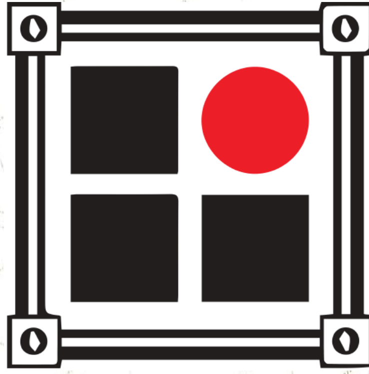

Council Of Intermodal Shipping Consultants

Newsletter

October 31st 2016

Link road, rail, sea!

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The content of the C.I.S.Co. Newsletter is also published in the newspaper "Informare" accessible on the Internet site http://www.informare.it

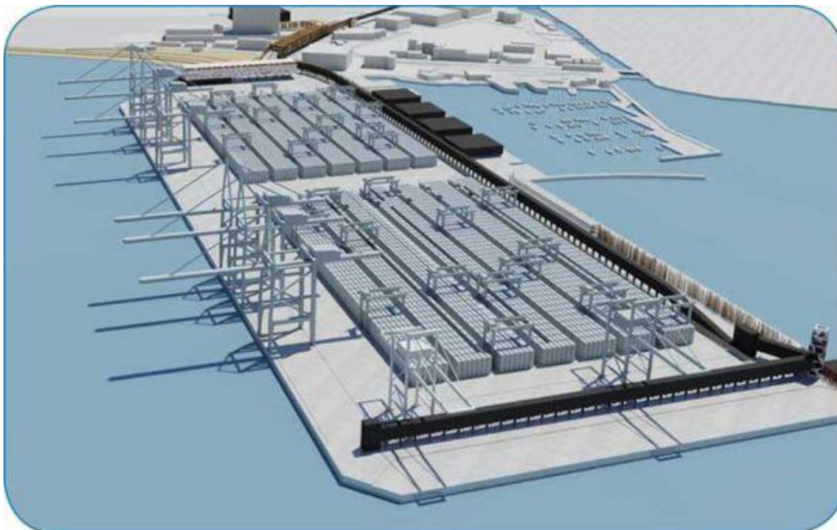
PORTS AND TERMINALS

APM TERMINALS TAKES NEW PARTNERS FOR VADO

COSCO Shipping Ports and Qingdao Port International Development have partnered with APM Terminals to operate new and existing container terminals in Vado, Italy.

Last year APM Terminals (APMT) announced two new deals involving the Qingdao Port Group: APMT would take a 20% stake in a new dry bulk terminal in Qingdao's Dongjiakou Port; and the signing of an MoU for the APMT Vado port project in Italy, which would include then yet to be named "other potential partners".

APMT has now announced it has concluded an agreement with China COSCO Shipping Ports and Qingdao Port International Development (Hong Kong) Co., Limited, a wholly-owned subsidiary of Qingdao Port International Co., Ltd., which shall become an indirect minority shareholder in a joint venture for Vado.



"The agreements include interests in both the existing Reefer Terminal in Vado, the largest refrigerated cargo facility on the Mediterranean Sea, and the new 800,000 TEU capacity deep-water terminal currently under construction at the Port of Vado.

APM Terminals will have a 50.1% share and will operate both the Reefer Terminal and the APM Terminals Vado container terminal; COSCO Shipping Ports will have a 40% share and Qingdao Port International Development (Hong Kong) Co., Limited a 9.9% share," APMT explained.

The signing ceremony with COSCO Shipping Ports was held in Shanghai, and attended by current APM Terminals CEO Kim Fejfer, as well as Mr. Morten Engelstoft, who will succeed Mr. Fejfer as CEO on November 1st.

“Through global partnerships and shared goals of operational excellence, there is much we can achieve together, even in the current difficult business environment” stated Mr. Fejfer, adding “and we are pleased to build upon our close relationships with COSCO Shipping Ports, and the Qingdao Port Group.”

APMT made mention of the fact that COSCO Shipping Ports, a subsidiary of COSCO Shipping Group, assumed control over the Greek Port of Piraeus earlier this year.

