

Shipping line mega-alliances impact ports and terminals

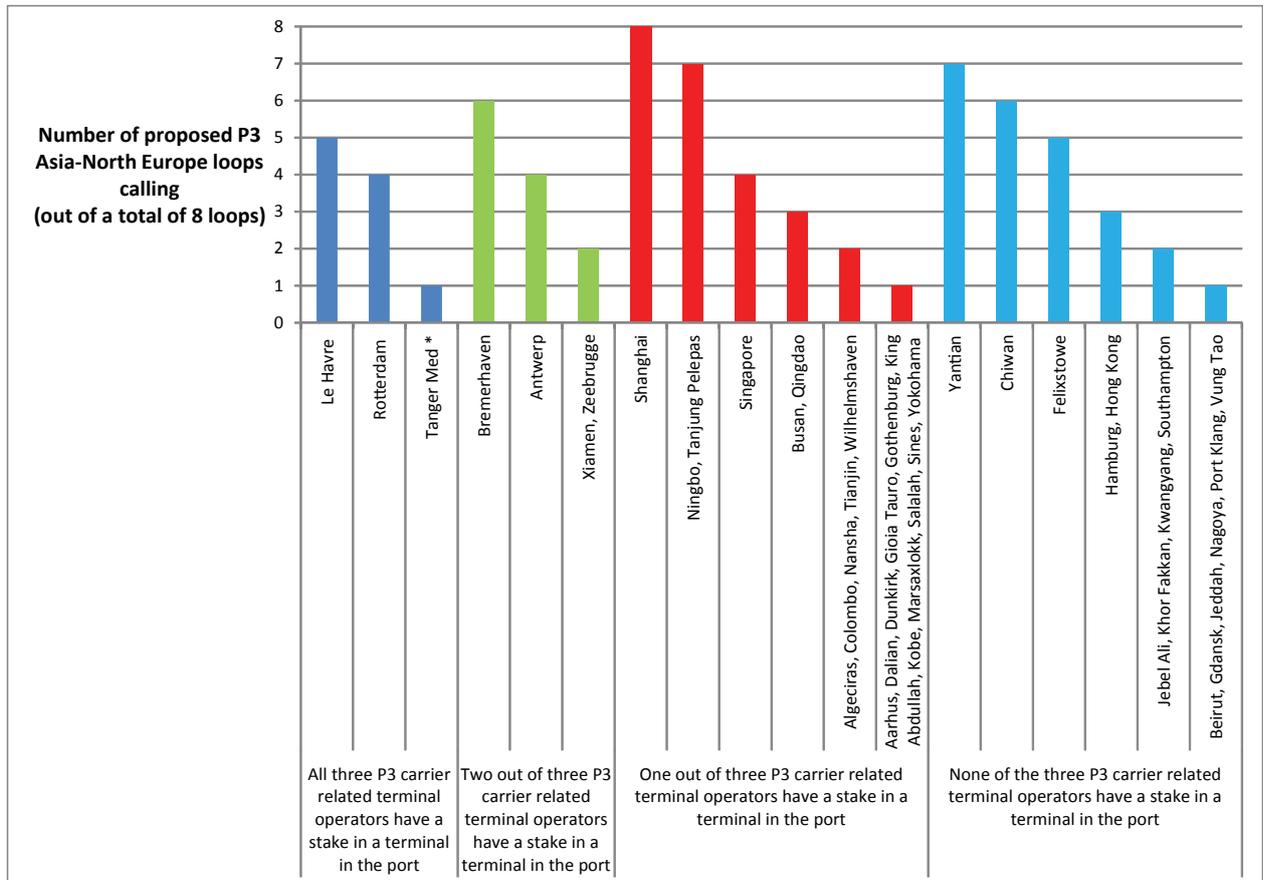


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Ports and terminals are facing unprecedented challenges as a result of two inter-related factors: the deployment of ever larger container ships as carriers seek economies of scale and the resultant formation of ever larger carrier alliances in order to fill these ships. Bigger ships

create well documented pressures for ports in terms of the need for deeper water, larger cranes and longer berths. They also mean that box exchanges per vessel call are larger and there is more peaking pressure on terminals. Bigger alliances though compound this by making overall

customer volumes more ‘lumpy’ – large alliances can bring ever more cargo to a port or terminal in one go – and take it away. At the same time, this lumpiness reduces the options that the alliances have in terms of available ports and terminals that can accommodate them.



Sources: Drewry Maritime Research.

Figure 1: Proposed P3 Asia-North Europe loops, ports vs. extent of carrier related terminals.
 * Unconfirmed stake reportedly held by MSC. Note: Some terminals still under construction.

