Ports in Southeast Louisiana as Engines of Economic Growth in the post-Katrina era

The case for the Port of New Orleans

June 2, 2006

International Freight Forwarders & Customs Brokers Association of New Orleans-IFFCBANO

28th Annual Conference

Royal Sonesta Hotel

This presentation is based on research done by John Kallenborn. Conclusions and opinions reached in this presentation are those of John Kallenborn. No conclusion or opinion contained herein has been adopted by the Board of Commissioners of the Port of New Orleans.

5,400 Ships Enter the River Each Year
5 Main Types of Ships

- Bulk
- Tanker
- Passenger
- Container
- Break-Bulk

Bulk

- About 2500 ships per year (46.5%)
- Large ships
- Grains, Cement, Byproducts
- Load/discharge at grain elevators, midstream operations & industrial facilities
- Cargo chooses Louisiana based on location of elevators/ industrial facilities
- Load/discharge in a very automated way
- Support existing infrastructure and existing jobs
- Create few new jobs per each new ship arriving

Tanker/Chemical Tanker

- About 1300 ships per year (24%)
- Large ships
- Oil and chemicals
- Load/discharge at refineries & storage facilities
- Cargo chooses Louisiana based on location of refineries & storage facilities
- Load/discharge in a very automated way
- Support existing infrastructure and existing jobs
- Create few new jobs per each new ship arriving

Passenger

- About 190 ships per year (3.5%)
- Large ships
- Tourists
- Load/discharge at docks
- Owners choose Louisiana based on tourism and tourist infrastructure
- Significant dockside infrastructure required to support ships
- Create new dockside jobs per each new ship arriving

Container

- About 390 ships per year (7%)
- Small ships
- Containers with a variety of goods—mostly consumer goods needing to reach end users quickly
- Load/discharge at docks
- Cargo chooses Louisiana based on consumption of goods near the port or transportation infrastructure for quick transit elsewhere
- Load/discharge requires both automation and labor
- Creates many new jobs per each new ship arriving.

Break-Bulk / LASH / RORO / Refrigerated

- About 700 ships per year (13%)
- Small ships
- Rubber, steel, metal, wood products, chicken
- Load/discharge at docks or midstream
- Cargo chooses Louisiana based on costs, transportation infrastructure, backhaul opportunities and handling of goods
- Load/discharge/handling requires significant labor
- Creates the most new jobs per each new ship arriving.

Break-Bulk & Container Cargo

Factors in choosing a port

- Break-Bulk
  - Many competing ports because most goods are shipped inland by truck (except steel by barge where our river system gives us a competitive advantage)
  - Dock infrastructure and shed capacity is important
  - <u>Costs to shippers and ship owners is the most important factor</u> in selecting a port--shipping distance adds to cost
  - Louisiana has some competitive advantages due to grain backhauls; however, new “break-bulk liner services” diminish this advantage
- Container
  - Distance to consumer population is the most important factor
  - Cost can only partially offset distance/population base
  - Container through put service
    - Direct container to rail
    - We are closer to the Panama Canal than Houston
    - We have competing rail service to the Midwest

Break-Bulk & Container Cargo

Create the Most New Landside Jobs per Each New Ship Arriving

	Container		Break-Bulk		Bulk	Container vs. Bulk	Break-Bulk vs. Bulk
(all per thousand tons of cargo)							
Direct Wages	$	13,773	$	17,333	$ 4,158	3.3	4.2
Other Direct Spending	$	17,538	$	22,069	$ 5,294	3.3	4.2
Secondary Spending	$	49,462	$	62,245	$ 14,932	3.3	4.2
Total Spending	$	80,773	$	101,647	$ 24,384	3.3	4.2
Jobs		0.69		0.87	0.21	3.3	4.1
State Sales Taxes	$	611	$	769	$ 184	3.3	4.2
State Excise Taxes	$	345	$	434	$ 104	3.3	4.2
State Income Taxes	$	427	$	537	$ 129	3.3	4.2
State Business Taxes	$	315	$	396	$ 95	3.3	4.2
Total State Taxes	$	1,698	$	2,136	$ 512	3.3	4.2
Local Sales Taxes	$	726	$	913	$ 219	3.3	4.2
Local Business Taxes	$	820	$	1,032	$ 248	3.3	4.2
Total Local Taxes	$	1,546	$	1,945	$ 467	3.3	4.2
Total All Taxes	$	3,244	$	4,081	$ 979	3.3	4.2