“With the support of its affiliated shipping line, COSCO Container Lines, the world’s number one in total tonnage and number four in container capacity, COSCO Shipping Ports has been expanding its operations in the Mediterranean Region as part of the “One Belt One Road” initiative to strengthen logistics links between China and Europe.

COSCO is already a shareholder in several operations within the APM Terminals Global Terminal Network, such as the Suez Canal Container Terminal, in Egypt; APM Terminals Zeebrugge, in Belgium; and Qingdao Qianwan Container Terminal (QQCT) in China,” APMT stated.

The Vado development plans to create new and improved supply chain capabilities for markets in Northern Italy, Switzerland and Southern Germany.

APMT Vado will be a semi-automated terminal with ASCs and shuttle carriers, designed to handled ULCVs up to 19,000 TEU.

The new facility will be merged with the existing Vado Ligure Reefer Terminal, which has an annual capacity of 275,000 TEUs and more than half a million tons of refrigerated fruit.

(from: worldcargonews.com, October 17th 2016)

MARITIME TRANSPORT

NEOPANAMAX BOX SHIP BOOST FOR EXPANDED PANAMA CANAL

Containerships making use of expanded capacity on the Panama Canal since new locks were opened in June helped boost transits in the 12 months to the end of September.

The Panama Canal Authority (ACP) said the expanded Canal handled 13,114 vessel transits carrying 330.7 million tonnes of goods in its 2016 financial year ending 30 September, the third-highest tonnage in the canal's history.

After nine years of construction, the expanded canal was inaugurated on June 26, 2016 with the first transit of a Neopanamax vessel, the COSCO Shipping Panama, through the new lane that has doubled the Canal's cargo capacity.

Since then 238 Neopanamax vessels have transited the Panama Canal, which is in fierce competition with the Suez Canal for liner services, primarily on the Asia-US East coast trade.

"Thus far, nine Neopanamax liner services have been deployed through the new locks, primarily on the US East Coast to Asia trade route," said ACP.

"Next month, an additional Neopanamax liner service is expected to follow suit, further demonstrating the benefits provided by the new waterway."

The latest financial year also saw the introduction of a new tolls structure in April which ACP said was designed to better meet shippers' needs and reflect changing cargo patterns by assigning tolls based on the specific type and amount of cargo being transited, as opposed to the more general approach previously utilized.

"As part of this restructuring, the canal established a customer-loyalty program for the container segment that allows frequent customers to receive preferred

pricing once they have met a particular volume threshold, providing further cost-incentives to shippers who regularly take advantage of the route," said ACP.

The container sector remained the leading source of canal traffic, accounting for more than 36% of the total cargo received in FY2016.

"Despite the international shipping downturn this past year, we recorded one of the highest annual tonnage figures since the opening of the original canal 102 years ago," said Panama Canal administrator Jorge Quijano.

"This latest success reinforces the continued strategic importance of the route and the growing value that recent investments in the canal will bring to the maritime industry."

In FY 2017, ACP said further progress would be made in expanding the logistics infrastructure around the canal to improve the transit route's attractiveness to shippers, not least by advancing projects such as the Corozal Container Terminal, which is currently in the bidding stage.

"What we accomplished with the opening of the Expanded Panama Canal this past fiscal year was just the beginning of an ambitious plan to strengthen Panama's position as the logistics hub of the Americas," said Quijano.

"Our greatest strategic asset is our geographic location at the crossroads of the Americas.

We are a link in a chain where reliability is a most valued attribute, and we are committed to continue to enhance it."

(from: lloydsloadinglist.com, October 20th 2016)

RAIL TRANSPORT

GB RAILFREIGHT SOLD TO SWEDISH INVESTMENT FUND TO BOOST PAN-EUROPEAN CARGO NETWORK

The UK's third-largest intermodal operator, GB Railfreight, is set to welcome new owners after Eurotunnel agreed to sell the unit to a Swedish investment fund, EQT Infrastructure.

The fund owns private Swedish rail freight operator Hector Rail and the acquisition is a major plank in its strategy to create "a leading independent pan-European rail freight operator".

The Eurotunnel board had indicated its intention to step away from the UK rail freight market, but said GB Railfreight's French operations were not included in the sale.

