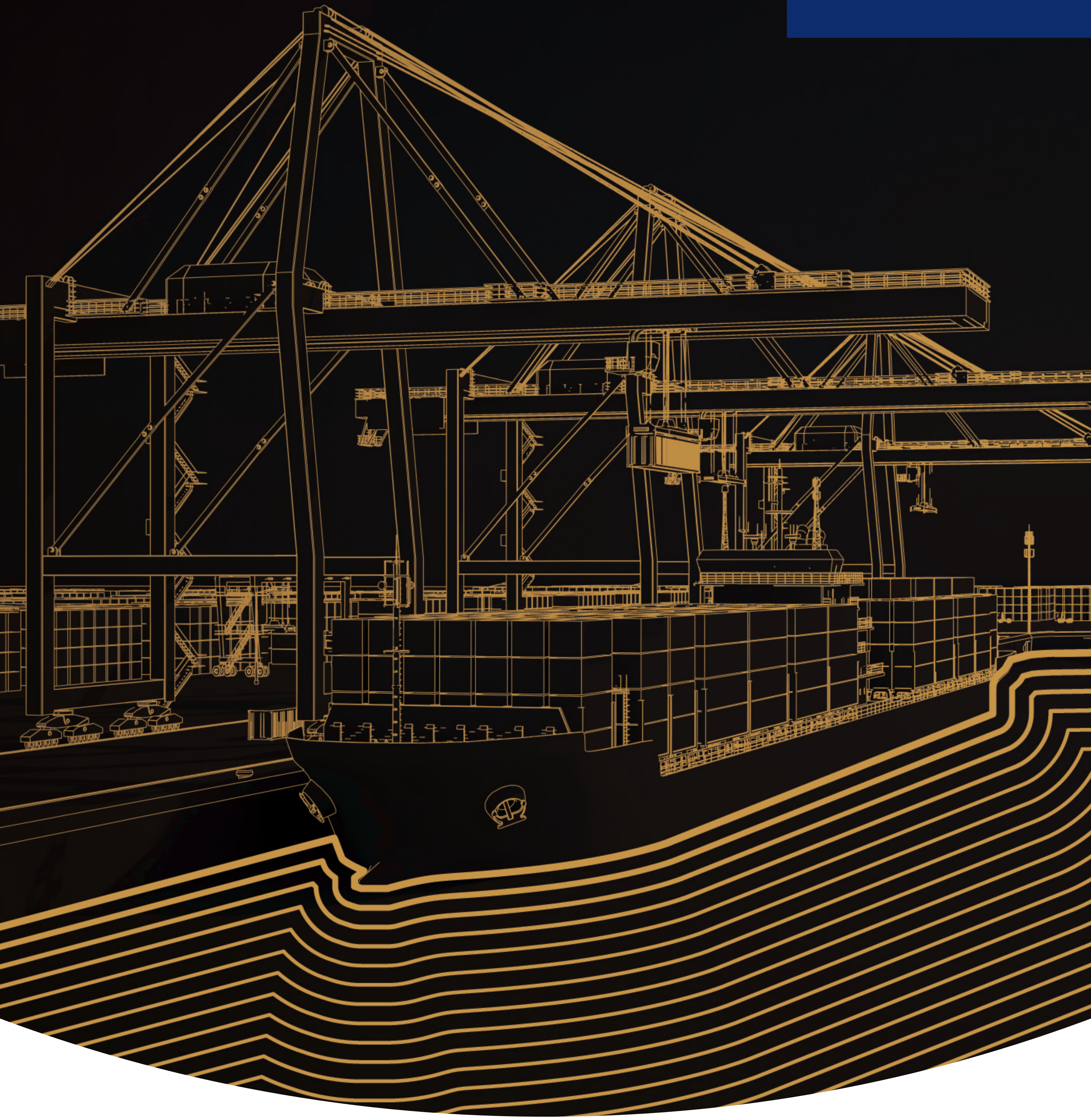


The Barometer Report 2

Charting stakeholders' perceptions of the commercial ports, harbours and terminals industry

Trelleborg Marine and Infrastructure | **Takes the pressure off**

Preface

During recent years, the marine infrastructure sector has witnessed a troubling trend brought about by port owners', operators' and contractors' willingness to cut corners in the pursuit of lowest cost procurement. This has often been at the expense of taking a whole life cost review of mission critical equipment for ports and terminals.

