Call Notes

Anti-Trust Compliance

Please remain muted and turn off your camera for optimal bandwidth.

During Q&A: Send questions via chat

Please do not place the call on hold to avoid music disrupting the call.

PESA will share a post-event summary.
Speakers

Wayne Holbrook  
Director Global Development  
Project and Energy Services  
Expeditors

Moataz Hussein  
Regional Project & Energy  
Manager – MENA  
Expeditors

Ed Whitnell  
Operations Vice President and  
Managing Director - MENA  
NOV Rig Technologies
VOLATILITY
Always present in supply chain

Volatility continues to drive markets
Impacts Supply Chain design and focus
Becomes a way of life for us in SC Management
Acts of God, Fuel, Stock markets, Brexit, Trade, Populist trends, Malware, Terror threats, etc.
COVID-19 Status (Source: WHO)

- 20 million cases
- 740,000 deaths
- 3.7% death rate (0.1% for flu)
- 1.8 million cases – last one week

Impact many aspect our lives (some permanently)
TOTAL CASES BY COUNTRY

- USA: 5,215,885 cases (25.9%)
- Brazil: 3,039,349 cases (14.0%)
- India: 2,257,572 cases (10.0%)
- Russia: 892,654 cases (4.3%)
- S. Africa: 559,859 cases (2.7%)
- Mexico: 480,278 cases (2.4%)
- Peru: 478,024 cases (2.4%)
- Colombia: 387,481 cases (1.9%)
- Chile: 375,044 cases (1.8%)
- Spain: 361,442 cases (1.7%)

Challenge shift from China/Korea to Europe to Americas.
COVID-19 – RACE FOR VACCINE
(SOURCE: NY TIMES)

Vaccination not expected to start for most people until 2021
GLOBAL MANUFACTURING PMI INDEX (JP MORGAN)

- Global GDP growth to be -4.9% (worst since Great Depression (Source: IMF)
- Global merchandise trade expected to drop by 11.9% (Source: IMF)
- Public debt on rise for most countries (expected to reach $60 trillion)
- Unemployment Challenges (Source: OECD)
  - Global unemployment – Highest level since Great Depression
  - G7 Countries (8.8% May 2020)
  - OECD Countries (8.5% May 2020)
  - USA (11.1% June 2020)
  - E.U. (7.8% June 2020)
  - China (5.9% May 2020)
  - Global unemployment highest since Great Depression
1. Uncertainties tied to COVID-19 to continue
2. U shape vs. V shape recovery, or W or L shape?
   • 32% of U.S. households didn’t pay/short paid housing payments for July (Source: CNBC)
3. Inflation tied to debt financing?
# Pre-COVID-19

## Trade Remedies
- Trade War Continuation
  - U.S. – China (phase 1 agreement)
  - U.S. – E.U.
  - E.U. – China
- Trade war cost U.S. investors $1.7 trillion

## IMO 2020
- New regulation eff. Jan. 2020
- Sulfur content from 3.5% to 0.5%
- New bunker fuel calculation, only for the industry to change the metrics in Q2 2020

## Brexit
- UK targeting Dec. 31, 2020
- 2 different customs zones & increase in customs declarations
- Traders required to file customs declarations and start paying duty within 6 months from Brexit day.

## State of Logistics Industry
- Emerging technology & digital disruptors
- Security & compliance requirements on the rise
- Continued M&A activities
<table>
<thead>
<tr>
<th><strong>Winners</strong></th>
<th><strong>Losers</strong></th>
<th><strong>In Between</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecommerce Marketplace</td>
<td>Airlines, Cruise Lines</td>
<td>Banks</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>Tourism</td>
<td>Healthcare</td>
</tr>
<tr>
<td>Logistics (home deliveries)</td>
<td>Oil &amp; Gas</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Video Conferencing</td>
<td>Investment Banking</td>
<td>Education</td>
</tr>
<tr>
<td>Entertainment Streaming &amp; Gaming</td>
<td>Professional Sports &amp; Entertainment</td>
<td></td>
</tr>
<tr>
<td>Cloud, Servers</td>
<td>Traditional Retail</td>
<td></td>
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<tr>
<td></td>
<td>Automotive</td>
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<tr>
<td></td>
<td>Aerospace &amp; Aviation</td>
<td></td>
</tr>
</tbody>
</table>
MAJOR U.S. AIRLINES — Q2 YOY REVENUE COMPARISON
(SOURCE: COMPANY REPORTS)

