest in this
  - But performance has room for improvements
  - Performance will make the difference in capturing traffic that is part of companies' lean global supply chains



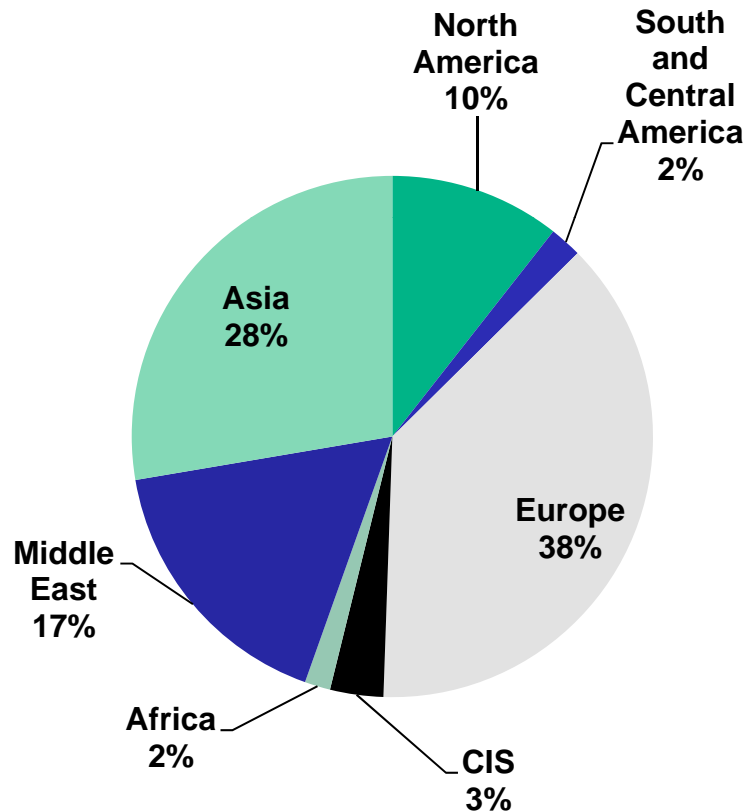
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# Trade and shipping through the Suez Canal today