There is no clearer sign of this practice occurring than in the market for fendering products and other docking and mooring equipment. Here, buyers' and specifiers' susceptibility to a 'cheap deal' is being exploited by an influx of unscrupulous, low-cost suppliers with limited technical or manufacturing capability.

The net result is deception of clients who are being duped – willingly or otherwise – into buying something that is essentially too good to be true. Those customers that are accepting a lower cost product, which claims to equal or surpass premium product performance, are either deceiving themselves or putting their investment and port facility at risk.

Industry standards, such as PIANC's 2002 'Guidelines for the design of fender systems', are intended to ensure that standards of design, manufacture and testing are maintained to protect the industry from such sharp practices. Indeed, this report highlights that stakeholders from across the marine industry value and want such guidelines to be strengthened and better enforced. But, the fact of the matter is, PIANC's good name is being taken in vain by some low-cost suppliers that are unethically, and perhaps illegally, claiming certification for product derivatives that are not actually endorsed by PIANC.

Our opinion is that PIANC will need considerable time to address shortcomings with the current framework of accrediting the design, production and testing of fendering products. And, as a consequence, much quicker measures are needed now if we're to tackle the crippling levels of downtime experienced by ports, due to the failure of this type of product.

In essence, it is the role of customers – as the drivers of the market – to grasp the nettle. Ports, consultants and other influencers in the supply chain need to more rigorously enforce their specifications and relevant industry guidelines.

This means dealing directly with manufacturers, rather than through 'trading companies'. This means reassuring yourself that a supplier's product will meet its claimed performance characteristics. It also means requesting third party testing results on full scale product.

And, finally, it means acknowledging that there is no such thing as a free lunch.
You pay for what you get.

A market report by Trelleborg Marine Systems

Introduction

This year's edition of the Barometer Report is based upon a phase of market research conducted during 2011 with a range of stakeholders across the ports, harbours and terminals industry. The sample, which comprises almost 400 respondents, includes port owners, operators, contractors, consultants, shipping lines and other influencers in the marine infrastructure supply chain.

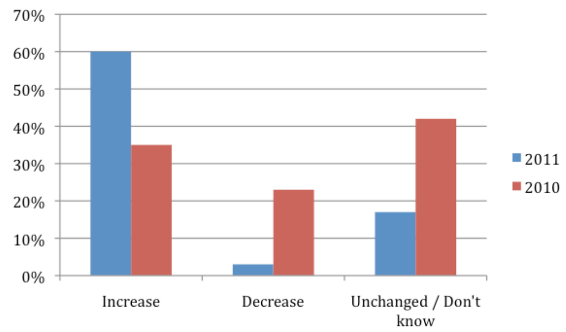
The report itself is broken down three ways. Firstly, a benchmark of this year's results against a similar survey we conducted last year to evaluate changes in perceptions and attitudes to key issues in the marketplace over the last 12 months. Secondly, new topics which have been introduced to this year's survey to validate recent trends we've observed within the sector and, finally, a dedicated section examining stakeholders' attitudes to the current PIANC guidelines for fendering.

The results have also been segmented into three themes for ease of reference: 1) Procurement and investment 2) Service and operations 3) Compliance and regulations. We have added a short commentary to each data set to provide added context and also offer useful insights or interpretation.

In compiling this report, we would also like to acknowledge the assistance of Lloyds List, which has partnered with us to carry out and bring you these findings. The opinions contained within the report, do not necessarily reflect those of Lloyd's List, or its publisher.

Procurement and Investment

Question: How will your budget for capital expenditure change for the year ahead?