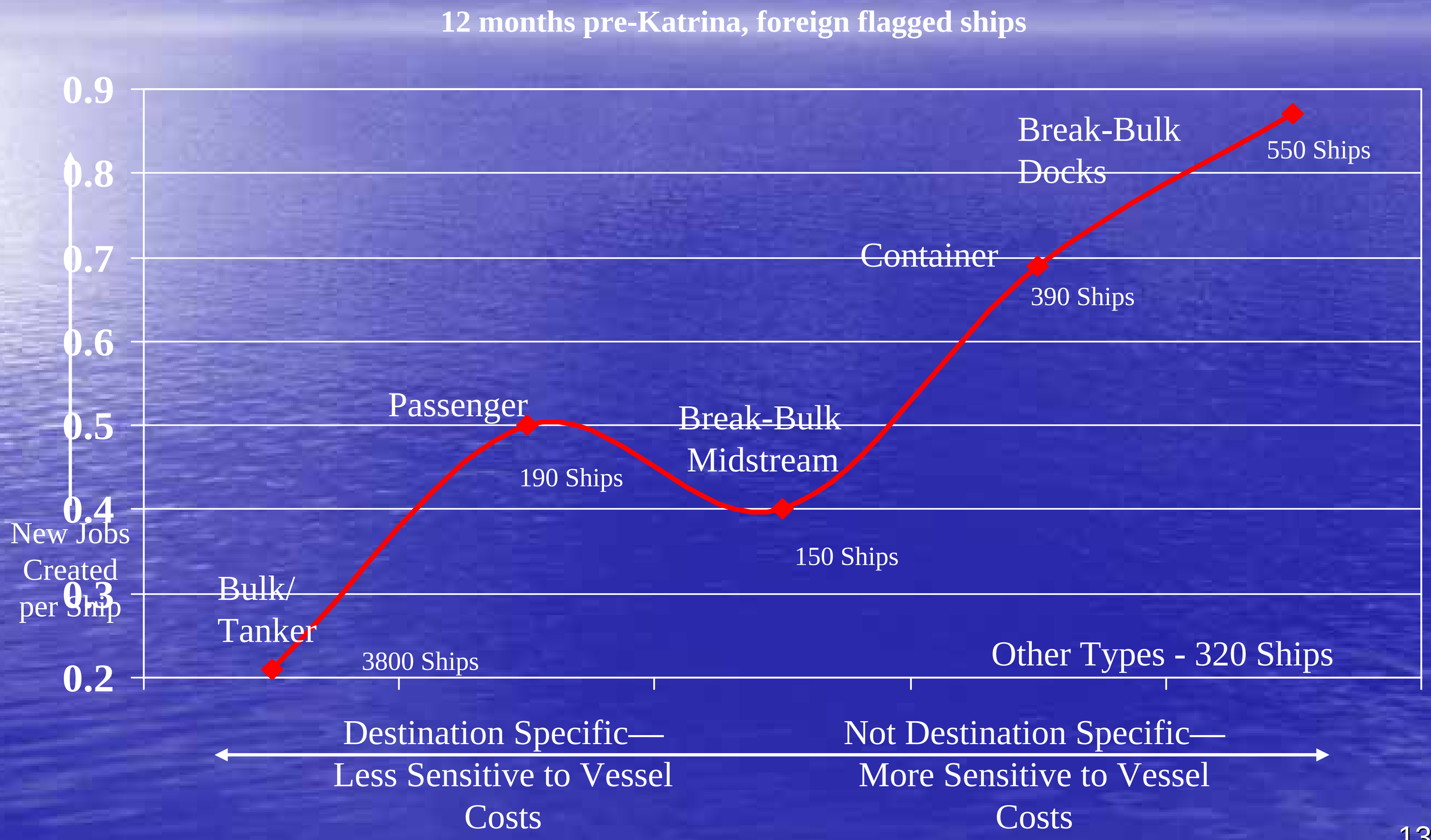
Who gets the jobs created by break-bulk and container shipping?

- Stevedores
- Truck Drivers
- Warehouse Workers
- Rail Workers
- Workers in these industries:
  - Ship Repair
  - Ship Supplies
  - Ship Agents
  - Customs and other government
  - Cargo packing
  - Freight forwarding
  - Marine insurance
  - Pilots
  - Barge lines
  - Custom house brokers
  - Navigation services
  - Steamship lines
  - Ports

