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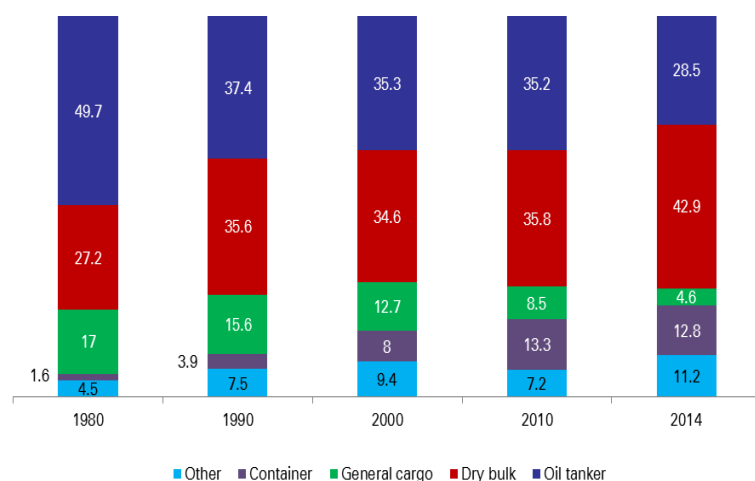
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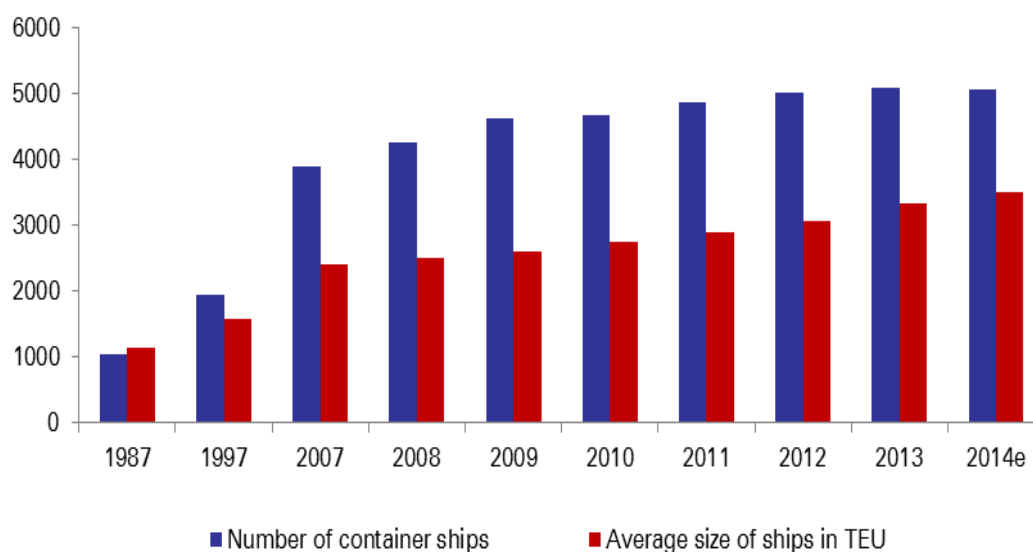
Distribution of the world fleet by vessel types (% of dead-weight tons)



Source: UNCTAD, "review of maritime transport 2014"

Sixty years ago, Malcolm McLean had an idea that revolutionized maritime transport and stimulated international trade: the shipping container. Even though seaborne trade dates back decades, McLean's thought greatly contributed to the growth of the world economy in the 20<sup>th</sup> century. The American transport tycoon believed it would be much wiser, cost effective and efficient to have a container that could be lifted directly from a truck onto a ship without having to unload its content. His ideas were based on the fact that the efficiency of transport modes could be greatly enhanced by an "intermodal" system meaning that the same container with the same cargo could be transported with minimal interruption via different roads and means of transport during the same journey.