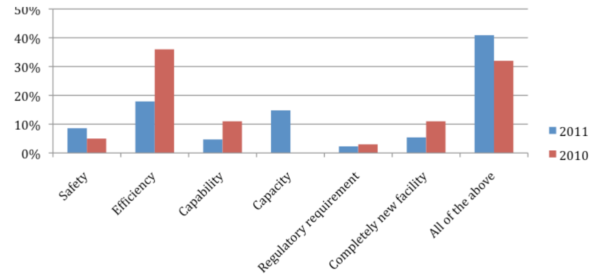
Key findings

- Almost two thirds of respondents anticipate an increase in capital expenditure by up to 25% (up 25% on 2010)
- Only 7% believe CapEx will decline compared to almost 25% last year (down 16% on 2010)

Trelleborg says:

"This is a positive indicator for the market because increasing capital expenditure means more projects, which will stimulate a thriving supply chain. But these findings do throw up the question of why low cost products continue to be procured if investment levels are increasing? In our view, specifiers need to use their increased purchasing power to ensure they are buying into quality. This will not only increase efficiency, but make their investment go further over the longer term."

Question: In which areas do you expect future port investments to be made?



Key findings:

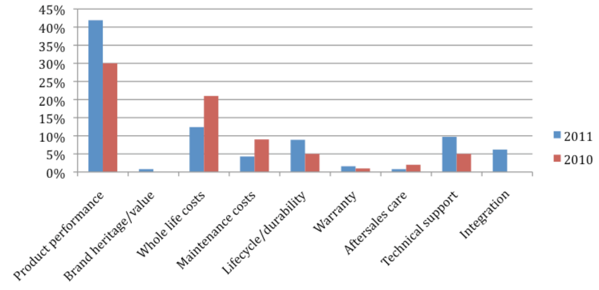
- Efficiency is the single biggest area for investment, but heavily declining from a year ago (down 18% on 2010)
- 'All of the above' is the biggest gain area (up 9% on 2010)

Trelleborg says:

"Although the market appears to be less preoccupied with improving efficiency than a year ago, the trend is not as dramatic as first appears. It could be argued that buyers are taking a broader view and investing in a range of different areas, as evidenced by the spike in respondents opting for 'all of the above'.

"However, if more throughput is to be generated from the port, the areas to explore are increased efficiency and capacity. Indeed, as the growth in vessel sizes continues, ports will, and are, turning to larger fenders and integrated docking and mooring systems to improve the speed and quality of operations."

Question: When you invest in berthing and docking products or services, which is the most important consideration?



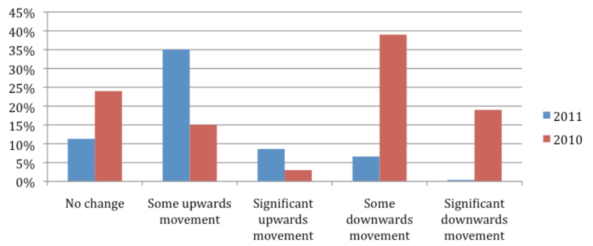
Key findings

- Product performance remains the #1 consideration (up 12% on 2010)
- Whole life costs ranks lower than last year (down 9% on 2010)
- Maintenance is not a major factor in purchasing and is on the decline (down 5% on 2010)

Trelleborg says:

"Clearly, there's some work to be done across the market to breed a culture of looking at long term costs. The lack of focus on whole life costs is essentially storing up trouble ahead for ports – particularly when you factor in the low prioritisation of maintenance. Performance, of course, is highly important, but this would be factored into any whole life cost measure, which takes account of a range of criteria rather than one product attribute which can be misleading."

Question: During the last 12 months, how has the cost of equipment designed to protect the port changed?



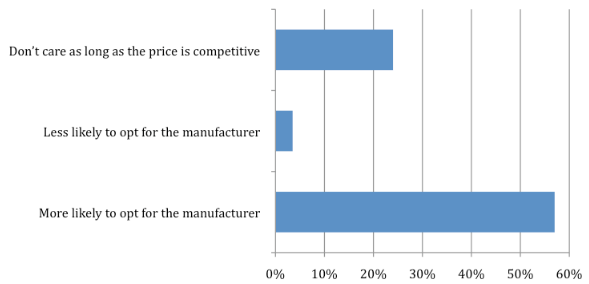
Key findings

- Almost half are seeing some upwards price movement (up 26% on 2010)
- Just 7% are witnessing downwards pricing (down 51% on 2010)

Trelleborg says:

"This is a huge movement against the trend last year and, in fact, contradicts the actual trend in the marketplace where suppliers are coming under the most severe downwards price pressure. This is reinforced by the lower margins they are operating with and is a worrying signal if buyers are seeking to drive costs down further. There is a real danger that prices and margins could be reduced so far that specifications can no longer be met and inferior solutions are offered which will serve to increase lifetime costs. Moreover, there is evidence that this is already occurring via the number of low-cost suppliers winning projects."