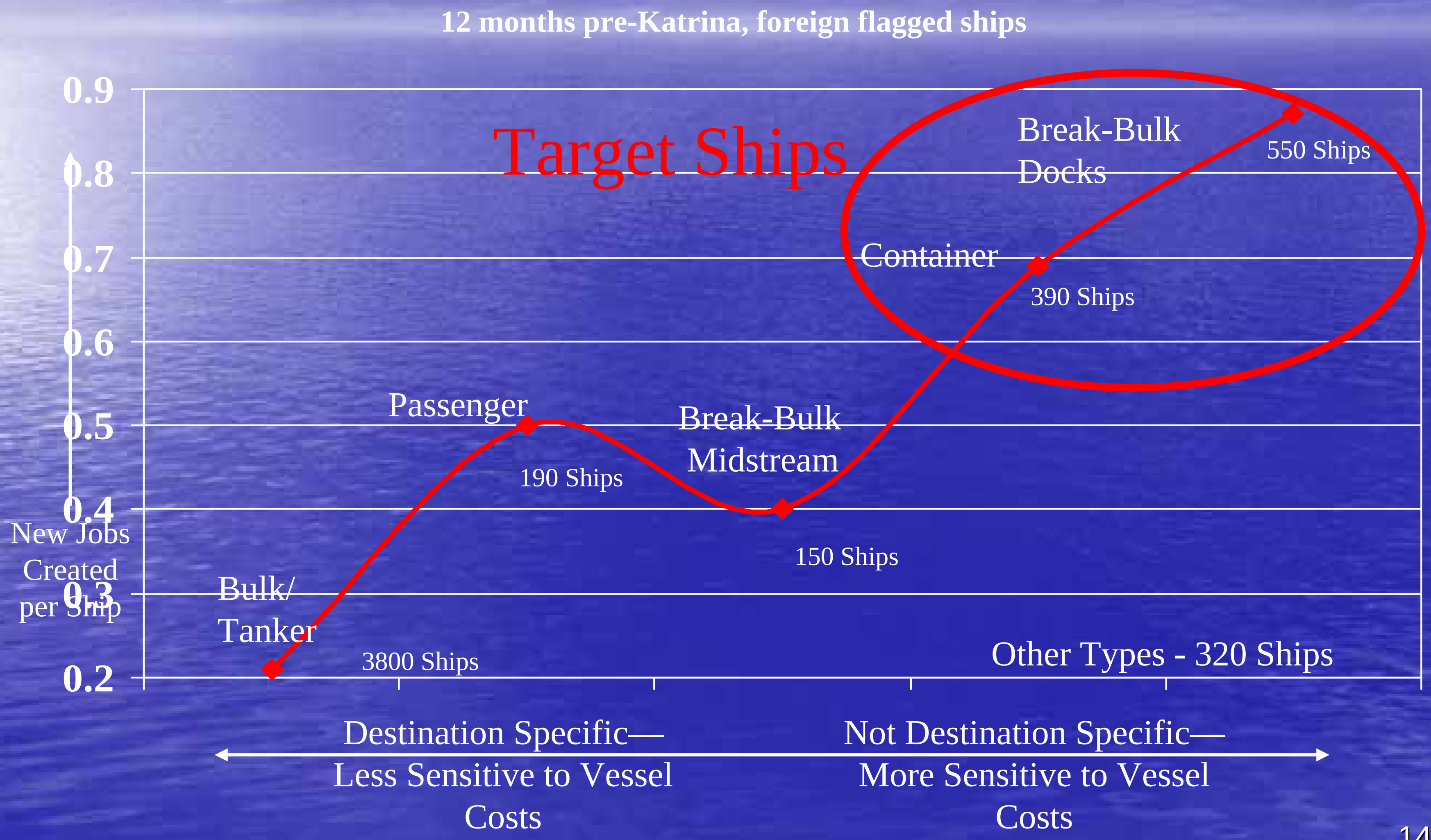
Mid-stream break-bulk doesn’t create as many jobs

- Stevedores
- ~~Truck Drivers~~
- ~~Warehouse Workers~~
- ~~Rail Workers~~
- Workers in these industries:
  - Ship Repair
  - Ship Supplies
  - Ship Agents
  - Customs and other government
  - ~~Cargo packing~~
  - Freight forwarding
  - Marine insurance
  - Pilots
  - Barge lines
  - Custom house brokers
  - Navigation services
  - Steamship lines
  - ~~Ports~~

17% of the ships create the most new jobs and are the most cost sensitive…



...special efforts should be attempted to attract these ships



Where do the target ships arrive?

- Break-bulk
  - Port of New Orleans -- Docks (90%)
  - Port of Chalmette (5%)
  - Port of South Louisiana – Globalplex (5%)
  - Port of Baton Rouge (almost none)
- Container
  - Port of New Orleans (100%)