<table>
<thead>
<tr>
<th></th>
<th>Q2 2019</th>
<th>Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMERICAN</td>
<td>$12.0</td>
<td>$1.6</td>
</tr>
<tr>
<td>UNITED</td>
<td>$11.4</td>
<td>$1.5</td>
</tr>
<tr>
<td>DELTA</td>
<td>$12.5</td>
<td>$1.5</td>
</tr>
<tr>
<td>SOUTHWEST</td>
<td>$5.9</td>
<td>$1.0</td>
</tr>
</tbody>
</table>

-%86%  -87%  -88%  -83%
## AIRLINE BANKRUPTCIES & IMPACT

<table>
<thead>
<tr>
<th></th>
<th>Airline Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Flybe (UK)</td>
</tr>
<tr>
<td>2</td>
<td>Trans States Airlines (US)</td>
</tr>
<tr>
<td>3</td>
<td>Compass Airlines (US)</td>
</tr>
<tr>
<td>4</td>
<td>Virgin Australia (Australia)</td>
</tr>
<tr>
<td>5</td>
<td>Aviana (Colombia)</td>
</tr>
<tr>
<td>6</td>
<td>Virgin Atlantic</td>
</tr>
<tr>
<td>7</td>
<td>LATAM Airlines</td>
</tr>
<tr>
<td>8</td>
<td>South African Airways</td>
</tr>
<tr>
<td>9</td>
<td>Air Mauritius</td>
</tr>
<tr>
<td>10</td>
<td>Miami Air International</td>
</tr>
<tr>
<td>11</td>
<td>Braathens Regional airlines</td>
</tr>
<tr>
<td>12</td>
<td>Ravn Air</td>
</tr>
<tr>
<td>13</td>
<td>Air Deccan</td>
</tr>
</tbody>
</table>

- Billions in aid packages to rescue airline industry
- Airports also impacted (Source: IFC)
  - More than 4,000 airports around the world
  - 14% of airports have private sector participation, but handle 40% of traffic
  - Airport revenue expected to drop close to 60% (below $100 billion)
- 10.2 million jobs in aviation
  - 5.6 million (airport based roles (customs, car rental, forwarders, etc.)
  - 2.7 million (airlines)
  - 1.2 million (civil aerospace)
  - 233K (air navigation service)
COVID-19 BELLY CAPACITY IMPACT

Daily international cargo capacity¹, Mar – July 2020
Thousand tonnes

Peak decline
(30 Mar–6 Apr)

Last week
(12 - 18 Jul)

Airline Freighters

Express Freighters

Passenger Belly
Capacity
- YOY: −35%
- Pandemic
  - Belly: −73%
  - Freighter: +19%

Tonnage
- Market YTD: −14.5%
- Expeditors YTD: −10.0%

Pricing
- April – May record airline cargo revenue
- June - July brought lower rates
POST COVID-19

PAX Travel

- 84 Billion dollar loss – 3x higher
- Travel will remain uncertain through 2021 and beyond
- Virtual Meetings

Operations

- Smaller Fleets
- Limiting secondary routes
- Closing low cost airlines
- Outsourcing
- Digitization

Airline Financials

- Raising capital
- Postponing Orders
- Concerned with fuel volatility
- Early Retirement schemes

Labor

- Health and Safety
- Added processes to operations
- Specific Country Regulations

Capacity Agreements

- Cargo revenue must offset PAX losses
- PAX Freighters
- Short-Term deals
- Two-Way Segments
- Freighters will play a key role
Q3 - Q4?

