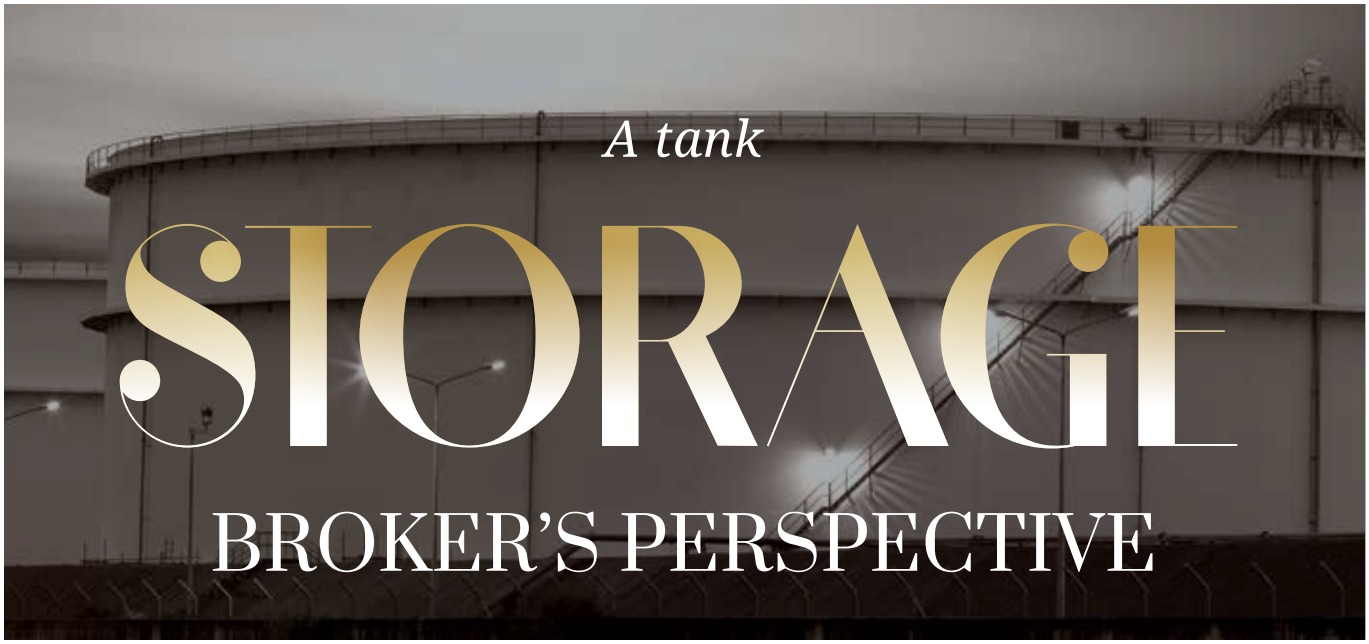

A tank STORAGE BROKER'S PERSPECTIVE

The terminals market is dynamic! Existing tank terminals are expanding, and new terminals are being built. There is enough private equity money around to invest in 12% return projects, but less returns, sub 10%, have also been accepted.

Private equity companies are not to be compared with regular storage companies: they are not as interested in supply & demand or have safety as a main priority like the regular terminal operator, their main focus is return on investment. Terminal acquisitions are in the news regularly and the usual suspects are investment funds and private equity companies. These companies pay high multiples for terminals where organic growth is possible. Green field terminals are less attractive for these kind of participants as these terminals will only cost money in the first years as no revenue is being created. Existing terminals with existing long-term contracts and expansion opportunities are therefore more favourable.

This may sound as if the future is bright, but the outlook is not as rosy. The shipping market has shown a similar pattern with overcapacity as a result. Chinese shipyards were able to build vessels at a low cost, which created overcapacity in the market. Is this what will happen to the storage industry too? Will we witness overcapacity in the years to come?

Of course, as the human population keeps increasing, the standard of living growing and the demand for chemicals increasing, oil products and vegetable oils won't experience a decline anytime soon. But bear in mind that terminals are built for a 40- to 60-year lifespan, so the question is whether they can adapt in a timely manner to ever changing storage requirements.