Bulk and Mid-stream

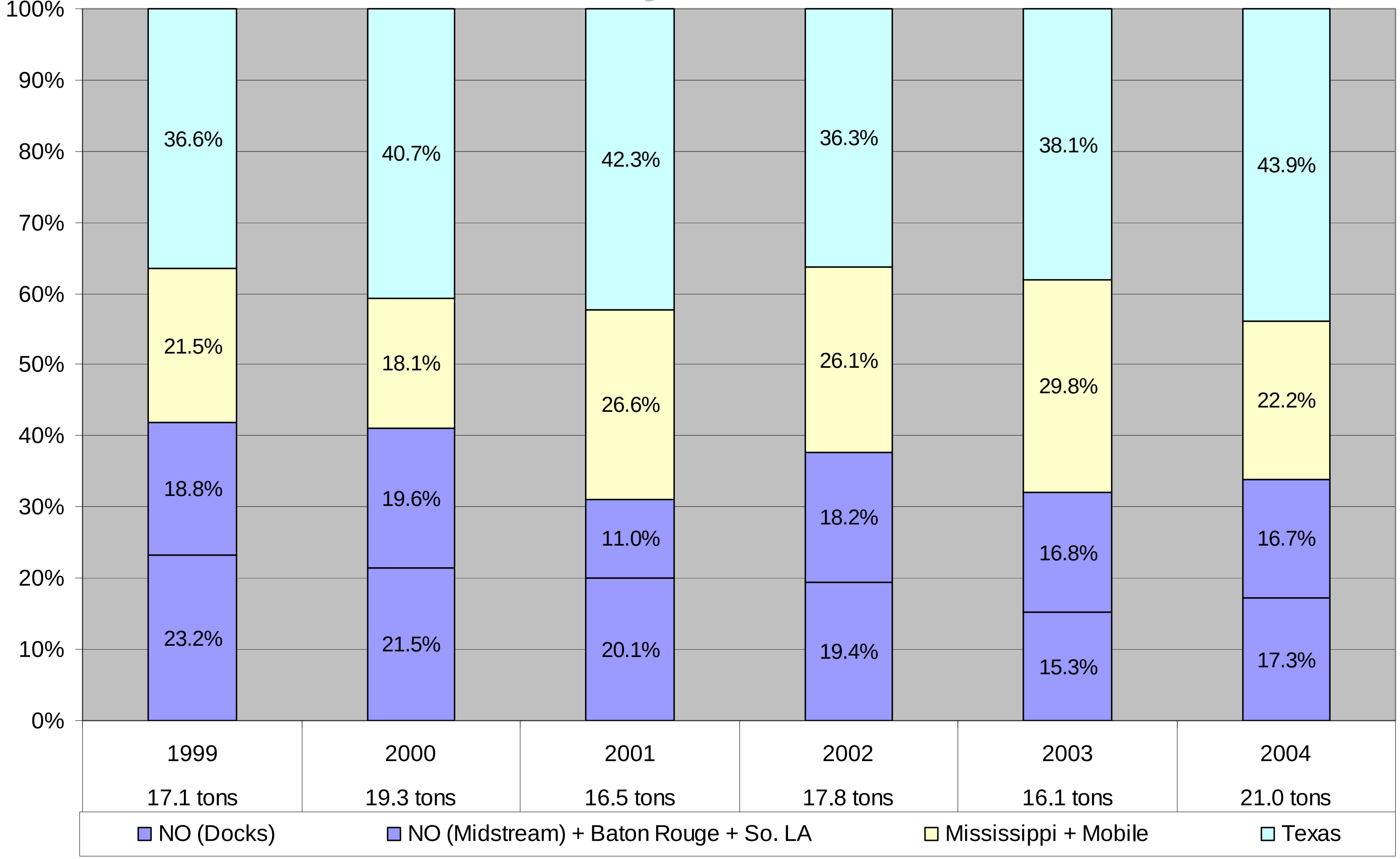
- This presentation does not intend to diminish the importance of the following cargos:
  - Bulk which support as many as 40,000 existing jobs; however, these jobs are relatively captive due to plant locations.
  - Mid-stream which offers cost advantages to certain cargos (i.e., working both sides of a ship)
- The presentation simply points out that on a “marginal employment basis” these ships create fewer jobs than break-bulk ships and container ships that works at docks.
- If we have limited capacity to provide financial support, we should focus on the “target ships” first.

Our strengths

- We are 147 miles closer to the Panama Canal and 215 miles closer to the Straits of Florida than Houston.
- Strong maritime community and product handling skills
- Access to inland waterway system
- Certain Costs
  - Competition among terminal operators keeps terminal/stevedore costs low—landlord port
    - This is somewhat diminished by the trend in the container industry for shipping companies to want dedicated facilities
    - We need to exploit the Port of Houston’s status as terminal operator
  - Dockage is set lower than the Gulf average, although this hurts infrastructure over time
  - Significant competition among tugs and other maritime service providers
- Break-bulk facilities
- 6 Class 1 railroads

Despite these strengths, our trend in break-bulk shipping is down, even before Katrina

If Louisiana maintained 40% market share, it would have received 1.3 million more tons and 992 jobs would have been created



Break-bulk shipping

- Break-bulk shipping is similar to baseball where you win 1/3 of your games, lose 1/3 of your games and differentiate yourself on the remaining 1/3. The 2003 Detroit Tigers won 43 games.
  - We can't get some cargo to the docks because it needs to be near a specific end user or it needs to be midstream (cost and inland transportation reasons).
  - We will always get some cargo to the docks due to the need to sort <u>and</u> grain backhauls or the need to be near a customer.
  - We differentiate on the remaining ships and <u>cost</u> is the biggest differentiating factor.
- In break-bulk shipping, we are losing market share on the ships where we need to differentiate.