Question: Would you be more likely to invest in berthing and docking products supplied direct from a manufacturer rather than through a trading company?



Key findings

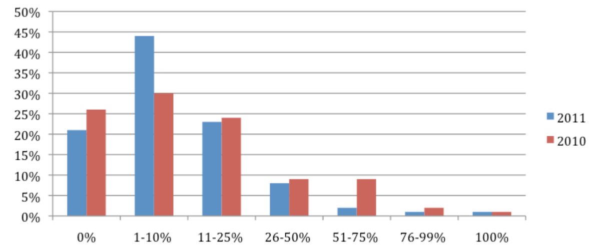
- More than half prefer to use a manufacturer when procuring product
- 1 in 4 are only concerned about price and don't care about where they buy from

Trelleborg says:

"Those in charge of procurement of this type of equipment generally prefer to source through a manufacturer that has control over both the design and production elements. This is a reassuring attitude, but there are still a large number of specifiers that are exclusively price led. Unfortunately, this preoccupation with cost demonstrates little appreciation for a manufacturer's expertise over the sales desk function of a trading company. It is also indicative of a competitive, 'commoditised' market that has insufficient regard for mission critical equipment."

Procurement and Investment

Question: How much unscheduled downtime is experienced by the port(s) you manage or deal with?



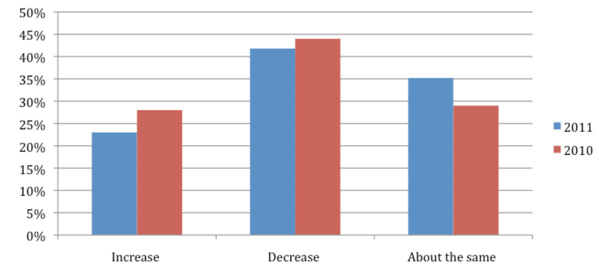
Key findings:

- 8 out of 10 ports suffer from unscheduled downtime
- Almost half of these are 'down' for up to 10% of the time (up 14% on 2010)
- Overall, unscheduled downtime is marginally on the decline (down 5% on 2010)

Trelleborg says:

"This very much reflects a similar picture from last year and suggests that ports are not getting to grips with surprisingly high levels of downtime. This is costly for the port, not just in terms of reduced throughput and revenue, but also in managing their relationships with shipping lines. The situation can only worsen, given historic inaction on this issue and the increase in traffic flows and vessel sizes experienced across the globe."

Question: In your opinion, has the level of port-side maintenance increased or decreased as a result of budget pressures?



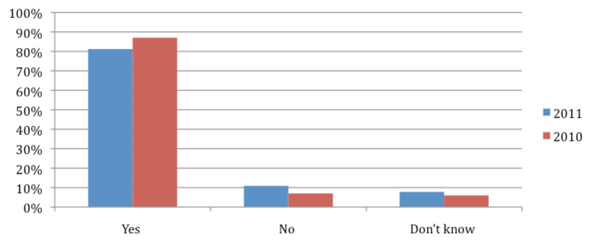
Key findings

- 1 in 4 believe that maintenance has decreased (down 2% on 2010)
- Less than a quarter suggest that maintenance has improved (down 5% on 2010)

Trelleborg says:

"Budgets continue to be under pressure and maintenance appears to be taking a significant brunt of the burden. This is borne out by decision-makers' investment priorities and the low importance of maintenance. Clearly, it is important to factor in maintenance within the initial specification process, rather than relying on retrospective action when things go wrong. If, as is claimed, both CapEx and OpEx are on the upwards curve there is no reason why this can't be achieved."

Question: Do you believe that having a safer port environment directly contributes to reducing costs?



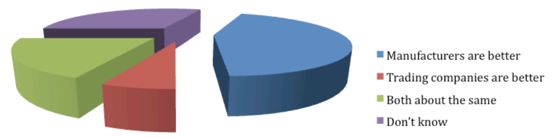
Key findings

- 8 out of 10 believe that enhanced safety is aligned to reduced costs (down 6% on 2010)
- Just 1 in 10 thinks that there is no link (up 4% on 2010)

Trelleborg says:

"Although there has been a marginal decline in stakeholders making the link between safety and cost, the overall pattern is positive. With new developments taking place in this space – such as laser docking technologies – we are likely to see safety levels increase and ports benefit from the operational efficiencies too."