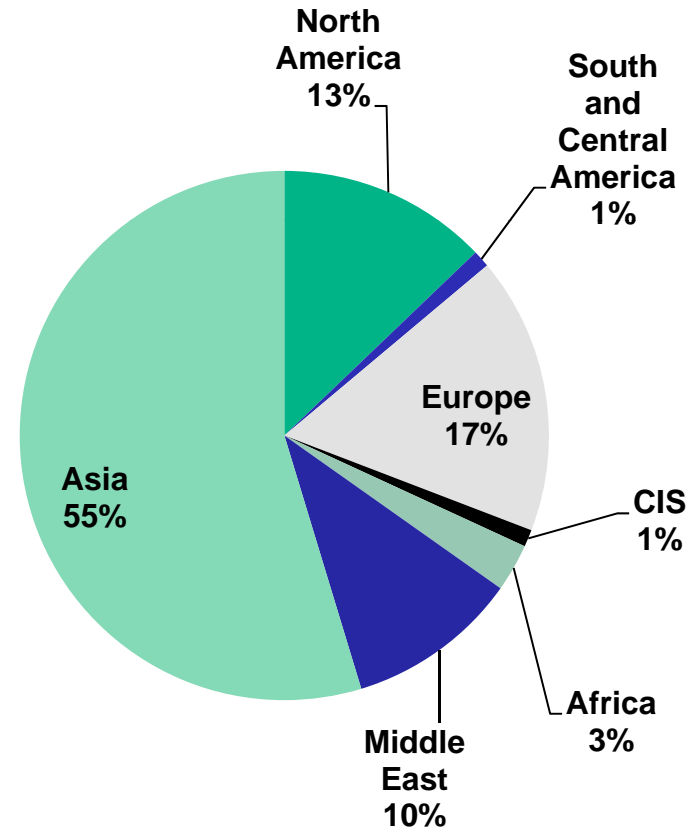


# The majority of Middle East trade is conducted with Asia and Europe

Merchandise imports of the Middle East by region



Merchandise exports of the Middle East by region



Source: World Trade Organization



# The Suez Canal handles mostly Asia-Europe traffic

- 95% of traffic through the Suez Canal is on the Europe-Asia trade

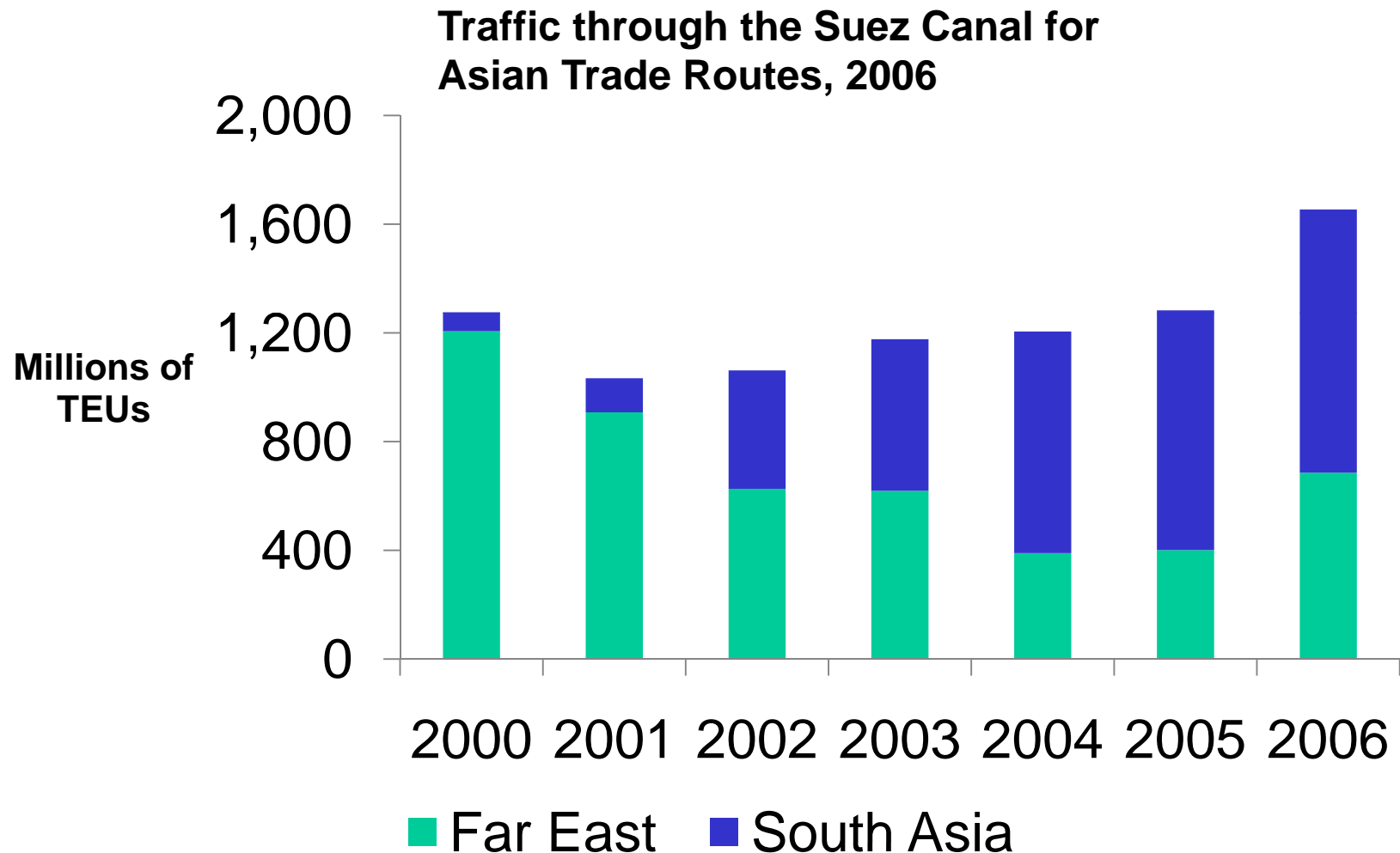