It said: "The additional liquidity would open up new opportunities for GET [Eurotunnel Group] to develop its core infrastructure and transport business, particularly through the delivery of the ElecLink electrical interconnector project, for which the construction works are now getting under way.

"Europorte France will remain focused on its own development to deliver constantly improved customer service, with the goal of becoming the foremost private rail freight operator in France.,"

With a 15% market share of the UK rail freight market involved, the sale of GB Railfreight to EQT would not need competition commission clearance, and the one remaining obstacle is the consultation process with Eurotunnel staff.

GB Railfreight chief executive and founder John Smith said: "We are very pleased with EQT as our new owner and strongly believe its industrial approach

and network, extensive rail freight experience and access to capital will be of valuable support to GB Railfreight in our continued growth ambitions."

The deal would also see the return of Bo Lerenius, former chief executive of Associated British Ports, to the UK transport sector.

Mr Lerenius was head of the UK's largest port company when it was sold to a Goldman Sachs-led group of investors and delisted from the London Stock Exchange in 2006.

Mr Lerenius is now industrial advisor to EQT and chairman of the Hector Rail Group.

He said: "GB Railfreight is a company that understands its customers, staff, and the industry in which it operates.

The focus on innovation and delivery of outstanding customer service are two key factors that make us believe that GB Railfreight would be an excellent fit with Hector Rail."

GB Railfreight was bought by Eurotunnel in 2010 for £25m and is this year forecast to hit revenues of £125m.

Eurotunnel estimated that its internal rate of return on the business had been just over 28%.

Eurotunnel chief executive Jacques Gounon said: "I am convinced that EQT is the right owner to take GB Railfreight to the next level, given its strong focus on growth and sustainable long-term value creation.

GBRf has been a great success, proving that significant value can be generated in this sector.

On the strength of its results, the group will continue to favour long-term investments and shareholder return."

(from: theloadstar.co.uk, October 19th 2016)

ROAD TRANSPORT

EU STATES COMPLAIN OVER 'ILLEGAL' ROAD HAULAGE PRACTICES

Transport ministers from eight European states have written to EU Transport commissioner Violeta Bulc to highlight their growing concerns over alleged violations of EU labour laws and illegal business practices within the road haulage sector, which they claim has led to unfair competition and 'social dumping'.

The ministers, from Austria, Belgium, Denmark, France, Germany, Italy and Luxembourg and non-member Norway, claim that "the fundamental rights such as the free movement of goods and services, which we wholeheartedly support, are increasingly being invoked in a abusive way in order to avoid conforming to European regulations, which are the guarantee of fair competition in the internal market".

The ministers have also drawn attention to the emergence in the sector of so-called 'letterbox companies' - set up to circumvent legal and collective agreement obligations in another EU country - "whose unfair business practices are more and more frequent".

They make a number of recommendations to the commissioner, which include prohibiting drivers from sleeping in their vehicles during designated weekly rest periods, stepping up and harmonising checks on HGVs, introducing measures to put an end to 'shell company' activity as well as action to curb the growing trend of light commercial vehicles (vans) carrying out international transport operations.

An EU source told Lloyd's Loading List that the Commission shared a number of the views expressed in the letter and was currently working on a number of initiatives for the road haulage industry, to be presented in 2017, "to bring more clarity and a better enforcement of labour legislation".

The source added: "Certain rules are unclear and are

implemented differently depending on the member state.

This is the case regarding restrictions on cabotage for example.

The rules on the establishment of road transport undertakings need to be revisited to address the phenomenon of ‘letterbox’ companies.

By the very nature of the transport industry, many of its workers are highly mobile and this creates issues specific to it.

For example, what salary should drivers be paid when working in 10 different countries in a single month?”

Germany and France have taken unilateral steps to impose their minimum wage regulations on international road haulage firms in a bid to quash 'social dumping' practices.

But the Commission reacted by instigating infringement proceedings against the two member states.

“In both instances, we are at the first stage of the infringement procedure,” the EU source said.

“A letter of formal notice was sent and we received the respective replies from the French and German authorities.