The trend is also bad for container ships

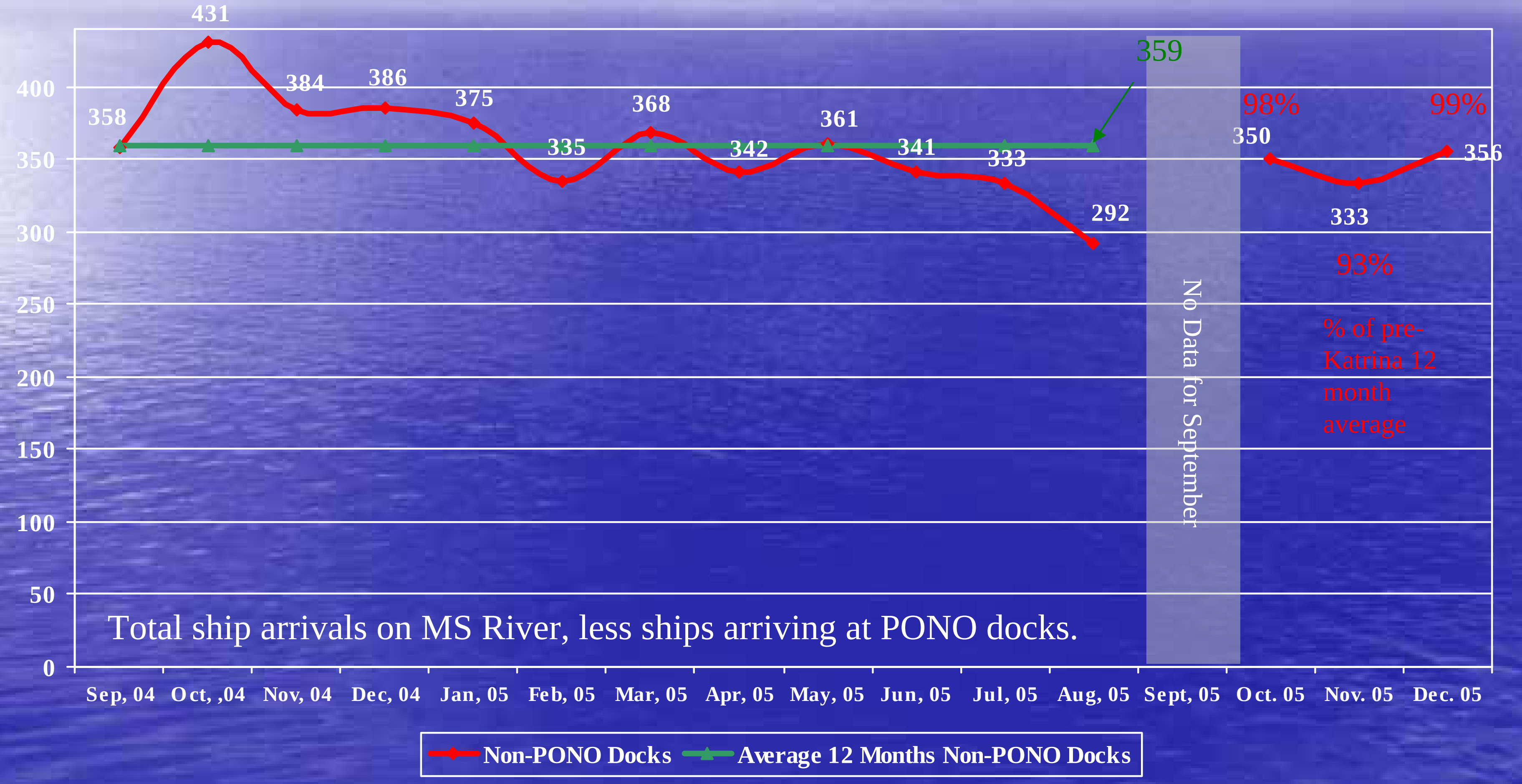
- Lost services
  - Zim—weekly service
  - Maersk reduced Louisiana service and invested $130 million in Mobile
- Infrastructure investments
  - Mobile, $150 million
  - Houston, Bayport

Why do we have bad trends?

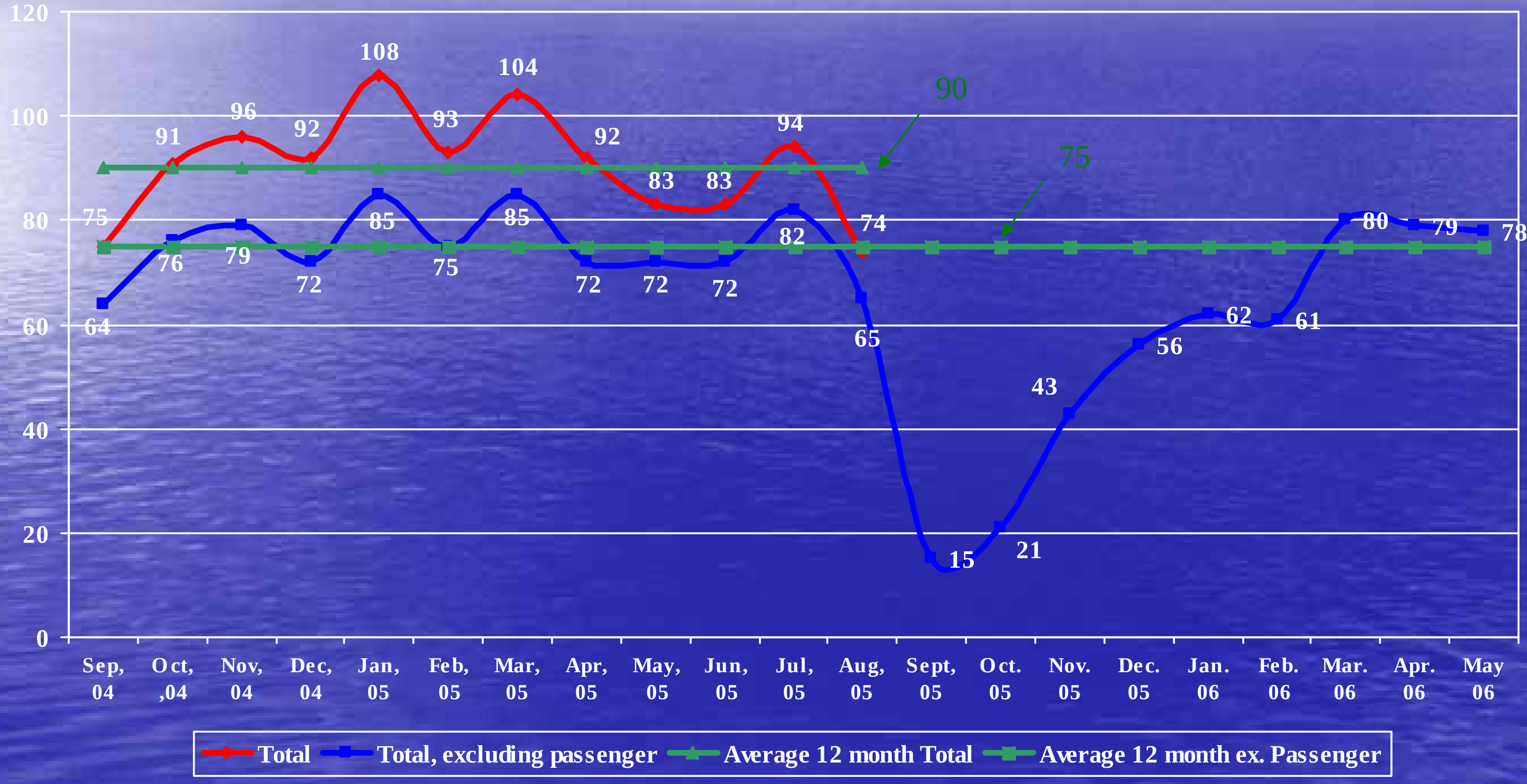
- Cost
  - The direct cost (excluding time and fuel) to bring a “standard” break-bulk ship to the Port of New Orleans is 25% more than Houston (the percentage is higher at Gulfport, Pascagoula and Mobile). At 1,000 ships per year, the difference is $7,065,000. Pilotage is the biggest cost difference.
- Competing ports are aggressive. They are encouraging barge services to backhaul cargo to New Orleans that should have come here in the first place.