## Suez Canal Traffic Flows



Source: Suez Canal Authority



# Suez traffic is increasing as South Asia volume increases

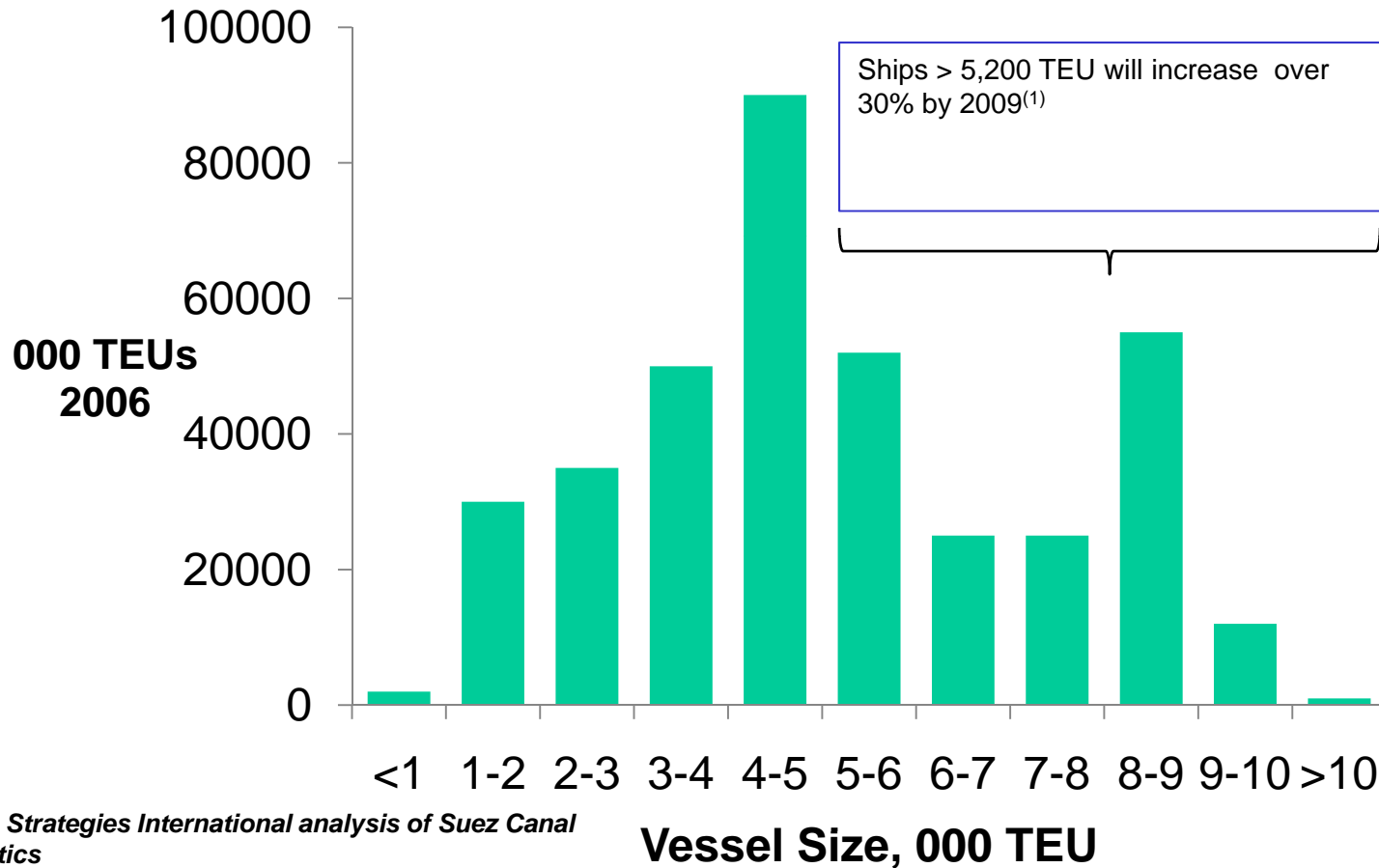


Source: Suez Canal Authority presentation to China Trade conference, July 2007



# And larger ships are ordered

## Distribution of Transits by Size of Vessel, 2006



Source: Boston Strategies International analysis of Suez Canal Authority statistics

