Areas of focus and risks

Key areas port operators may want to pay particular attention to are outlined in this section.

The financial impact of Covid-19

Like most other sectors, the port industry is enduring the financial pinch of the pandemic. Rising debt levels, coupled with plunging earnings and deteriorating cashflows, has exposed the industry to funding, liquidity, covenant compliance, and even business continuity risks.

The advent of Covid-19 has raised fears over shipping carriers' liquidity positions, which translates to increased credit risk for port operators. Although the risk has been mitigated to a certain extent by the financial support extended in the form of state-backed loans, guarantees, government grants and subsidies, the long-term sustainability of the carriers and hence of the port operators business needs to be assessed. As described by Drewry: "The need for state support is an indictment of the perilous nature of many carrier balance sheets that have not addressed the debt bubble arising from the financial crash."[xxiv]

In recent years, port operators have put increased focus on expansion and/or vertical integration, that are primarily funded by loans resulting in a significant rise in net debt levels. A number of planned and ongoing major port projects globally have been put on hold as a result of the pandemic and global trade volumes are forecasted to decline in the short term. Projects that are at an initial planning stage are at risk of being suspended or shelved, meaning the time and resources expended on them so far would have been in vain.

Operational and business risks

Port underutilization

Global containerised demand throughput has declined by 2.1% due the the pandemic but is expected to increase by 8.9% in 2021.[xxv] As a result of the pandemic, the global port utilization is projected to decline in 2020 to 62% from 69% in 2019.[xxvi] Although the average annual increase in demand is forecasted to outpace the increase in capacity in terms of growth rate in the long run, underutilization of ports still remains one of the risks faced by many port operators in the short to medium term. Underutilized port equipment and terminals contribute little to the ports' operating income and cashflows thereby increasing the financial risk of impairment.

Port congestion

Factors contributing to port congestion include low port productivity and scarcity of space. Congested ports are at risk of losing potential customers and revenue as a result of blank sailings. To address this, operators are gradually implementing innovative solutions to increase productivity and storage capacity. In 2020, DP World commenced the pilot phase of its new high bay storage system (HBS), BoxBay. The project aims to provide a more efficient container handling system and increased container storage capacity.


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Political environment

Global trade tensions were front and center in 2019, and with growing political upheaval across the world as the Covid-19 blame game ramps up, this remains a key risk to global container port growth.

US-China trade war

The recent political tensions between the US and China under the Trump administration, aggravated by the pandemic, exposed the risks of heavy reliance on limited, concentrated supply chain logistics. There has been a shift in global trade patterns with regional trading replacing the traditional east-west international routes. Operators whose volumes rely mostly on U.S. and China related trades are especially at risk. Although the result of the recent US elections in favor of president Biden has generally been expected to ease the tension, it is still premature at this time to predict the direction of US foreign trade policies.

Brexit

The United Kingdom's (UK) withdrawal from the European Union (EU) was officially finalized on 31 January 2020, subject to a transition period which ended on 31 December 2020. Although both parties have agreed that no tariffs or trade quotas will be implemented on goods being transported, border checks, including safety and customs declarations, would be applied to UK goods travelling to the EU and vice versa.[xxvii] Tariffs would make UK goods more expensive and harder to sell in the EU while full border checks may cause traffic bottlenecks at ports, leading to significant delays causing a decrease in port productivity and efficiency, and increased operating costs. A recent report[xxviii] from the UK National Audit Office (NAO) confirms the concerns over gaps in preparedness and potential ramifications.

Qatar trade embargo

In 2017, Saudi Arabia, the United Arab Emirates, Bahrain and Egypt cut diplomatic ties with Qatar which led to closures affecting the sea routes between these countries and Qatar.[xxix]

The Al-Ula Declaration on 5 January 2021 has put an end to the Qatar trade embargo which had limited trade within the GCC region for more than three years since 2017. The declaration is expected to re-establish trade activities through unified markets and complete economic integration thereby promoting political stability and economic growth in the region.[xxx]

Abraham Accords Peace Agreement

On 13 August 2020, Israel and the UAE formally agreed to normalize their relationship. The agreement was signed on 15 September 2020 and is expected to establish strong relations between the two sides in areas such as economy, trade, medicine and technology. The agreement is expected to not only boost the economies of the two parties but also the entire Middle East region.[xxxi]

In a bid to capitalize on the opportunities presented by the agreement, Abu Dhabi Ports, via Khalifa Industrial Zone (KIZAD) and ZonesCorp, opened its industrial cities and free zone cluster to Israeli entities looking to expand their operations in this region. As a result of these efforts, Israeli companies will be able to exponentially scale their businesses in an efficient and cost-effective manner by taking advantage of the improved supply chain distribution channels and logistics operations. Abu Dhabi Ports will also benefit due to diversified activities in the free zone and through its collaboration with renowned Israeli technology companies.