For chemicals we are already witnessing a growing demand for stainless steel for more aggressive products or high-quality products. The same applies for vapour treatment demand due to stricter emission rules and regulations. These tanks are currently not easy to find and the reason for this is that they are expensive to build and that terminals would normally only agree to build those tanks in exchange for a long-term contract.

On the oil product side, we see a trend that trading companies and oil majors would rather close short term (spot) contracts instead of committing to long-term contracts. Their long-term contracts were priced at higher levels previously and due to current ample availabilities spot contracts are priced lower. This is obviously partly due to the shape of the curve of the different products, but it also has to do with increased interest in optionality and flexibility. Oddly enough, this benefits terminals as well, as they would rather close short-term deals at lower rates than close long-term deals with the current low fee benchmark.

OPTIONALITY AND FLEXIBILITY

So, are long-term contracts easy to conclude? Our business is changing constantly and rapidly: What was shipped in 1,000 mt lots 10 years ago is now being shipped in 3,000 or 5,000 mt lots. New chemicals and oil products are being produced or approved or even mandatory for international transport. Biofuels are up and coming and LPG is being talked about more and more. As a producer

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or trader, is it realistic to commit to a tank storage agreement for a minimum of 10 years? Even a 5-year agreement means a 7-year exposure as you need to allow another two years for a terminal to apply for permits and the construction. In seven years the world could change completely. Therefore closing long-term contracts can be very challenging unless you have some specific advantages: a connection (pipeline) to the producer or in the case that the tenant's supply chain is completely dependent on the terminal.

As storage brokers, we often wonder if customers select the right terminals and whether the perfect terminal can be built. In both cases it is mostly money related.

COMPARING COSTS

Customers often go for the terminals with the lowest fee. Variable costs such as nitrogen, heating and cleaning costs can raise the cost per metric tonne enormously and at the time of concluding your contract it is important to discuss those or include them in the storage rate or at least agree to a maximum - but what is a fair amount and how can such costs be compared? This requires more than just comparing plain offers. It requires understanding the tank design for instance to estimate the nitrogen usage (what vents are being used) and this is not easy.

Terminals often go for the cheapest solution. Efficiency is expensive: enough jetties to minimise the demurrage exposure for the customer and the right infrastructure to avoid contamination of the customer's product. Flexibility is expensive too and to achieve your high return goals you may choose to build more tanks instead of spending your money on more expensive flexibility and efficiency enhancements. We have seen examples where long-term contracts were concluded and where the greenfield design became a project. As the terminal construction costs overran, concessions were made on the infrastructure: no flow meters per tank, but scales. No dedicated lines, but common lines. No high pumping capacity but cheaper pumps. Even though these performance indicators were stipulated in the long-term contract, the terminal's performance was compromised over costs.

The best terminals with the highest returns are contrary to what you may conclude from the above, the terminals with all the bells and whistles: these are the terminals that can handle railcars, blend, do in-tank transfers, handle trucks in minutes rather than hours, have dedicated lines and lots of jetties. These terminals can measure the nitrogen use per tank, are able to empty tanks completely, work with empty lines and have no heels. Why do they make the high returns? Because they have satisfied customers and all their tanks are rented out with long-term contracts, because they hardly have claims and because they operate dedicated lines that make it safer to work at such a terminal. So, terminal operators, please keep investing in your infrastructure and capabilities rather than just increasing your capacity, it will pay back in time! For both cargo owners as well as terminals a specialised broker, such as a storage broker can help you with making the right decisions.

Still, the use of a broker is being questioned by some cargo owners but more so by some terminal operators. As a cargo owner, do you have in-house knowledge on nitrogen use, or heating costs? Probably not, but we can assist! Do you as cargo owner, make the terminal selection based on the rate or on the performance of a terminal? Rest assured, the performance will save you money even though at first sight the terminal seems to be the more expensive option.

As a terminal operator do you know all potential customers in the world or do potential customers know how to find you? Probably not, but we can assist! Finding the right person in an organisation is the most difficult part of our business. By the time you've found the person, he or she could have moved on to another position in or outside that organisation. Any additional help to make the match happen should be grabbed with both hands. Finally, terminal operators, please keep investing in your infrastructure and capabilities rather than just increasing your capacity, it will pay back in time!

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