<sup>(1)</sup> This estimate is from the Household Goods Forwarders Association of America



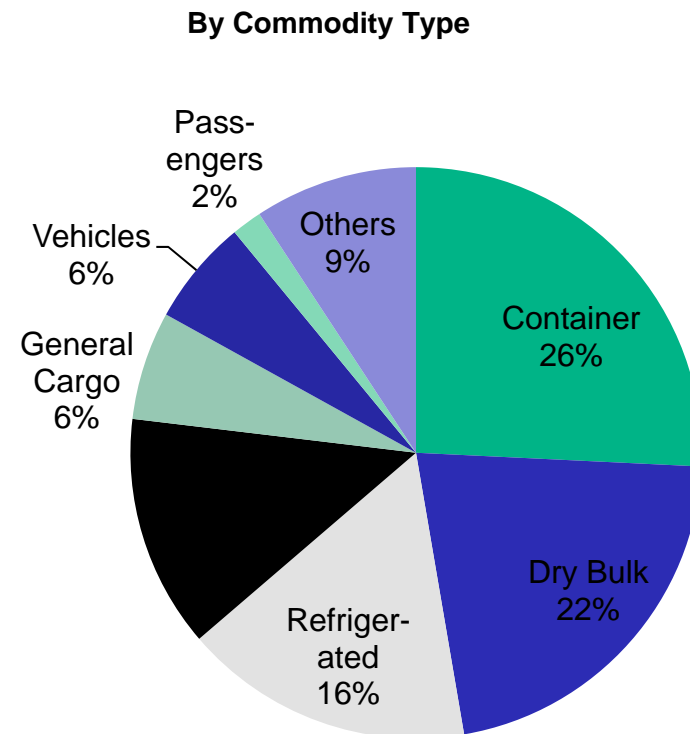
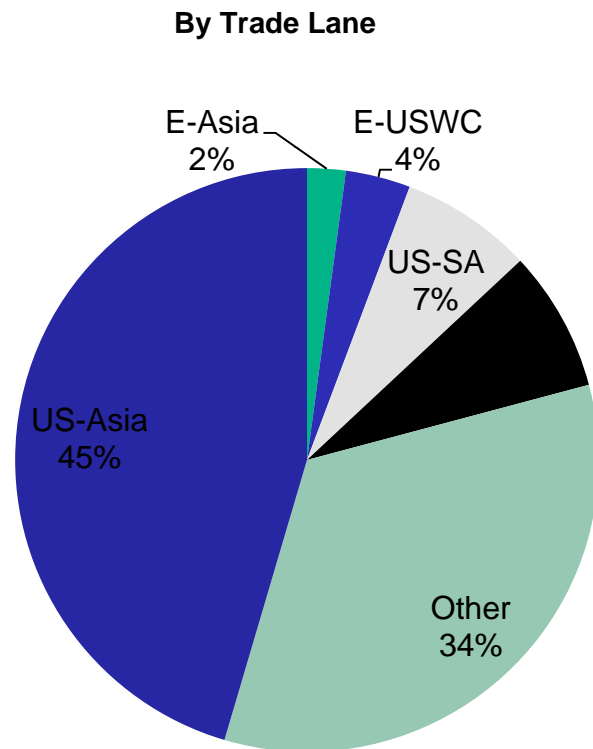
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# Panama vs. Suez?