We are assessing these replies before deciding on the next steps, and are not bound by a deadline.”

(from: lloydsloadinglist.com, October 14th 2016)

INTERMODAL TRANSPORT

PSA INVESTS IN CHINESE RAIL TERMINALS

PSA International has invested in a Sino-Foreign joint venture with a mandate from the Chinese government to develop and operate 18 rail container terminals.

PSA International (PSA) has taken a stake in China United International Rail Containers Co., Limited ("CUIRC"), through the acquisition of Hong Kong-based Luck Glory International Limited, which owns 15.33% stake in CUIRC.

"The investment makes PSA the only global terminal operator with shareholding in CUIRC currently," PSA pointed out.

"The inland railway container terminals are strategically located at regional economic centres across the country to form the core of China's intermodal transportation network.

There are currently 10 terminals in operation – in Kunming, Chongqing, Chengdu, Zhengzhou, Wuhan, Xi'an, Dalian, Qingdao, Ningbo and Tianjin," PSA said in a statement.

The deal is the PSA Group's first foray into China's intermodal rail facilities and extends its network in China beyond its 11 coastal container terminals in Dalian, Fuzhou, Guangzhou, Tianjin, Dongguan, Lianyungang and Guangxi Beibuwan (Qinzhou).

Mr Tan Chong Meng, Group CEO, PSA International, said, "The CUIRC project is a game changer for PSA and fits into our overall strategy for China.

With our current presence in major China gateway ports, PSA is well-positioned to develop synergies with CUIRC to grow integrated sea-rail intermodal operations across the world's second largest economy.

I am confident that we will be able to forge strategic relationships with our partners, leveraging our complementary strengths to make the collaboration a success."

Few Chinese container ports today have direct connection to its rail network, including Shanghai's largest terminal Yangshan, where the planned rail line running over the bridge to Yangshan Island was dropped for cost reasons.

As a result, "China's railway container sector only carries about 2% to 3% of the country's seaport container volumes" PSA noted.

The company believes that will change as further growth of China's railway container sector is supported by China's ongoing initiatives such as the 'One Belt One Road' and 'Western Region Development Program', together with progressive railway reforms.

Established in 2007, CUIRC is part of China Railway Corporation.

Besides PSA, other joint venture partners include China Railway Container Transport Corp. Ltd, NWS Holdings Limited, China International Marine Containers (Group) Ltd, and Deutsche Bahn Mobility Logistics AG.

(from: worldcargonews.com, October 17th 2016)

TRANSPORT & ENVIRONMENT

SHIPPING: URGENTLY IN NEED OF A CARBON STRATEGY

Shipping does not get good press.

The general public only hears about us when there is a disaster, is a favourite riddle at shipping conferences, often followed by: media do not report enough about the great and silent work of transporting 90% of world trade.

If only things were so simple.

These days, we hear more and more about how shipping handles big societal issues – and the bad press related to it is completely of its own making.

One of the more spectacular examples of what could be called a strategic disaster relates to carbon emissions of shipping.

This is the situation

Shipping's carbon emissions have grown spectacularly over the last decades, have halted since the economic crisis and are expected to grow substantially in the future.

The carbon intensity of shipping has decreased somewhat but not enough to offset the effects of growing trade.

Shipping is not explicitly mentioned in the Paris climate agreement, but expected to work out its response to climate change within the framework of the International Maritime Organisation (IMO).

How has shipping dealt with it?

A friendly answer would be: it has done what it could.

A slightly nastier answer would be: it has taken the path of least resistance.

It has taken pride in a 10% emissions reduction between 2007 and 2012, caused by halted trade and slow steaming.

It has come up with an Energy Efficiency Design Index (EEDI), described as "the first legally binding climate change treaty to be adopted since the Kyoto

Protocol", a regulation that mainly codifies energy efficiency measures that would have happened anyway.

And the shipping community has been occupied with long and heated discussions about data collection.

It did what seemed feasible considering big internal divisions.

But whilst kicking the can down the road, the shipping sector commits at least two strategic errors:

1. Mediocre management of expectations

Many shipping representatives feigned unhappiness with the Paris agreement: how they would have loved shipping to be in it!