Question: Have you experienced better standards of engineering, project management and aftercare when purchasing direct through a manufacturer or via a trading company?



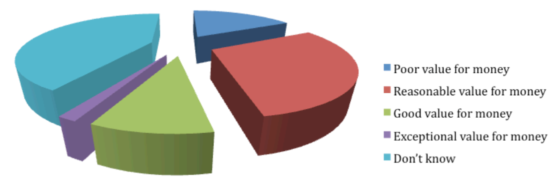
Key findings

- Almost half believe that manufacturers provide better aftercare than traders
- Only 1 in 16 think the opposite

Trelleborg says:

"Manufacturers provide better standards of engineering, project management and aftercare because this is what we do day in day out. By comparison traders are often just a sales desk with no technical support or clear understanding of the design, manufacturing, installation and ongoing maintenance factors."

Question: How do you feel about the growth of non-manufacturer trading companies supplying berthing and docking products?



Key findings:

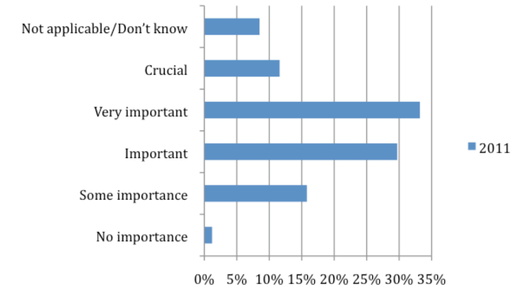
- Barely 1 in 10 believe that traders offer anything better than reasonable value for money
- 4 out of 10, however, don't have sufficient knowledge to make a judgement call

Trelleborg says:

"With 1 in 6 suggesting that traders offer poor value for money, it is surprising that there is not only an increase in non-manufacturing suppliers, but also the number of customers prepared to use them. There is a general feeling that ports are prepared to take the risk if suppliers merely come in on budget. Perhaps there are not enough occurrences of things going drastically wrong to cause a change in attitudes, but this is a dangerous game to play when dealing with mission critical equipment."

Compliance and Regulation

Question: How much importance do you put by third party certification and design approvals of berthing and docking products (i.e. PIANC)?



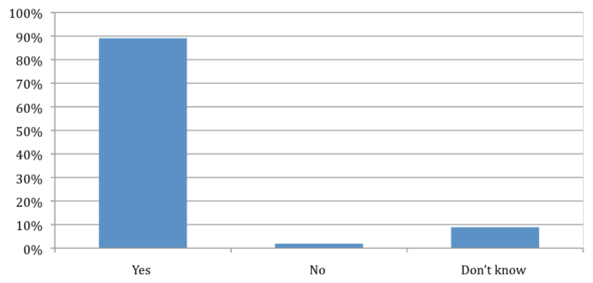
Key findings

- Over 90% believe that third party approval is important or crucial
- Just 1% think that third party approval serves no useful purpose

Trelleborg says:

"On the face of it, this is an encouraging response. However, it could be argued that the market values PIANC because there is an absence of any genuine alternative. PIANC is an important standard bearer for quality and performance, but it has its limitations. There is certainly much greater potential for the organisation to flex its muscles and ensure that its guidelines are enforced. At the moment it is far too easy to gain certification and there are significant weaknesses in PIANC's ability to regulate the industry adequately. There is a need for the whole industry to come together to fast-track changes that are needed now."

Question: Is it important to you that berthing and docking materials are tested in the laboratory and also full scale products in the factory?