Global number of container ships and average size of ships in TEU (20-Foot Equivalent Unit)



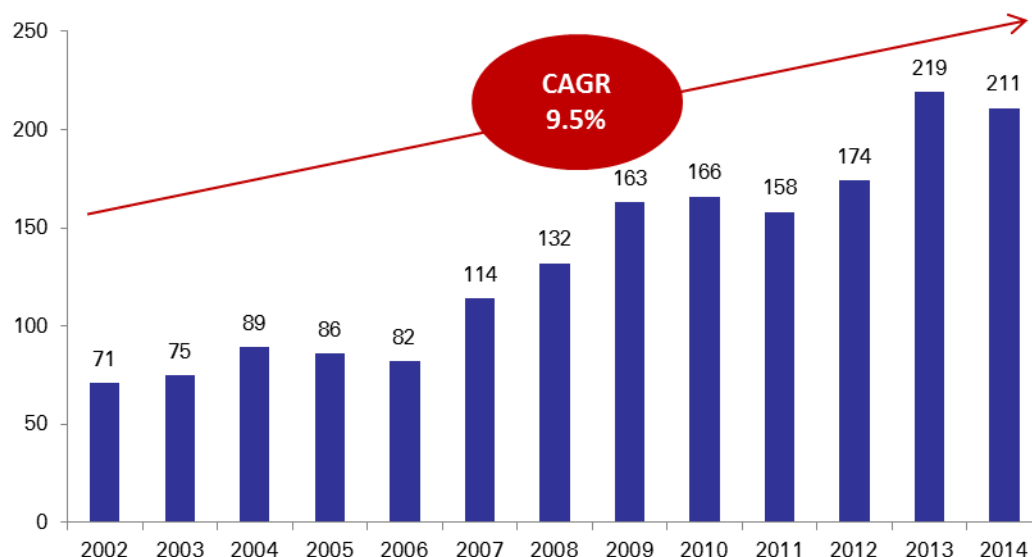
Source: UNCTAD "review of maritime transport 2014", Drewry "maritime research"

Global containerization has grown steadily over time, substantially boosting shipping activity at the seaports all around the world. In fact, six decades after McLean's invention, containerisation constituted more than 60% of the maritime trade in terms of value of goods in 2014. In terms of dead-weight tonnage<sup>1</sup>, containers accounted for 12.8% of the world fleet in 2014 increasing from 1.6% in 1980. Thus, figures reflect the fact that the number of container ships has increased steadily over time up until 2013. However, estimates for 2014 show that this figure is stagnating at around 5,000 but that the capacity of ships is growing. It increased from an average of 1,000 TEU/per ship transported in 1987 to more than 3,000 TEU/per ship in 2013.

As for Lebanon, containerization pushed the PoB into a higher level. In fact, Beirut Container Terminal Consortium (BCTC), a private company, was mandated to manage the terminal in the early 2000's that basically implemented and settled international standards for containers' activity. Thus, authorities at the PoB discerned the importance of containerization in boosting the port's revenues. According to port authority president Mr. Hasan Kraytem, it makes sense to focus on the containers and take effective measures to further improve the container terminal by increasing the area dedicated to containers and improving infrastructures and equipment. Lebanon's liner shipping connectivity index compiled by the UNCTAD increased from 10.57 in 2004 to 42.63 in 2014, the port was ranked 33rd out of 157 countries while in 2004 it was in the 66th spot.

In this context, the PoB saw its revenues bolstering over the past 10 years. In details, the PoB revenues have increased by over 200% between 2002 and 2013 growing from \$71M to \$219M respectively. This was driven by the improvement of infrastructure and equipment as well as good management of the PoB's operations. Moreover, the closure of Syria's ports due to the ongoing conflict that started in 2011 has contributed to the increase in revenues since most of the Syrian trade's traffic has shifted to the PoB.

