

From: Boston Consulting Group
Date: April 20, 2007

Subject: GHK Report

As requested, we reviewed the final report you sent us from GHK and list our major comments below:

We think that the report does a good job of contextualizing the situation, profiling existing ports and outlining relative static operating costs.

Some of GHK's key conclusions appear well supported and thought out:

- Anchorage would be at a cost and time disadvantage (rail vs.. ships to LA/LB then on to the midwest) to operating costs at most other ports
- The viability of Anchorage is anchored on other ports' inability to build supply to keep up with demand. This is out of the control of ACRL and a bet on the likelihood of this happening will be required.
- Much west coast freight is destined for urban centers on the west coast, so the effective market-size (containers with trans-shipment) that Anchorage would be vying for would be only a portion of total containers
- The partnership with CN will be critical to ongoing viability

Depending on the lead time required to make and act on a call by ACRL as well as the business case's dependence on container volume, making the 'safe' recommendation of waiting to judge the early success at Rupert and watching for risks of failed expansions in key other ports (N. Mexico, LA/LB, Tacoma, etc.) may be appropriate.

Our key point of contention with the GHK report is with regards to their point below,

"The demand – supply balance is expected to improve with both capacity improvements coming on stream at ports and inter-modal services combined with significant new entry planned at the Panama Canal, PRP and potentially North Mexico – all of which have adverse market implications for ACRL"

It is here where we have a difficult time believing that existing plans of the legacy players are robust enough to fully handle the dramatic growth in containers. This is where we have recommended a supply curve analysis to understand the hierarchy of additional capacity opportunities and to help see how ACRL fits given the other ports and overall demand scenarios. **In the realities of competition there are scenarios where high cost capacity is viable.**

GHK's Table 3.5, reproduced below, only gives guidance on capacity expansion potential "beyond 2010" but that is only 4 years from now, so a more detailed look at long-term plans is required before conclusions can be drawn. Appendix A in the report also provides a lot of good background information on expansion opportunities but does not provide a macro-level conclusion/analysis.

From GHK report:

Table 3.5 CT Capacity Profile

Port*	2010	Beyond 2010
LA / LB	On balance, capacity improvements are achievable to meet demand under base case and high growth – but ...	Capacity improvements are achievable to meet demand under base case. High growth likely to be problematic if productivity does not move to much higher density.
	<ul style="list-style-type: none"> • Uncertainties – Wild cards: <ul style="list-style-type: none"> • Environmental challenges are resolved – 2007/8 • ILWU negotiations – 2008 	Differentiate impacts – capacity constraints will vary by lines – market leaders in the NPR market remain well positioned High growth scenario suggests a tight demand – supply balance.
Oakland	<ul style="list-style-type: none"> • Scope for significant increase in capacity. • Key issue is port – rail interface if diversion from LA/LB significant. Demand is more likely to an issue. 	Available capacity should be satisfactory but high growth scenario without increasing density will likely lead to a capacity shortfall.
Tacoma	Favorable demand – supply balance under base and high case growth if medium density operations, good expansion possibilities.	
Seattle	Demand – supply balance favorable to 2010 if medium density, but position beyond 2010 likely to require further density to accommodate high growth.	
Vancouver	Position is tight beyond 2008 if no expansion or transition to high density.	High density operation can deliver required capacity under at least base case.
PRP	New port offer with expansion capacity ... issue will be demand given uncertainty about performance and reliability. Issues: No local cargo, weak westbound cargo volume	
Punta Colonet	New port offer with expansion capacity – <i>unproven and uncertain timeframe.</i>	