- PPE products movement is still active. Without PPE products, April-May air tonnage would have been down by 1 billion Kg (Source: Seabury)

- Demand for hi-tech cargo still strong

- Peak season – Starting to see demand picking up
  - New product launches coming for hi-tech companies
  - Pricing creeping up again
  - Landing rights in/out of China/U.S.
  - COVID-19 testing requirement for crews leaving China/Hong Kong

- Fuel surcharge creeping back up (from low $10 to $42 per barrel)
Industry consolidation, down to 3 alliances, 9 major carriers

- **2M Alliance**: Maersk (incl. Hamburg Sud), MSC
- **Ocean Alliance**: Hapag Lloyd
- **THE Alliance**: Yang Ming

**April 2020: HMM Joins THE Alliance**

- **The Alliance Capacities**:
  - 7.93 Million TEU
  - 7.73 Million TEU
  - 5.09 Million TEU

Profound impact on carrier/sailing options, alliance strategies, higher pricing
Slowdown in container trade started before the global impact of COVID in February

Trade further slowed down after COVID related lockdown measures were implemented throughout the world in the first quarter of the year further; the impact on Intra-Asia has been relatively limited

Growth trends on selected trade lanes, 2018 – 2020YTD
YoY growth, %

- Intra - Asia Pacific
- Transatlantic
- Asia Pacific - Europe
- Transpacific

1) Smoothed for enhanced clarity; chart shows total trade in both directions
Source: Seabury Consulting Global Ocean Trade Database, excluding UN Comtrade; Seabury Consulting analysis (July 2020)
Confidential - not for third party distribution © Ascendate 2020
Ocean pricing at 5 year high due to blank sailing
- Ocean carriers are posting profits & their financial positions are improving
- Industry's poor on time performance to continue (60%)
- Important for customers to book containers ASAP, due to overbooking and demand/supply imbalance
FAST SERVICES

HORIZON BLOG

Fast Solutions for Getting Cargo out of China

As international trade continues to grow, Expeditors International offers comprehensive services for shipping from China. Our team of experts can help you navigate the complexities of global freight, ensuring your cargo reaches its destination on time and in good condition.

Joe Rajers
Manager, China Services
Office: 1.800.942.954
Email: joe.rajers@expeditors.com

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2. International Management: When International Management Services (IMS) are required.

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TRUCKING INDUSTRY (SOURCE: ATA)

- Team drivers challenge due to COVID-19 social distancing requirements
- Trucking volume starting to increase (Load-to-Truck ratio at 5.22 vs. 1.91 in May)
- Pricing increase.
  - U.S. national van rate for July spot market was $2.04 per mile, up from $1.84 YOY.
  - Europe demand is down, but pricing still on the rise due to driver shortages
- Industry challenges
  - Trucker driver shortage
  - Match back challenge in certain markets (e.g. Mexico – U.S. ratio is 10 outbound to the U.S. to 1 inbound to Mexico)
  - Limited economic bailout
- Predictability & timely payment critical for trucking firms
FUTURE CONSIDERATIONS
CARRIER LANDSCAPE

- Airline industry revenue to drop to $434 billion in 2020 vs. $876 billion in 2019
- 32 million jobs supported by aviation industry at risk (direct & indirect)
- Expect years for airlines to recover their financial strength
- Uncertainties expected to continue into 2021
- Many airlines come out of COVID-19 as smaller companies
- Cargo belly space may not ever come back to previous levels
**ECOMMERCE, W & D**

**E Commerce**

- Expected to grow from $3.5 trillion in 2019 to $6.5 trillion 2023
- Major restructuring with brick & mortar stores
- Continued increase in bankruptcies with traditional retailers
- Reduction in commercial real estate market demand