# Panama largely serves the USEC-Asia trade

- Containerized cargo from China
- Grains out of the US Gulf



# Panama is constrained



# Panama is constrained (cont'd)



# The Panama Canal expansion program

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- \$5.25b+ expansion
- Toll increases will increase rates by 69% over three years <sup>(1)</sup>

## Before and After the Expansion

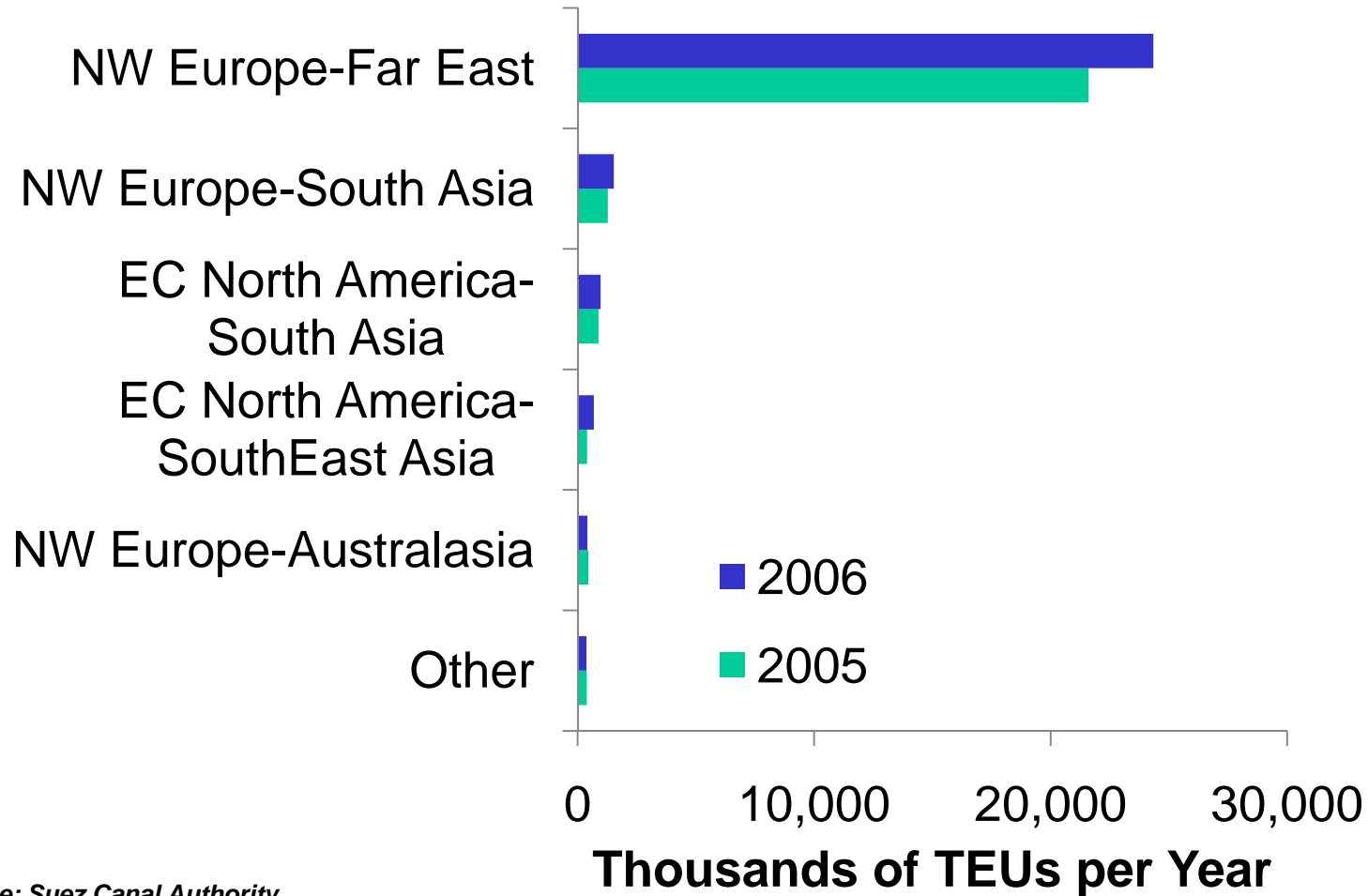
Dimension	Before (2007)	After (2014)
Capacity (transits/year)	17,000	34,000
Max Vessel Size (TEUs)	4,400	12,000