### PoB yearly revenues (In \$M)



Source: PoB

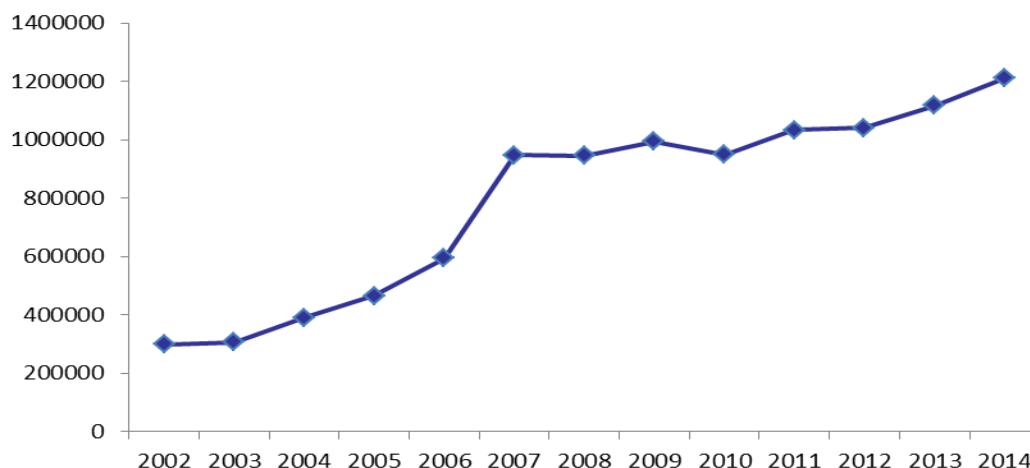
Despite the strong performance of the PoB, the activity of containers represented more than 80% of the port's revenues while the surface dedicated to this activity was below 20% of the port's area. In fact, the port authority estimated the current capacity between 1.35M and 1.5M TEU. In 2014, the PoB handled more than 1,2M TEU and 450,528 TEU up to May 2015.

Up until now, the current infrastructure and terminal capacity were capable of responding to the increased traffic. In 2013, an extension of quay 16 was completed and able to enhance the PoB

<sup>1</sup> a measure of how much weight a ship can safely carry

container terminal capacity by 500,000 TEU to approximately 1,5 M TEU. Thus, the terminal utilized 85% of its total capacity in 2014. Therefore, the port authority is looking for alternative solutions and projects to meet the growing demand which is expected to reach 2M TEU in the coming years.

### Number of TEU handled at the PoB



Source: PoB

### The regional turmoil: Bad news for neighbouring ports, good news for Lebanese transshipment activity

Even though the regional turmoil strengthened transshipment activity at the PoB, yet it witnessed alternating levels between 2010 and 2014. In 2011, the PoB witnessed a huge leap in transshipment activity with a 28.4% increase y-o-y from 349,668 in 2010 to 449,029 in 2011. This increase was mostly due to the hefty number of Syrian refugees rather than to a pickup in domestic consumption. This sudden increase led to a lot of congestion in the terminal and affected negatively the quality of services provided. Thus, transshipment activity had to be scaled down to clear the path for the influx of containers. In fact, the transshipment volume fell by 9.4% to reach 406,787 TEU in 2012 and by 11.7% in 2013 to 358,996 TEU. Nevertheless in 2014, transshipment activity surged again by 24.2% y-o-y to reach 445,962 TEU. This increase was mainly related to the extension of quay 16 which created additional space for transshipment activity.

### Filling the 4th basin will contain the bolstering demand...

The 4th basin project came as a result of the arising demand and was initiated in 2014 to provide a multitude of benefits to the port, the customers and the Lebanese authorities as well. First of all, the 4th basin will help optimizing the container terminals in terms of space and in improving the quality of services provided to the customers. It will also generate more profits for the port's authority and thus for the Lebanese government.

One of the key advantages from filling the 4th basin is the creation of an extra space for container storage. According to the port authority, the 4th basin project will improve the general cargo segment while increasing the capacity to accommodate more containers. In fact, Mr. Kraytem stated that the area of the 4th basin will handle both general cargo and containers. The port authority mentioned that this project will create a storage area for containers of 140 000 m<sup>2</sup>, and it will have the capacity to handle 500 000 tonnes of general cargo. Moreover, the filled area will be used 24 hours 7 days a week whereas at the moment it is only utilized 8 hours per day.