**Warehousing**

- Inventory shift from large centralized DCs to more decentralized, closer to end customer models
- Increase in demand for temperature controlled warehouses for healthcare and groceries
- Labor cost increase to keep “front line workers” supporting essential business
FUTURE CONSIDERATIONS

C Suite
- Focus on supply chain resiliency
- Long term sustainability
- Assess inventory strategy

Sourcing & Manufacturing
- Diversified sourcing locations
- Some local/regional sourcing
- Continuation of globalization vs. Geo-political challenges

Logistics Cost Budgeting
- Potential increase in transportation cost
- Direct vs. indirect cost
- Insurance cost on the rise

Virtual, Ecommerce
- Virtual capabilities to grow over time with 3PLs and customers
- Reduction in certain type of business activities due to virtual environment (e.g. travel)
- Ecommerce opportunities (B2C, B2B)

Trade & Open Issues
- Survival mode for carriers
- Trade finance, Importance of cash
- Pre-COVID19 issues
LOGISTICS SERVICE PROVIDERS

Financial Stability
To be a key requirement

Contracts
Shift towards sustainable T&Cs

Support Carriers
Timely payment to carrier partners

Dynamic Pricing
Importance of space capacity

New Processes
Needed to drive efficiency & cost

Risk Management, Health & Safety
Critical capabilities
DIGITAL DISRUPTORS

• Less funding available for some
• Mergers & acquisitions
• Perceived value vs. proven value proposition
• Global infrastructure with boots on the ground
• Industry specific solutions
MODELING, SIMULATION, OPTIMIZATION

A physical representation of a Supply Chain
WHAT LEADING COMPANIES ARE DOING

• Reassessing/reviewing their Global Supply Chain and Sourcing/Manufacturing strategy

• Actively Engaged in Pre-COVID-19 Issues and Creating Strategy & Action Plans

• Active Communication and Joint Strategy with 3PLs
  • Manage Capacity for Key Lane Pairs
  • Getting Regular Market Updates via Webinars, QBRs, & Other Means
  • Engagement with Executive Management team

• Leveraging Technology and Digital Solutions to Optimize Logistics & Supply Chain
  • Trade, Supplier, Carrier, Cost, Performance Management
  • Supply Chain Modeling, Simulation, & Optimization
  • Studying Machine Learning Capabilities to Move Towards Predictive & Prescriptive analytics

• Cost Management with View of “Total Cost” & optimizing best mode of transport
INDUSTRY CLIMATE

- Macro trends
- Industry
- Joint planning

Sourcing Shifts

Our Customers

Carrier Behaviors

Supply Demand

Freight budget outlook

Global Economies

Trade Wars

Covid 19

Carriers’ Financial Health

E-comm

Opportunity or Challenges

Macro trends: Industry
Joint planning: Executive

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1. MIDDLE EAST – AMERICAS / EUROPE

- Demand is soft, Market Capacity constrained, accordingly space can be tight.
- Almost all Intl. Pax flights continue to stay suspended. Limited PX flights started as the markets started to open up especially from DXB.
- Freighter options available.
- Fair capacity has been added to the market since June due to increased frequencies of Pax Freighters
- EK, TK & QR are operating Pax aircrafts as “All Cargo” flights to India, Pakistan, ME and Africa from DXB, IST and DOH respectively
- Price level stays high due to current market conditions compared to pre-COVID19 situation, however started to get lower than the time of the COVID19 peak.
2. MIDDLE EAST – NORTH + SOUTH ASIA
   • Demand is soft
   • No passenger flights operating hence no belly capacity available
   • Freighter options available to HKG and PVG/SHA, However from HKG to ME and Europe the freighter capacity could be tight.
   • Capacity to other Asian destinations also constrained due to limited availability of Pax Freighters.
1. Market is going through an artificially induced peak by Liners cutting the capacity. Blank sailing are announced till Oct. We expect more blank sailing in Oct due to Golden Week holidays.