<sup>(1)</sup> Household Goods Forwarders Association of America



# Suez handles mostly Asia-Europe traffic today

Suez Canal Traffic by Trade Route



Source: Suez Canal Authority



# The Suez Canal can offer shippers lower cost for some traffic

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- Breakeven line may extend as far north as Hong Kong
  - Hong Kong-USEC
    - 11,207 nautical miles via Suez
    - 11,593 via Panama
  - Hong Kong-Halifax
    - 11,101 nautical miles via Suez
    - 11,533 via Panama
- Large vessels will be the most economical
  - Smaller vessels require too many in a string to achieve target frequencies
  - Can amortize higher operating costs across more containers

*Source: Suez Canal Authority presentation to China Trade conference, July 2007*



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# Key success factors for a supply chain strategy



# Window of opportunity for new routes

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- Extend the range of eligible Asia-US traffic
  - Hong Kong-USEC
  - Hong Kong-Halifax
- Exploit rising rail and Panama Canal rates to introduce an alternative for Post-Panamax vessels
- 7-year window until Panama Canal expansion is complete



# Major players are taking an interest in this

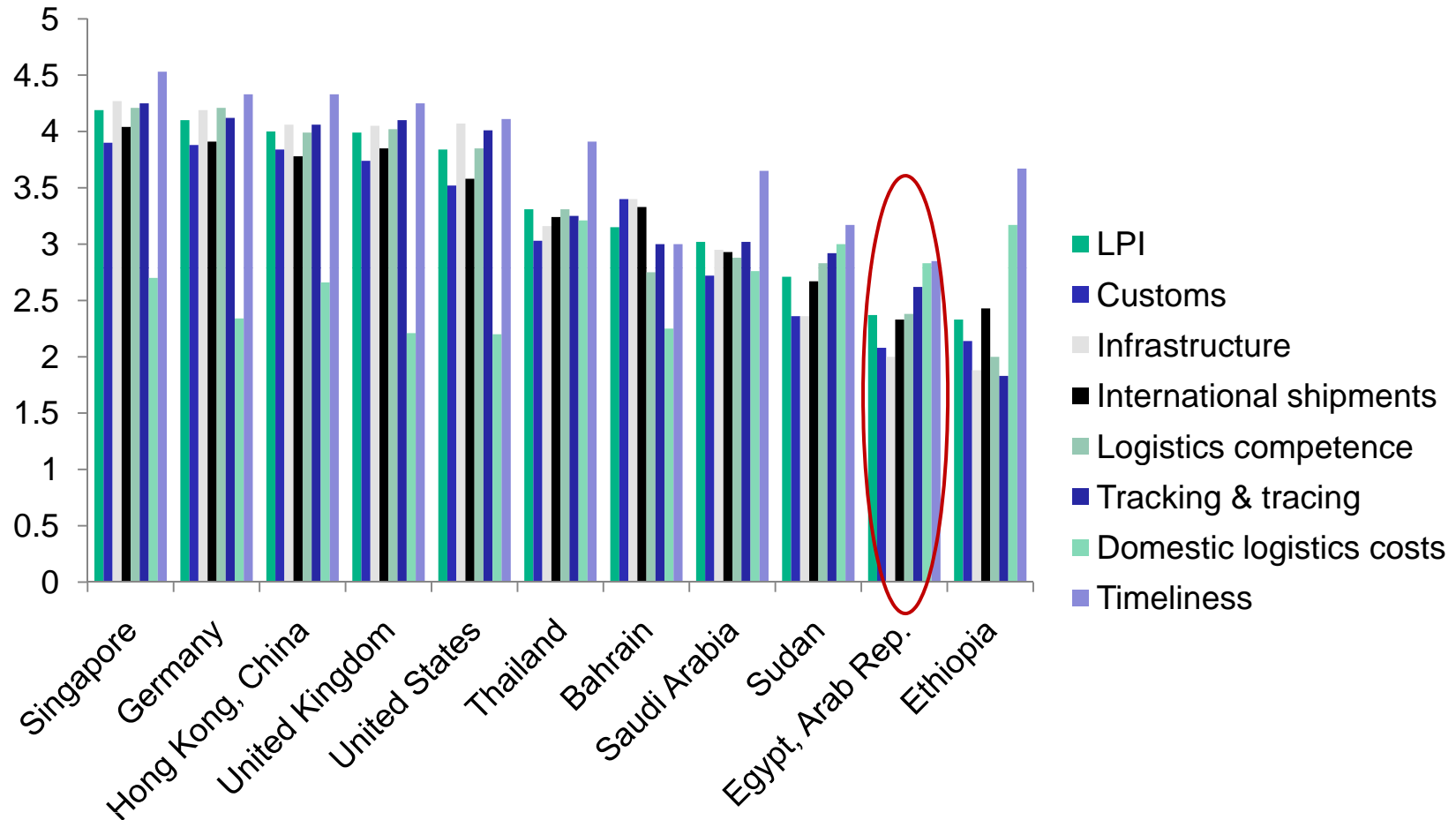
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- Current carriers: CMA/CGM, Maersk, COSCO
- COSCO is making a \$730m investment
  - From 2.5m to 5.1m TEUs/year
  - Double the employment at the port
  - New ownership structure
    - APM Terminals of The Hague, Netherlands (55%)
    - COSCO Pacific (20%)
    - Suez Canal Authority 10%
    - National Bank of Egypt 5%
    - Egyptian Private Sector 10%
- DP World has bought 90% of the controlling shareholder at Sokhna Port.
  - Projections indicate 1.2 million TEU by the end of 2009



