

ASO PORTUARIA UPDATE

BULLETIN # 4 - March 2020

All together

The current situation facing humanity due to the pandemic known as Covid-19, is causing an impact in all economic sectors of the planet, where Colombia has not been the exception. The priorities at this time should be, in their order, guarantee public health and life, restore confidence (in others, in institutions, in ourselves) and recover the economies that will undoubtedly suffer from the suspension almost obligatory of the productive sector, commerce and general consumption.

Port activity is, finally, a reflection of the state of the economy. In the Colombian case, port performance depends on the strength of its productive apparatus in the sectors that weigh the most in the export basket, and on industrial activity and consumption for imported products, mostly raw materials.

Under this scenario and even without knowing the size of the impact of the phenomenon of COVID-19 in the country and in the rest of the world, trying to measure the impact of it in the port sector is unpredictable and even risky. Mainly due to the speed at which the events develop, due to the advance of the pandemic and to the reaction to news, positive or negative, that have an impact of all kinds. However, we carry out an exercise to try to infer what we can expect for the sector, in a scenario of uncertainty in which we must add the volatility in the exchange rate against the dollar, which has led the currency to historical prices.

General Maritime Overview:

The International Chamber of Shipping and the International Transport Workers Federation have been known to be in constant communication with the UN (United Nations), to allow the world's ports to remain available, and crew changes to be authorized under strict security measures. They highlight that the ports are at this moment a fundamental piece to guarantee the supply of food and basic necessities in all the countries of the world and that it is necessary to allow them to continue operating. It should be noted that to date, the first case of Coronavirus has not yet been reported in merchant fleets and that most ports have taken extreme precautions to be taken with the crews of ships arriving at the facilities.

To date, some ports have implemented limitations on operations, such as quarantines to incoming ships, but port activity continues around the world. However, this delays transit times. As for the cost of freight, the drop in oil prices is not yet significantly reflected in lower rates, but it is not ruled out that they will occur in the coming months.

In Colombia, the government has decreed the mandatory permanent preventive confinement measure. However, there are exceptions for port activity, maritime and river dredging, and other

critical activities to guarantee the supply for the population and control the spread of the epidemic. This in practical terms means that the operational part of the ports and associated services for the reception and dispatch of goods (port operators, practical pilots, maritime agents and others) will continue to work to guarantee the movement of cargo.

Key Products:

- Bulk:** it is expected that, mainly due to the fluctuation in the dollar, grain importers will make purchases in lower volumes, playing it safe with few inventories. The demand for food must continue to be strong, even when there is no consumption in restaurants. The food must circulate from the farms to the final consumer and this involves international trade, as long as the supplying countries do not take restrictive measures that shorten the world market. Import volumes may drop moderately, showing possible temporary stock outs. As for the bulk products for industry other than foods, this will mainly depend on demand. In construction materials, due to the stoppage or suspension of works, there is a drop in general consumption, which may be reactivated after quarantine, depending in part on the measures adopted by the government to alleviate the economic impact.
- Edible Oils:** oil shipments from Colombia may be temporarily affected due to the situation of the main buyers (Italy, Germany). This has already caused the price of Palm Oil to fall 18% since February, losing part of the recovery in recent months. However, as the critical phase passes in Europe, demand is expected to return
- Carbon Hull:** Although there should be low global steel consumption due to the impact of the pandemic, mines have been closed in the main producing countries due to infection outbreaks or as a precaution. In Colombia, mining activity was exempt from confinement, with the expectation that Hull exports could continue in the short term.
- Thermal Carbon:** A weak demand for thermal coal continues, bringing the price to \$ 34 USD. It can be further impacted by low energy demand in the industrial sector around the world. However, plant closings in China (the main consumer but also the main producer), can maintain the flow of purchases, since reactivating energy consumption is faster than activating mines.
- Hydrocarbons:** the coming weeks are critical, since with more than half the planet in quarantine and closed air borders, the demand for hydrocarbons drops substantially. Specialized portals say that the ports are full of inventories, as there is not enough demand. Shipments are expected to normalize in one month, when current inventories are consumed and activities in the countries are restarted. In Colombia, despite the reference crude oil prices, it will continue to be extracted, but due to low demand it is foreseeable that exports will also drop. The same can happen with related products, where the next few weeks should be of little movement, to reactivate in about a month.
- Steel and Construction Materials:** Imports may be affected by the postponement, suspension or cancellation of construction works. Its reactivation will depend on the economic recovery plans carried out by the government and the behavior of the TRM.