Health and safety

The ports and logistics industry is exposed to a wide range of health and safety risks. These include people interacting with heavy loads, as well as moving equipment. The priority of leading industry players is to ensure the safety of the workforce by adopting a "no-harm" approach. The focus is heightened in emerging markets where fundamental safety frameworks may not be widespread, or operate with zero or minimum regulatory enforcement. For a large number of companies operating in the ports and logistics sector, health and safety has become a standing agenda item in board meetings. Most of these companies have established committees comprising senior leaders, whose primary objective is to ensure the accountability, effectiveness, and continual development of health and safety programs.

Covid-19 precautions

To mitigate the risk of Covid-19, ports have implemented a variety of measures to comply with health and safety recommendations. The protocols put in place included standardized sterilization procedures when receiving vessels, imposing travel and physical distancing measures for employees and segregating workforces into dedicated zones of accommodation.

Many organizations introduced the mandatory use of personal protective equipment (PPE) by employees when interacting with customers, and sanitization of buildings, berths, offices and accommodation. Some port operators also mandated completion of questionnaires by ship crew members and health checks on arrival at the destination.

Safety and cyber security

For global ports and logistics providers, the security of the supply chain is critical in keeping their people and trade operations safe. The security incident impacting Beirut's port in August 2020 highlighted the risk of storing hazardous and explosive materials in the vicinity of the port. Accordingly, port operators have initiated due diligence and comprehensive inventory checks to mitigate potential risks.

The digital transformation revolution has led to a change in the sector's cyber risk profile. Increased focus on automation increases the risk of cyber-attacks on ports' operating technology. The pandemic has rendered systems particularly vulnerable to hackers. Since the adoption of remote working, different and more sophisticated methods of hacking have been observed. Cyber-attacks could also compromise the port community system for manipulation or theft of data.

Recently, CMA CGM experienced a ransomware-like cyberattack which crippled its e-commerce system for at least a week. The cyberattack led to the paralysis of messaging services and online applications and functionalities like bookings, tracking, route finder, etc. The cyberattack has disrupted communications and inconvenienced both CMA CGM and its customers, particularly the shippers and forwarders.

One of the most infamous large-scale cyber-attacks in the past decade took place at one of Antwerp's largest terminals in Belgium. A drug cartel seized control of containers' movement and retrieved the data needed to collect it before the legitimate owners.[xxxii]

In a recent survey,[xxxiii] 83 percent of business executives rate cyber security threats as a significant risk to organizational growth. However, when cyber security is omitted from the digital business value chain, a significant commercial opportunity is missed.

Sustainability

In 2020, the World Economic Forum's Global Risks Report[xxxiv] classified climate change as the top risk. Climate change has influenced our lives more profoundly than many expected, with the last five years being the warmest on record.[xxxv] This has led to more intense and frequent natural disasters. Global temperatures are on track to increase by at least 3°C towards the end of the century, twice what climate experts warned is the limit to avoid the most severe economic, social and environmental consequences, including loss of life, social and geopolitical tension and negative economic impact. For the first time in the history of the Global Risks Perception Survey, environmental concerns dominate the top long-term risks by likelihood where three of the top five risks by impact are also environmental.

As a response to these environmental concerns, legislators are introducing measures to restrict the environmental impact of maritime operations. One example is the introduction of the International Maritime Organisation (IMO) regulations to reduce sulphur oxides (SOx) emissions from ships. Other possible measures include the introduction of carbon taxes and other mechanisms to curb carbon emissions. This has the potential to not only change the way ports and ships operate, but also the types of cargo that will be shipped if the world moves away from fossil fuel to sustainable alternatives.

In parallel with these developments, investors are increasingly incorporating Environment, Social and Governance (ESG) considerations in their investment decisions and require more insight into the ESG performance of companies and their exposure to risks associated with climate change. This is further reinforced by legislation from governments and stock exchanges. Organizations are increasingly seeking to publicly disclose their sustainability performance, including their approach to transparency, their environmental impact, and in the upcoming reporting cycle, their response to Covid-19. Examples of reporting and disclosure initiatives that have recently gained traction are the Task Force on Climate-related Financial Disclosures (TCFD) that supports companies with a set of recommendations to identify their exposure to climate change and related events.

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