Current state of the port

After Katrina, Bulk and Tanker Ships returned quickly…



… ship arrivals at the Port of New Orleans docks have come back, although there are concerns that certain cargos aren't sustainable on a long-term basis (building materials, steel)



Post-Katrina, the Port of New Orleans has limited financial resources…

	FY05	FY06	FY07
Pre-Storm Assumed Revenue	40.1	43.3	43.4
Lost Revenue	-	(13.9)	(9.6)
New Cruise Garage	-	-	2.9
Business Interruption	-	5.0	-
FEMA Fees	-	3.8	-
Total Revenue	40.1	38.2	36.7
Pre-Storm Assumed Expenses	(29.9)	(32.3)	(32.3)
Savings from Position Eliminations	-	1.2	2.5
Under on other direct expense		2.4	1.9
Total Operating Expense	(29.9)	(28.7)	(27.9)
Cash Flow Before Debt Service	10.2	9.5	8.8
Debt Service	(5.0)	(6.5)	(7.3)
Excess	5.2	3.0	1.5
Coverage Ratio			
Senior Debt	2.04	1.56	1.44
Subordinate Debt	2.04	1.47	1.21
Required Ratio			
Senior Debt	1.25	1.25	1.25
Subordinate Debt	N/A	1.05	1.10
Assumed Base Capital Spending	2.5	2.5	2.5
Available for Additional Spending/Matches	2.7	0.5	(1.0)

The Port had physical damage from the storm...

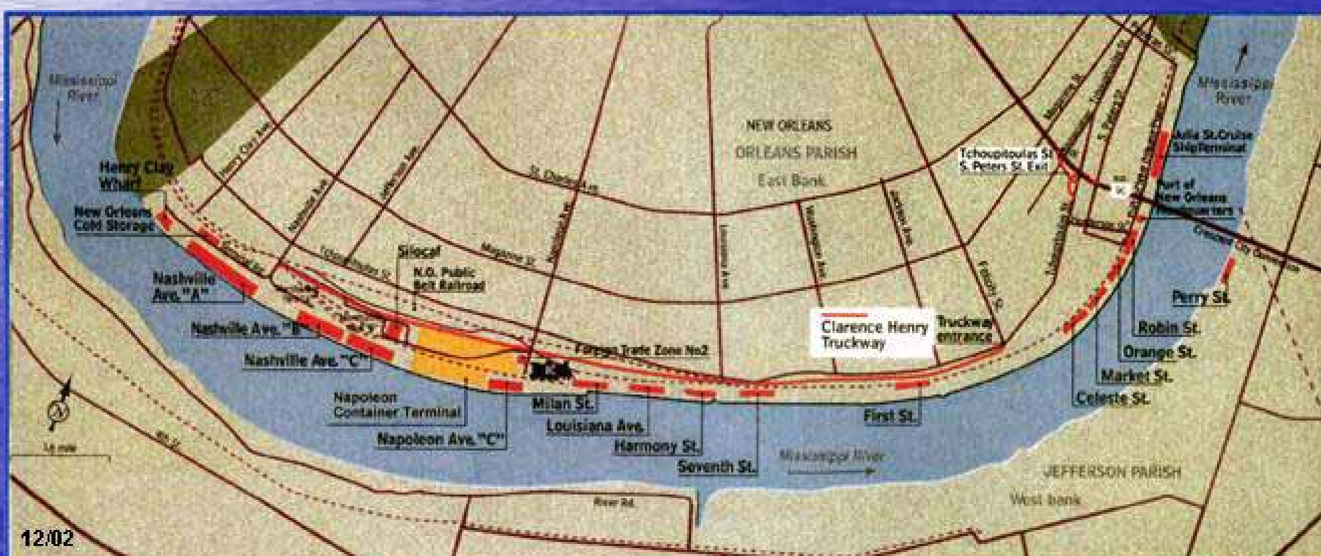
• River Terminals	$23 million
• France Road Terminals	$10 million
• Jourdan Road Terminal	$6 million
• Bridges	$6 million
• Others	$16 million
• Total	$61 million