# But performance has room for improvements

Logistics Performance Indicators for Selected Countries, 2006



Source: World Bank



# Performance will make the difference in capturing traffic that is part of companies' lean global supply chains

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The  
Supply Chain  
advantage is  
about more  
than cost!



- Reliability
- Flexibility
- Total transit time
- Inventory visibility
- Value-added services
- Product-services
- Intermodal links

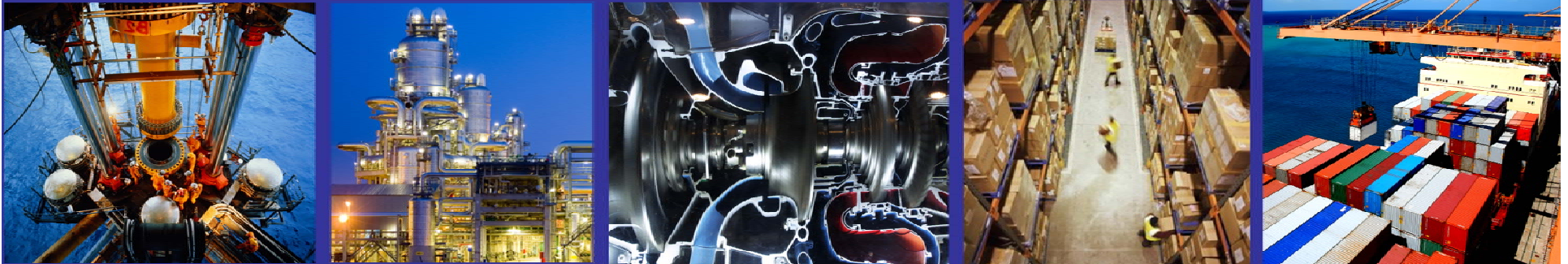


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- **Supplier Enablement** that facilitates global growth and local content requirements
- **Supply Chain Optimization** that reduces project and life cycle costs



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