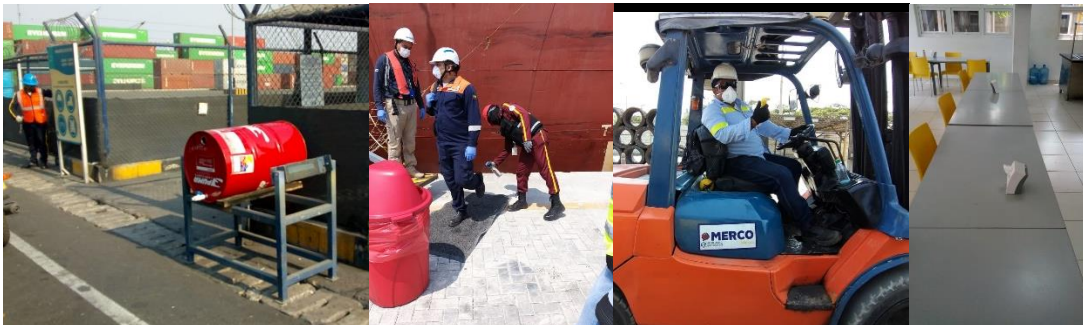
- **General Cargo:** a decrease in cargo from China was seen, due to the closings of the industry in that country. Today, this impact is expected to include merchandise traffic worldwide, at least temporarily, to normalize in a couple of months. The impact on container trade, according to specialists, is expected to contract 5% in 2020.

General conclusions

Again, we emphasize that the speed, not only of the spread of the virus, but of the measures that different governments take or fail to take to contain it, will have a significant impact on the supply and demand of raw materials, world trade and the catering. In general terms, there will be less cargo moved by port terminals in the coming months and it is estimated that towards Q3 and Q4 it may tend to normalize. This will depend on the plans that the governments adopt to recover the economies and, logically, on the advance of the control of the pandemic, bearing in mind that today, the priority must be to protect life.

Barranquilla ports take extreme measures

As mentioned above, the maritime and river port activity was exempt from the mandatory isolation, which is why, with the minimum required personnel, it continues to operate to guarantee the country's supply and production chains. This means that there is a greater responsibility in carrying out the operations with all the precautionary measures, to avoid the spread of the virus through this vital activity.



Asoportuaria asks the Government for measures to recover the port sector

In the letter addressed to the Ministry of Transport, Finance and Public Credit and the Ministry of Commerce, Industry and Tourism, where support for the government's management in the face of the current crisis was first expressed, ASO PORTUARIA suggested a series of measures to support the necessary revival of the port sector. The measures include:

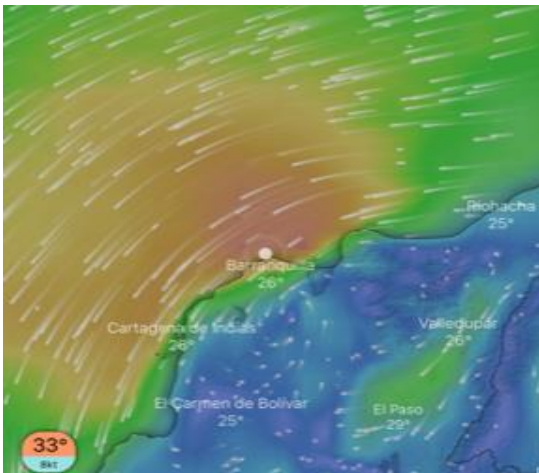
- Include the port sector within the critical sectors affected, so that they apply for incentives for payment of taxes, that they apply for Bancoldex's soft credit lines, make interest more flexible and special treatment for dollar debts.

- Special treatment for obligations with government institutions in dollars, This might include prorating them over the remaining time of the concession contract.
- Reprogram or postpone the pending investments for this year, without updating their values financially.