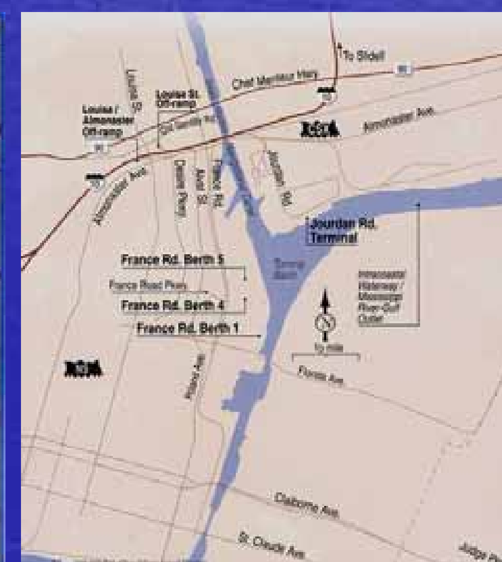
[excludes $5 million business interruption]

…even though facilities allow us to operate

River terminals by-and-large operable
85% of shed space/container acreage

France/Jourdan Road terminals severely impacted
15% of shed space/container acreage





MRGO Closure Impacts Business
Relocation costs are $360 million

- Port: France Road Terminal Berth 1 - $102 million
- Port: Jourdan Road Terminal - $75 million
- Buzzi Unicem - $75 million
- Southern Scrap - $20 million
- Bollinger Gulf Repair - $35 million
- Vulcan Materials - $3 million
- CG Rail - $50 million

U. S. Gypsum - Bulk terminal facility that imports raw materials and manufacturers cement board, wallboard, and other construction products.
Lone Star/Buzzi Unicem USA - Cement import and processing facility that handles approximately 1,000,000 tons/year.
Vulcan Materials - Bulk terminal facility that handles approximately 250,000 tons/year of construction-grade materials.
Dupuy Storage - Major coffee warehousing and handling facility.
CG Railway - Rail car import/export facility. Recently constructed with $15M in Louisiana state funding, $2M in City of New Orleans funding, and $35M in CG Railway company funding for the operation of the railcar service.
Bollinger Shipyard - Key New Orleans manufacturing and construction facility with over 500 employees.
Jourdan Road Terminal - Is the #1 poultry export facility in the U.S. with over 350,000 tons of poultry shipped per year. Terminal and cold storage facility development costs exceeded $50,000,000.
France Road Terminal Berth 4/5/6 - Port container terminal, and prime site for Caribbean/Central American container carriers. Estimated replacement cost is $100,000,000.
Southern Scrap Recycling - 200 acre scrap metal storage and recycling facility.
France Road Terminal Berth 1 - Handled 40,000 containers/year prior to Katrina. Estimated replacement cost is $100,000,000.
Lafarge - Cement import, processing and distribution center.
Inner Harbor Navigation Canal Lock Replacement Project
New Orleans Lakefront Airport
Lakeland Medical Center
Eastover Country Club
NASA Michoud Facility
Chef Menteur Hwy
Florida Ave
France St
Paris Rd
Tupelo St
Jackson Barracks
Nunez Community College
W Judge Perez
Crowder Blvd

Actions for the Port of New Orleans

To create a more competitive port

1. Obtain federal funding for the businesses impacted by the closing of MRGO. The federal government has a moral obligation to these businesses. The federal government also has a moral obligation to accelerate funding of the Inner Harbor Navigation Canal.

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2. Close the gap on costs with other Gulf ports. Seek a cooperative endeavor agreement with the pilots. “Target Ships” represent 17% of total ships but a lower percentage of total pilot fees (since fees are based on ship size). A small overall concession by the pilots could create big impact to “target ships.”

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3. Encourage terminal operators to be competitive. This will be tricky as some container shipping companies want to control their own leases. We need to watch closely that international terminal operators aren't "trading away" price competitiveness in New Orleans in exchange for business elsewhere.