### ...yet, the extension is facing a fierce opposition

Aside from the port authorities' belief regarding the 4th basin, truckers and port workers fear that the project may cost them their jobs. Considering the project as illegal, the port's workforce and the

truck owners' union have filed a lawsuit against the port authority according to decree number 9040 dated 29.08.1996: "works on the expansion and rehabilitation of the PoB, which include the creation of basins numbers 4 and 5 and the terminal containers are considered public interest ". Given that the effects of a decree can only be repealed by another decree which to date does not exist, the initiative of the port authority is considered illegal.

The truck owners' union that counts around 1,500 truckers that are fighting tooth and nail against this project. Their trucks are not suitable for container transport and are therefore not able to adapt to such change. In their fight, the unions have obtained the support of all Christian political parties because, beyond the economic issue, the majority of truck drivers were Christians.

Truckers and shipping agents have also stated that once the filling is done the new quays will no longer be able to accommodate vessels including general cargo ships, bulk carriers and cruise ships. In addition, war vessels conducting joint military exercises with the Lebanese army, and in the near future, oil tankers, chemical tankers and specialized vessels in the offshore gas activities would no longer be able to dock.

The opponents of the project state that the 4th basin is the only existing basin able to accommodate operations related to the exploitation of oil and gas and filling it will hinder the extraction of those resources. In fact, it takes significant berthing areas and a deep draft to accommodate oil rigs and supply vessels (fuel, logistical support, food and draining of sewage). Worth mentioning, the 4th basin has structural characteristics that differentiate it from other basins of the port, but also from several other basins of ports in neighbouring countries. From one side, its draft varies between 12 and 14 meters allowing it to accommodate ships with large tonnages. From the other side, its 1 km length allows it to align several boats.

### **However, alternative options exist**

Options other than filling the 4<sup>th</sup> can be considered to find additional storage space, including the extension of the port boundaries beyond the Beirut River. On the bright side, the cost of this suggestion seemed to be lower than that of the filling. However and even though the works will be difficult, technologies exist to overcome the difficult terrain. Yet, the port authority claims the Beirut River is the administrative boundary of the city and that is why the port does not extend beyond it. But given that the expansion of the port is a national project, and that there is a certain urgency, a decree of the Council of Ministers could change these boundaries and allow work in this area.

Another option would be to develop two major ports in Lebanon, besides the PoB, in Tripoli and Saida. This national development plan was formulated in 2005 by the Council for Development and Reconstruction, and approved by the Cabinet. The plan is that each of the three ports will be specialized in one segment of services. The port of Beirut, which started its development more than 10 years ago, could focus on containerization since 80% of its revenues are derived from it. The port of Tripoli in the north of Lebanon could become a business cluster for the region. Visioning the implementation of a free zone and a railway linking the city to the Syrian border, port of Tripoli could specialize in general cargo traffic and transit to Syria, Iraq, Turkey and Europe. As for the port of Saida, it could in turn be dedicated to the trade with Gulf countries.

A third option involves the creation of a dry port in the Bekaa region in an effort of decentralization. A dry port is an inland intermodal terminal connected to a seaport by road or rail. It operates as a centre for the transshipment of sea cargo to inland destinations and also includes facilities for storage and consolidation of goods and customs clearance services. This dry port will relieve bottlenecks at the PoB resulting in better service for its clients. Furthermore, this dry port will boost the Bekaa region economically since it will attract companies who will establish their businesses close to the dry port. It will also play a major role in the trade with Syria once the conflict is resolved.

All these projects for modernization and specialization of Lebanese ports require a major overhaul of infrastructures and specifically roads. It is clear that there are many solutions to increase the area dedicated to containers and to allow the PoB to get to its target capacity of 2 million TEU per year.

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