Draft situation in the Port Area of Barranquilla

The start of the dredging campaign in 2020, dated March 7, has had multiple complications due to adverse weather conditions in the Bocas de Ceniza sector. Although in February 107,000 m³ were consumed in the internal sector of Bocas de Ceniza that were still available from the previous contract, there were limitations in the Bocas maritime sector and in the internal sector K14 that led to the Port Captainty to reduce operational draft. The K14 was managed to enable with the start of the current dredging contract, but the strong breezes and waves of more than 2 meters have prevented the external sector from being rehabilitated, where the channel width limits the entry of larger draft ships.

The few time windows, have been insufficient to achieve the required depth and width. This is why the operating draft has been decreasing, since to the above it is added that the sedimentation process continues, as well as the low flows.



Forecast of breezes during the month of March

What's next?

Forecasts show that from April 1, the breezes drop substantially, so the critical part can be dredged without putting the boat or its crew at risk. The previous days will be used to enable the rest of the internal sectors to, once the conditions are present, enable in the shortest possible time and achieve the operational draft established in the contract, between 10 and 10.2 meters.



Forecast of breezes and waves from April 1st

Dredging Plan

Once the access channel has stabilized in its critical areas, the dredging plan establishes that work should be done in the K21 sector, known as the Barrio Abajo turning area. The objective of this contract is to unify the conditions throughout the channel, to obtain depths that allow a draft of at least 10.2 meters.

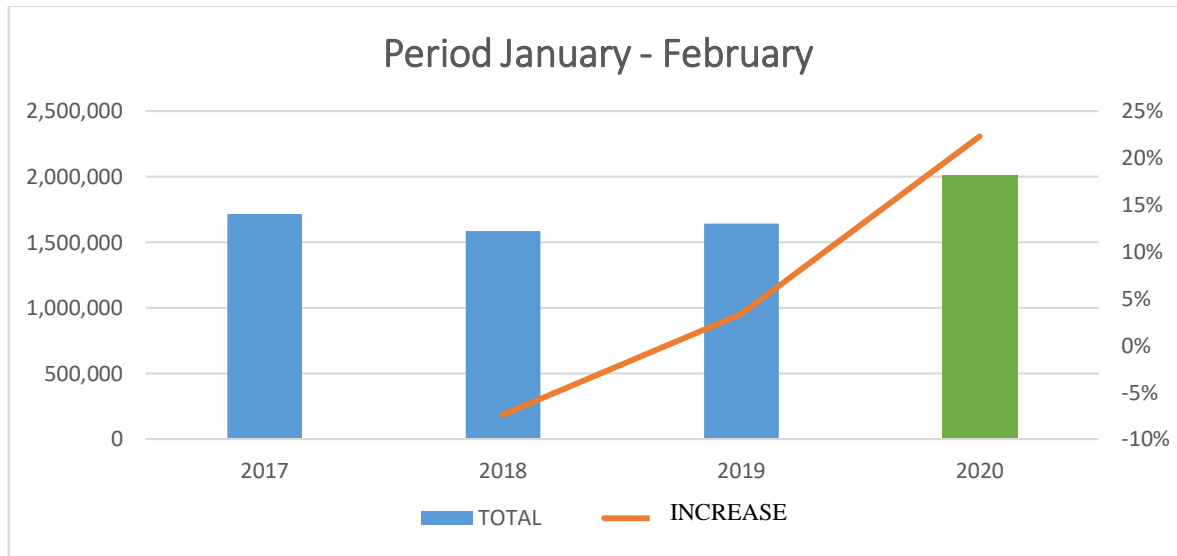
Dredging continues despite mandatory preventive isolation

Another activity that was excluded from compulsory preventive isolation is maritime and river dredging. This ensures that the work on the Barranquilla access channel progresses while the mandatory confinement progresses.



First two months of great port dynamics

During the first two months of the year, historical figures were achieved for the Barranquilla Port Area, with a growth of 22% compared to the same month of the previous year. All port terminals showed growth compared to the previous year. The great challenge now is to see how we adapt to the recent situation caused by the global pandemic where, as explained above, the burden may see a significant decrease in the coming months.



Asoportuaria, present at the X Colombian Coal and Carbon hull forum

In this forum, the potential of the port area of Barranquilla was highlighted, to continue serving this important sector and how the stabilization plans in the access channel will allow to accompany the future growth of exports.



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