The other key issue in this context is that all ports and terminals globally face these challenges. It is not confined to ports on the Asia-Europe route where the biggest ships and alliances are evident. The cascading effect of vessels being displaced onto other routes means that all ports are seeing significant ship size increases. In line with this, the mega-alliances are spreading into numerous trade lanes. The proposed P3 Alliance (Maersk, MSC and CMA-CGM) covers the Asia-Europe, transatlantic and transpacific routes. The G6 Alliance (APL, Hapag-Lloyd, Hyundai, MOL, NYK and OOCL) is seeking to extend its Asia-Europe cooperation to the transatlantic and transpacific routes. Meanwhile, the CKYH Alliance (Cosco, K Line, Yang Ming and Hanjin) is being joined by Evergreen, while at the same time Cosco and China Shipping have agreed to work more closely together signing a 'strategic co-operation agreement'. Further expansion of alliances, both in terms of membership and geographically, seems inevitable.

Alliance port choice process

So how do the alliances choose which ports and terminals to use? The answer is that it is a complex and not necessarily logical process.

Taking the P3 Alliance as an example, although each P3 carrier has a connection with a terminal operator – CMA CGM through owning Terminal Link (TL), MSC through its strategic relationship with Terminal Investment Limited (TIL) and Maersk Line through its sister company APM Terminals (APMT) – it does not appear to have played a dominant role in the alliance's proposed port selections. For example, Rotterdam will lose calls for services operating between Asia and Northern Europe, even though it has the presence of all three carrier-related terminal operators. Hamburg, meanwhile, will also see a reduction, but has none of the three terminal operators present.

To illustrate this point more clearly, Figure 1 provides a snapshot of the number of P3 loops planned to call at each port on the Asia-North Europe route versus the number of P3 carrier related terminal interests in each port. Regardless of the number of carrier related terminals in any port, the number of loops ranges from several to one, suggesting little or no correlation. This is unsurprising. APMT is the largest of the three terminal operators in question and therefore the most potentially significant in the P3 port plans, but operates at arm's length from Maersk Line and has its own strategic aims. In

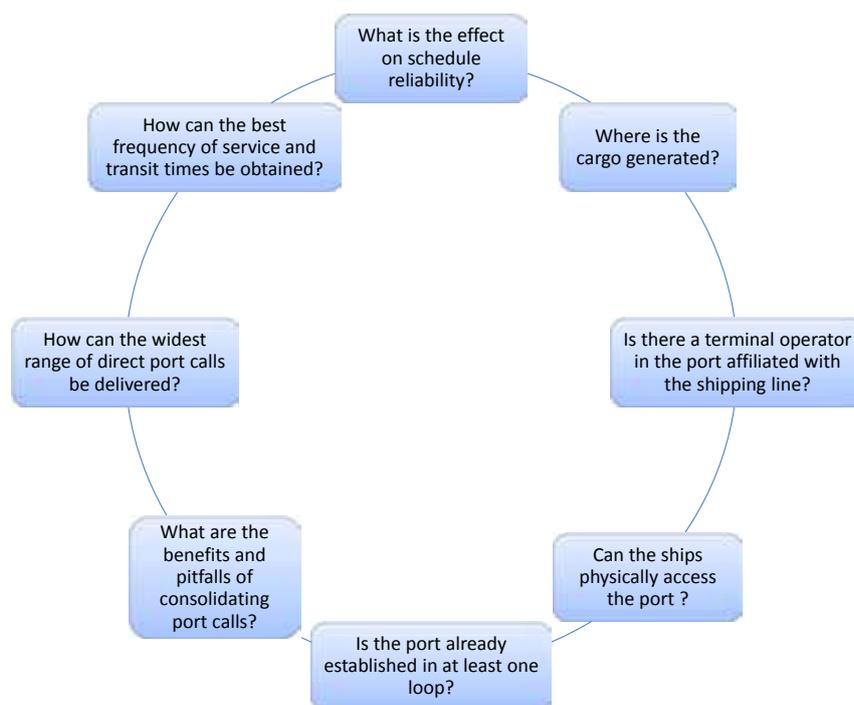


Figure 2: Myriad factors influencing P3 proposed port call choices. Source: Drewry Maritime Research.

addition, there are numerous other factors which each carrier has had to consider when selecting ports, which means that compromises will have had to be made by all of them.

The proposed P3 Alliance schedules and port call patterns are the result of what must have been complex and fascinating horse trading between the three protagonists. Each one has a well-established set of services and customers which it does not want to disrupt too much – so it is not surprising that the intended P3 schedules bear fairly close resemblance to their existing loops. However, all three carriers are looking to maximise the benefits of their collaboration first and foremost in terms of shipping network advantages. All of the factors in Figure 2 (and probably more) will have been part of the give and take of the negotiations between the three players. The selection (or dropping) of any particular port is not based entirely on cold logic therefore.

Having said this, as far as the choice of gateway port calls are concerned, the underlying question is always: does the ship go to the cargo, or the cargo to the ship? The decision by the P3 to continue to call at ports like Antwerp and Hamburg with very large vessels suggests that it is the attraction of cargo which wins out. Both ports have vessel draft and access limitations but they do have significant cargo generation ability,

including forwarder controlled cargo. In other words being tidally restricted and five to six hours sailing up river, thereby creating possible schedule reliability challenges does not appear to represent a barrier to being a major P3 port. Transshipment port calls, though, are a different story, as the choice here is purely operational and largely independent of cargo interests.