2. Based on the available estimates, below is the impact of blank sailing on short term capacity (ASIA / ME):
   - ISC - 20-25%, ME – 35%, RS - 30%

3. We are witnessing a peak demand / high utilization phase again. Rate increases for all pockets of MAIR are successful and there are more GRI planned for 01 Sept (USD 200/teu) for ME and ISC market. Liners are keeping a tight leash on capacity and confident of keeping the rates under their control.
GCC – CROSS BORDER TRUCKING

1. UAE – OMAN
   • No major challenges. Services offered for both LTL & FTL

2. UAE – SAUDI ARABIA
   • No major challenges. Services offered for both LTL & FTL
   • UAE registered vehicles are now allowed to enter KSA borders.
   • Around 80% of traffic is UAE based vehicles, this will help balance the supply and demand.
   • KSA has increased Duty tariff on certain products and VAT has increased from 5% to 15% since July 1st 2020
GCC – CROSS BORDER TRUCKING

3. SAUDI ARABIA – BAHRAIN / KUWAIT
   - Trucking services were suspended except for Pharma, Medical, COVID Relief items and Food products
   - Now borders are opened for commercial trailers. We expect congestion to build up as the traffic start to build at the land borders.
   - Would expect truck delays of 2-3 days more than average at the land borders from week 36/2020 onwards.
   - Situation is changing continuously, suggest planning ahead any expected land movements.
Saudi Arabia Increases Customs Duties and VAT Rate

On May 12, 2020, Saudi Arabia’s Ministry of Finance issued a press release announcing the increase of the value-added tax (VAT) from 5% to 15% effective July 1, 2020. This is one of several measures being taken to address the economic concerns resulting from the coronavirus pandemic. Customs duties have also been increased as of June 20, 2020 on a variety of products.

To support this measure, on June 7, 2020, the General Authority of Zakat & Tax published transitional provisions and guidelines on the VAT increase. The guidelines specify that the 15% VAT will apply to all importations occurring after June 30, 2020. 5% VAT will apply to all importations fulfilled on or before June 30th.

The guidelines can be found here:

The list of products affected by the customs duty increase can be found here:
SAUDI ARABIA

SABER System

SABER is the IT system/platform developed by SASO for facilitating the online certification of Products and Shipments under the SALEEM Program. The SABER system is designed to integrate with the KSA Customs Single Window and with other KSA authorities. The SABER system includes system for verification of products' conformity and Rapid Alert on non-conforming products.
Non-Regulated Product Process:
Step 1 – Client need To create an Account on SABER.
Step 2 – Register the Products.
Step 3 – No need for Product certificate only Required Self Declaration.
Step 4 – Request For Shipment Certificate.
Step 5 – Settle the Payment.
Step 6 – Issue the Shipment Certificate.

Objective of SABER system
The objective of this system is to enable the facility to issue a (self-declaration certificate) for products that are not regulation and locally manufactured.
LEBANON

Lebanon Seaport Update

On August 4, 2020, An explosion took place at the port of Beirut, Port of Beirut is the country’s largest shipping hub, accounts for about 60 per cent of all Lebanese imports.

The situation resulted in a shipping and imports disturbance into Beirut seaport, The focus was shifted temporary to the port of Tripoli, However port of Beirut is now partially operational and shipping lines resumed their regular planned calls.

The customs clearance operation have also resumed partially for containers only.

LCL and General Cargo (Bulk, B-Bulk) custom clearance is still pending and further developments are expected over the next period.

Shippers and consignees need to keep close communication with their service providers for regular updates on the situation at Port of Beirut.
Global Supply Chain and Middle East Market Webinar
Agenda

- Macro / Economy
- Drilling / Upstream
- Look Ahead
February to August in MENA

- By February, **COVID** put the brakes on MENA economies, travel, and O&G demand.
- NOCs throughout the region announced 30-50% Capex cuts.
- COVID has delayed the return of travel and muted demand for gasoline and diesel.
- GCC countries launched **stimulus** packages across the board.
- Storage capacities are filling up as oil has stabilized in the low $40s.
- IMF projections for full year 2020 place MENA GDP at **-4.7%**.