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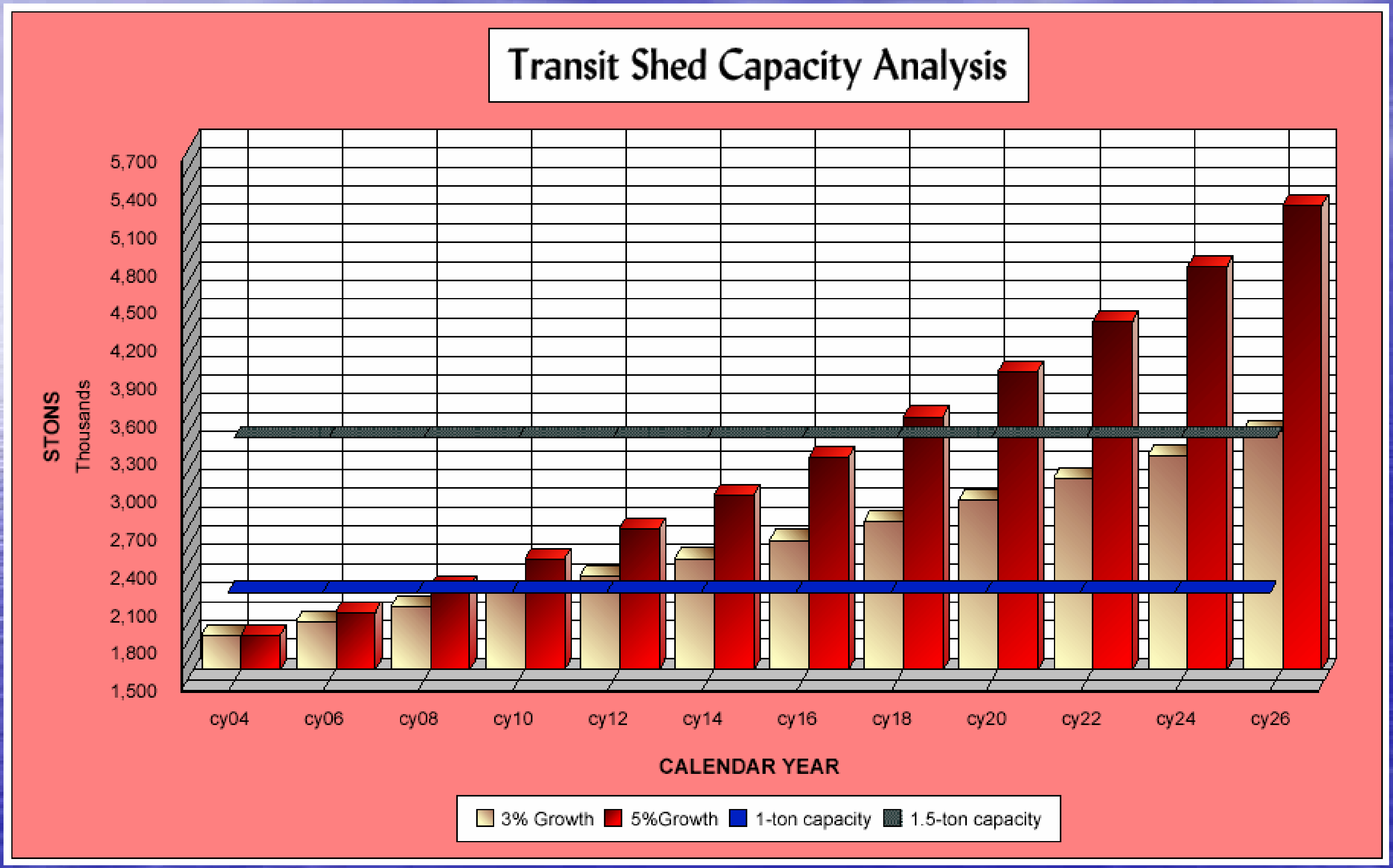

Transit Shed Capacity Analysis
STONS
Thousands
5,700
5,400
5,100
4,800
4,500
4,200
3,900
3,600
3,300
3,000
2,700
2,400
2,100
1,800
1,500
cy04
cy06
cy08
cy10
cy12
cy14
cy16
cy18
cy20
cy22
cy24
cy26
CALENDAR YEAR
3% Growth
5%Growth
1-ton capacity
1.5-ton capacity

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7. Work to develop cooperative relationships with rail companies—could we be the gateway to the Midwest for containers? This is our only competitive advantage vs. Houston for containers.

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8. Work to eliminate the "coffee differential."

Actions for the Port of New Orleans

To create a more competitive port

9. Manage our costs more aggressively and pass savings to shippers or invest in infrastructure. We didn’t manage our recent $4.4 million cost reduction well (58 positions) because we let Katrina decide which positions were eliminated. We need to manage expenses more aggressively: how can we most efficiently use an independent police force?, should we have an independent police force?, are our foreign offices effective?, do we need to sponsor every trade conference and association?

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10. Focus on the City's construction demand—seek warehouses from Home Depot, Lowe's, etc. Are there other distribution facility opportunities?

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11. Support the City with its Riverfront Development project.

Comments of Garcia Paz, Ambassador of Honduras to the U.S., to the Dock Board on August 25, 2005…

- The Port of New Orleans used to be the Central American port in the United States, but that is no longer the case. The people have had such a connection with Louisiana for so many years that it is a pity and I feel sad about the fact that New Orleans has been replaced by Miami.
- What I am saying here is that, even though I am happy to be here, I am sad that the Port of New Orleans is no longer Honduras's Port, and you should do make whatever efforts are within your powers to recapture that importance. The only way to recapture the importance is to become competitive. Competitiveness is the key element of this globalized world today. You have to be competitive, or you will be completely out of the game.

The Port of New Orleans is an economic engine for Louisiana.

Cargo is critical to rebuilding our Port.

We need to stimulate cargo to create jobs.