It is worth noting that all of the industry comment to date has been on the basis of the number of loops calling at each port, with a number of individual ports being classed by some commentators as either 'winners' or 'losers'. However, such judgements are premature. Ultimately it is not the number of loops that matter to a port, it is the number of twenty-foot-equivalent units (TEU) handled per vessel call, and this is a consequence of ship size deployed and the number of ports called at each end of a loop. A port could lose a loop but might still end up handling more TEU overall. The recent example of an Ultra Large Container Ship call at ECT Rotterdam which involved an exchange of over 11,000 TEU shows just how much a loop can be worth today in the real currency of ports - TEU not vessel calls.

The P3's proposed port call choices are the result of a highly complex bargaining and balancing act between three heavyweights. Stakes in terminals (either directly or through sister companies)

Port	Terminal	Owner/Operator
Seattle	T5	APL
	T18	SSA / Matson
	T30	SSA / Matson / China Shipping
	T46	TTI (Hanjin, TIL/MSC, Macquarie)
Tacoma	APMT	APM Terminals
	Husky	K Line
	Olympic	Yang Ming
	Pierce County	Evergreen
	Washington United	Hyundai

Figure 3: Container terminal ownership: Seattle and Tacoma. Source: Drewry Maritime Research

appear to have had little bearing, whereas sources of cargo generation clearly have. While some ports appear to have gained markedly from the proposed schedules, the acid test will be the volume of TEU handled for the P3, not the number of loops.

Matching terminal demand and capacity

Bigger ships and bigger alliances also mean that there is a demand for larger terminals where volume and activity can be consolidated and this is creating challenges for ports, particularly where terminals in a port are geographically fragmented, and where their ownership is diverse.

In the Pacific Northwest, Seattle and Tacoma is a good example. As with other US west coast ports, Seattle and Tacoma have to live with the legacy whereby each major carrier tended to have its own terminal. This made sense when carriers were smaller and more independent, but with today's mega carriers and alliances, this fragmentation of terminal capacity makes it harder to accommodate the growing needs of the likes of the P3, G6 and CKYH alliances. Each port handles less than two million TEU per annum yet Seattle has four container terminals and Tacoma has five (see Figure 3).

In a ground breaking move which could be copied by other ports, Seattle and Tacoma port authorities have applied to the US Federal Maritime Commission (FMC) for permission to share information and discuss matters such as rates of return, planning, utilisation, operating costs and charges. But with each port having a number of terminals run by private operators, many of whom are carrier affiliated, consolidation of terminal ownership will

likely be a pre-requisite for success in the long term.

The steps being taken by Seattle and Tacoma also raise a wider question of whether other ports in the US and elsewhere may also seek to work more closely together in the face of growing ship sizes and alliances. In countries where there is a prescriptive national ports policy or national ownership of ports, this is of course a given. In places where this is not the case, many challenges exist. Seattle and Tacoma are located in the same country and the same state, giving a high degree of common interest – although local politics will always play a part. Los Angeles and Long Beach are physically adjacent ports and could perhaps seek to work more closely together, but have similar issues in terms of numerous carrier interests in their terminals.

Further afield, the North Adriatic Ports Association (NAPA) is a cooperation agreement between the ports of Trieste and Venice (Italy), Koper (Slovenia) and Rijeka (Croatia) with the aim of competing more effectively with North European gateways to Central Europe. This grouping faces the challenges not only of fragmentation of volumes and capacity, but also has ports in three countries to balance the needs of, and national interests present a multitude of vested interests. So while it might just be conceivable that, for example, the ports of Hamburg and Bremerhaven work more closely together in future, it is far less likely that Antwerp and Rotterdam will.

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About the author

Neil Davidson has over 25 years experience in the port sector. He joined Drewry in 1997 and founded the company's ports practice. His current role is focused on Drewry's publications and new products in the ports and terminals sector. He has been closely involved as both contributor and editor of all of Drewry's annual and one-off port sector publications, and spoken at over 75 industry conferences and seminars worldwide. His previous consultancy experience included participation in port projects in global locations including Europe, Asia, the Americas, Africa and the Middle East. The work included buy and sell-side due diligence, privatisations, strategic advice, working for lenders as well as commercial and market analyses. Prior to joining Drewry he spent eight years with the Port of Tilbury, London, specialising in business planning. He was closely involved in the successful management buy-out of the port in 1992, and its subsequent trade sale to Forth Ports plc in 1995. He also gained Freeport status for the port, acting as Freeport Manager for two years. A graduate of the Department of Maritime Studies, Cardiff University, his industry experience also includes working for Lloyd's of London and the Medway Ports Authority, Sheerness, UK.

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