**MENAP Region: Selected Economic Indicators, 2000–21**

(Percent of GDP, unless otherwise indicated)

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</thead>
<tbody>
<tr>
<td>Real GDP (annual growth)</td>
<td>4.6</td>
<td>2.1</td>
<td>1.5</td>
<td>0.5</td>
<td>-5.1</td>
<td>3.1</td>
</tr>
<tr>
<td>of which non-oil growth</td>
<td>5.5</td>
<td>2.9</td>
<td>2.2</td>
<td>2.2</td>
<td>-4.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>7.4</td>
<td>-0.5</td>
<td>3.2</td>
<td>1.0</td>
<td>-5.4</td>
<td>-4.5</td>
</tr>
<tr>
<td>Overall Fiscal Balance</td>
<td>2.2</td>
<td>-5.7</td>
<td>-2.7</td>
<td>-4.0</td>
<td>-10.6</td>
<td>-8.7</td>
</tr>
<tr>
<td>Inflation (year average; percent)</td>
<td>7.0</td>
<td>7.0</td>
<td>9.3</td>
<td>7.9</td>
<td>8.3</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Source: IMF
Demand Sets the Tone

- Base case of 89-90 mbpd in 2020 rising to 97-98 mbpd for 2021.
- But this is 2020...if the second waves hamper demand further, that case looks like 87-88 mbpd this year and 93-94 mbpd in 2021.
  - **Total demand would remain below 2019 levels until 2022+.**
- When will we have a globally available vaccine and when will people, and companies decide that travel for work or pleasure is normal?
  - **Demand sets the tone.**
- Unfortunately, OFS response matched previous cycles.
Agenda

• Macro / Economy
• Drilling / Upstream
• Look Ahead
MENA Spend Projections

- US rig count reached a trough?
- International rig count still decreasing.
- NOCs across the region are stacking land and offshore assets with a focus on their fields with lower lift costs.
- Qatar has been a bright spot continuing to add previously contracted jackups.
- Although we are seeing and hearing about plans to lay down a few additional rigs in MENA, North America picked up 12 rigs this week!
- What happens with the actual spend will come back to Demand.
Projects at Risk / FID Pushout

- $50B in greenfield developments at risk of delay if not already delayed. Brownfield spend is higher in MENA, but some FIDs are pushing there too.
- **Local content** investment paybacks pushing to the right.
- Each country has a production plan with some social aspects tied to it, but all will struggle to achieve targets without a sustained improvement in commodity price.
- On the plus side, **gas** will continue to be a hot topic in the Middle East.

Source: Rystad
Agenda

- Macro / Economy
- Drilling / Upstream
- Look Ahead
Looking Ahead

• Gas projects are least likely to be delayed and the first approved when FIDs start moving again.

• Kuwait wants to move away from oil to gas for power, and Saudi’s stated 2030 goal is to produce power from 70% gas and 30% renewables. Given politics in the GCC developing gas assets is both lucrative and in the interest of national security.
  • Unconventional resources in Saudi Arabia’s Jafurah basin,
  • Offshore Khalij al-Bahrain area,
  • Sour fields offshore Abu Dhabi,
  • Dubai’s Jebel Ali find,
  • Oman’s tight gas,
  • Qatar’s 50mn t/yr expansion of its LNG exports by 2027

• Industrial diversification throughout the GCC drives gas demand.

• Blue hydrogen (CCS) is also a potential demand driver.

• MENA still sits on the largest and least expensive reserves and will pick up supply as demand returns.
Thank you.

Any questions, reach out to me: Ed.Whitnell@nov.com