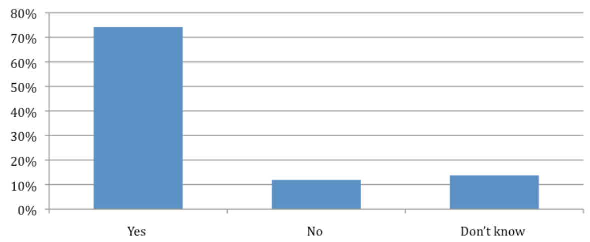
Key findings

- An overwhelming majority, 9 out of 10, believe that dual testing is required

Trelleborg says:

"Despite the existence of PIANC fender design guidelines, robust testing of rubber and steel is not routinely performed by all suppliers as part of their quality assurance processes. Unlike a few select manufacturers in the market, the vast majority of suppliers don't carry out materials testing in the laboratory and are certainly not performing full scale product testing. Both types of test are essential, but trading companies are not prepared to invest in the time, resources and expertise needed. Customers need to reassure themselves that such testing has been performed or they'll essentially be throwing good money after bad."

Question: Would you like to see more stringent industry standards in place covering the design, manufacture and testing of berthing and docking products?



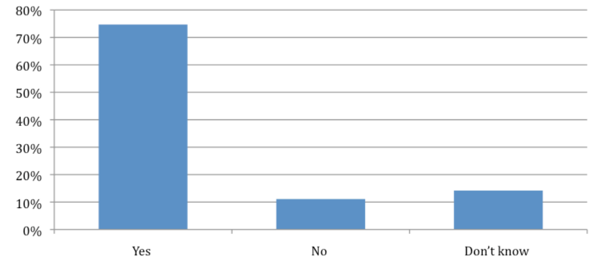
Key findings

- Almost three quarters want more stringent standards
- A little over 1 in 10 think that PIANC is sufficient

Trelleborg says:

"PIANC's fender design guidelines have not been updated for almost a decade and in that time the marine industry has changed drastically. The majority recognise that the current framework covering design, manufacturing and testing is insufficient, so PIANC now has a mandate to set the bar higher. It is up to bodies such as this to ensure that the standards are rigorous and enforceable. And, in doing so, ensure that the organisation is valued and relevant."

Question: Would you like to see these standards enforced, legally or otherwise, to ensure that the design guidelines are adhered to?



Key findings:

- 3 out of 4 think that PIANC should be mandatory
- 1 in 10 believe that legal compliance is not necessary

Trelleborg says:

"This reinforces the view that PIANC's current standards are unsatisfactory and specifiers are, by and large, buying blind with very little in the way of indemnity. If PIANC wishes to pursue the possibility of becoming an entity with legal powers, our research shows that they are essentially pushing at an open door. Suppliers of fendering equipment would have very little counter-argument to the imposition of a new legal framework and, in fact, should welcome it.

"In our view PIANC certification is rendered meaningless if the body is unable to monitor, regulate and hold rogue traders to account. Making the transition wouldn't be a painless exercise, but it's a price worth paying for a reliable, trustworthy and 'fit for purpose' quality mark."

Conclusion

There is an argument that the marine infrastructure industry has a reputation it doesn't deserve – and not in a positive sense either. Despite the prevalence of unscrupulous, non-manufacturing suppliers of fenders and docking & mooring equipment, our research shows that buyers experience good levels of service.

To rationalise this, perhaps good service is tantamount to low cost in the eyes of the beholder? That would appear to be the case, given the downward price spiral of tender submissions, despite the upwards surge in raw material costs.

This paradoxical relationship should not deceive anybody. The fact is that quality is being taken out of the supply chain to maintain competitiveness and this should set off warning signals for any specifier. We, ourselves, have witnessed several fender failures – supplied by low-cost suppliers – in recent months, which is alarming in terms of safety and downtime.

PIANC – the industry's sole governing body for fender systems – should heed the warning signs too. Its guidelines are being manipulated and corrupted by these suppliers with no regard for the lifetime performance of its products.

The organisation has an opportunity and a responsibility to reverse this trend, but has limited powers and resource to do so. We propose that there is a need for a new compliance framework with PIANC remaining at its heart – focused on what it does best – consulting the market and setting the guidelines. But, we also believe that those principles should be enshrined within a dedicated ISO standard for the design of fenders.

This will bring much more rigour, clarity, consistency to the accreditation process, which will put suppliers on a level playing field and give clients much more reassurance throughout the specification process. The arbitrary interpretation of the current guidelines is the industry's Achilles heel, so let's set the benchmark higher and adopt the same level of best practice that has allowed other industries to flourish.

We invite stakeholders from across the industry to join the debate and voice their opinions via PIANC.

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Managing Director, Trelleborg Marine Systems

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