CONTAINER MARKET REVIEW 2020

MEGA SHIPS – THE EFFECT ON TERMINALS IN THE DIGITAL AGE

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Trade wars and the IMO2020 regulations have dominated conversations in the container shipping market throughout 2019. Whilst the trade war initially boosted port volumes through 2018 as shippers front-loaded cargoes to beat tariff deadlines, inevitably volumes and freight rates slumped in the second half of 2019.

The IMO2020 regulations and the emergence of Coronavirus have further rattled the market in the first months of this year, imposing greater costs and increasing pressure on carriers that are still struggling with distressed balance sheets.

Despite this unfavourable start, 2020 also promises to bring new strategic alliances, the first 24,000 TEU megaships and exciting new emissions technology.

In this review we look at the market trends for 2019 and analyse the outlook heading into 2020.

MARKET OUTLOOK

Generally, economic uncertainty remains high. Drewry has twice revised down its expectations for container port throughput for the year, now predicting it will increase by just 3%. Similarly, the IMF has estimated global economic growth at just 3% in 2020.

Despite these disappointing predictions, many in the sector had been looking forward to gradually improving conditions throughout 2020 and beyond. The Phase 1 Trade Agreement signed between the US and China has the ability to give the world economy a boost. Although there remains a risk of re-escalation, the agreement comes as a welcome relief to the container shipping market which would otherwise have been significantly impacted by the additional tariffs.

CORONAVIRUS

Whilst it remains difficult to predict the true impact of the Coronavirus on the container shipping market at this stage, a global pandemic is likely to have serious consequences. China is home to ten of the world's busiest container ports and is a vital facilitator in the global supply chain. However, regular schedules are already being disrupted, as vessels risk being delayed and sailings cut.

As a result, major carriers such as Maersk and CMA-CGM have now reduced calls to China, with 46% of all scheduled departures on the Asia-North Europe trade having been cancelled in February alone.

Spot rates have weakened substantially since the start of the year and concerns are now rising over the effect this will have on the backhaul routes, as the void sailings pare down capacity for outbound trade from Europe and the US.

In China itself, a lack of personnel across the supply chain, including for inland haulage, is starting to cause containers to pile up at ports. This is further delaying schedules and, in the case of perishable cargoes, leading to challenges over the availability of reefer plugs at terminals.

MARKET (IM)BALANCE

Oversupply of capacity is expected to remain over the next couple of years, leading to lower container freight rates and lower earnings for carriers.

Vessels delivered this year are expected to add 1.2 million TEUs of capacity, of which 569,000 TEUs of capacity will be on ultra large container vessels (ULCVs). These are however due to be delivered throughout 2020, which may assist in streamlining their integration into the market, whilst possible delivery delays at Chinese or Korean shipyards due to Coronavirus may inadvertently temper overcapacity. In addition, the IMO2020 regulations may also reduce overall capacity, as more containerships are being taken out of service to be fitted with exhaust scrubbers.

Demolitions are also due to increase as many older and less-fuel efficient ships will be rendered uneconomic in light of the IMO2020 regulations.

MARKET CONSOLIDATION

Following Maersk's realignment towards providing an integrated container logistics service in 2016 and CMA-CGM's acquisition of CEVA in April 2019, it is likely that we will see more vertical integration between ocean carriers and freight forwarders throughout 2020, as companies attempt to differentiate themselves in a competitive market.

Alternatively, we can expect further consolidation amongst smaller companies who aren't able to withstand the current turbulent and unpredictable market.

ALLIANCES

Hyundai Merchant Marine (HMM) will become an official member of the world's major vessel sharing group, The Alliance, from 1 April 2020 for 10 years. A key reason for the decision to join The Alliance appears to be the imminent arrival of a series of ULCVs. As a result, it is estimated that The Alliance's share of operation will grow to more than 30% when HMM deploys their new tonnage in the Asian-North Europe route.

HMM has been a strategic partner of 2M Alliance since April 2017 when its full membership was denied due to its liquidity problems amid an industry-wide slump. After 1 April 2020, both The Alliance and Ocean Alliance will have 19 Asia-US services. 2M will however benefit from a slot purchase agreement recently signed with Hapag-Lloyd on the core Asia-North Europe trade lane.

We can therefore expect a change in the strings operating on the major East-West services due to this reshuffle.

MEGA SHIPS

The use of ULCVs is becoming increasingly prevalent, as evidenced by recent orders of 23,000 TEU vessels by carriers such as Evergreen and MSC. Similarly, HMM's order of twelve 24,000 TEU boxship are due to be the largest containerships in the world and are to be delivered this April. The benefits of ULCVs are clear, as they increase the ability to transport higher volumes of containers, therefore providing cost-saving benefits and resulting in economies of scale.

However, the use of ULCVs also present a range of operational and practical difficulties. ULCVs are approximately 7.7% longer and 23% wider than the average 18,000 TEU vessel, and there is currently a lack of port and terminal infrastructure able to deal with these vessels. In order to remain competitive, ports will need to invest in key infrastructure. National ports in the US such as Charleston, Virginia and New York have already begun redevelopment projects in order to prepare for the growing use of ULCVs.

Alliances operating ULCVs are also focusing their port calls and decreasing the number of calls, leaving terminals struggling to find a return on investments.

Whilst ULCVs are environmentally cleaner and more fuel-efficient for cargo owners and carriers, the endeavour to create fuel and time efficiency at sea is offset by inefficiencies at ports, where both significant time and resources are used dealing with the loading or unloading of these large vessels. The vast amount of containers often choke terminal yards, resulting in delays and financial losses due to shortages of labour and time.

IMO2020 AND FREIGHT RATES

The shipping industry has looked for several years at alternative ways to cut marine fuel, from scrubbers and solar-powered sails to kites that tow vessels. Interest in such developments has particularly grow in the wake of the IMO2020 regulations.

Whilst many carriers have turned to scrubber systems as a solution to cutting emissions, others are investing in new vessel models with engines which use liquefied natural gas (LNG), methane, ethanol or other biofuels.

From 1 December 2019, carriers implemented bunker adjustment factors (BAF) to recoup the costs of switching from 3.5% sulphur heavy fuel oil (HFO) to either 0.5% sulphur fuel (VLSFO) or 0.1% sulphur marine gas oil (MGO).

It is crucial that lines are able to pass incremental fuel expenses to shippers via surcharges. Without doing so, they will be forced to blank more sailings to artificially inflate freight rates. This will have significant consequences for service reliability for shippers, as well as on port throughput and import box volumes for trucking and rail.

ABOUT THE AUTHOR

Matthew is a corporate / commercial law firm partner specialising in ports and terminals, shipping and logistics. Initially working in the industry in commercial and operational roles since 1996, he became a lawyer in 2005. His practice services ports and terminals, container and RoRo shipping carriers, freight forwarders, blue-chip retailers and other shippers.

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ENQUIRIES

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