But, no worries, they understood the spirit of Paris and would push for strong measures at the IMO.

Four months later, at the IMO, after days of discussions, even the idea of forming a working group to propose a way forward was almost a bridge too far.

After the meeting, the Secretary General of the IMO made an heroic effort to define the approval of data collection as a major breakthrough, but it seemed a bit meagre compared to the emissions trading scheme that the aviation sector was discussing.

Another six months later, at the eve of another IMO environmental meeting – taking place this week – a whole collection of shipping associations call for "ambitious action" in reaching a target for shipping's carbon emissions.

These are the same representatives that have submitted a proposal to "develop a road map to determine a possible IMO fair share contribution, which initially focuses on the development of a timeline, consistent with the 'three step' approach".

See how ambitious it is?

This is not about setting a target for shipping in line with the Paris agreement, this is code for: we will think about a date at which we might say more about how a target could look like if ever we feel we are ready for it.

Start to see the pattern?

Each time we hear big words, only to be confronted with shrill outcomes when the meetings are over.

So, we go from disappointment to hope to disappointment; a process that is unsustainable, even dangerous for the shipping sector, because it erodes its credibility.

The reason why this happens is not cognitive dissonance, but a disproportionate confidence in its lobbying capacity.

But the way it lobbies represents its second strategic error.

2. Lobbies for the status quo

Page one of the handbook for shipping lobbyists must be: "say no to every proposal that threatens the status quo".

An example: the intense lobbying to keep shipping out of the Paris climate agreement and leave this discussion to the IMO.

Another example: the recent lobby of shipowners' associations to get Euro-parliamentarians in the industry committee to vote against inclusion of shipping into the EU Emission Trading Scheme (ETS), even if is the environment committee – in favour of it – that is in charge of the discussion.

The shipping sector lobbies against what it does not want, rather than for what it wants.

It says it wants global regulation for a global industry, so why does it not push for its own proposal of a global market based mechanism?

Are any of the Europeans talking to the Chinese or other emerging economies to facilitate more ambitious actions with regards to decarbonising shipping?

Are national shipowners associations lobbying their national governments to put into action the ambitious ambitions to which they pay lip service?

Even if it might work in the short term, the nihilistic lobbying, combined with mediocre management of expectations will bring shipping the exact same thing it wants to avoid: regional measures.

Almost a year after COP21, the shipping sector is in an awkward position.

Nowhere near a target that could bring it in line with the Paris agreement and outmanoeuvred by the aviation sector that managed to pull off a trick that shipping could not.

Time for the shipping sector to learn from this.

Nations did not count every chimney before submitting their nationally determined contributions; and the ICAO emissions trading scheme has flaws.

Yet, both know where they are going and how to improve.

Similar clarity is needed for the shipping sector.

Building up a global data collection on fuel consumption of ships is all fine and dandy, but that should not delay the formulation of a target for shipping's carbon emissions, nor the preparation of market-based mechanisms.

(from: shippingtoday.eu, October 25th 2016)

INDUSTRY

SHIPYARDS MUST LOOK TO NICHE MARKETS AS OVERCAPACITY SHREDS ORDERBOOKS

A depressing picture of the global ship building industry was painted by executives at an international summit of major shipyards in South Korea this week.

The home nation's top three – Hyundai Heavy Industries Co (HHI), Daewoo Shipbuilding & Marine Engineering Co (DSME) and Samsung Heavy Industries Co (SHI) – collectively lost Won8.5tn ($7.5bn) in 2015 and are ramping up cost-cutting efforts as new orders fall well short of targets.

And the country is bracing for mass redundancies and lay-offs in its shipbuilding sector as part of the tough restructuring at the yards.

At the 25th JECKU (Japan, Europe, China, South Korea and the US) meeting of international shipyard executives in Gyeongji, delegates were told that orders between January and September this year were less than a third of the recent five-year average, at just 8.66m gross tonnes.

Delivering the keynote speech, SHI chief executive Park Dae-young said a slump in the global economy had had a "negative impact on the shipbuilding sector" and stubbornly low oil prices had stymied demand for offshore facilities.

But it was the overcapacity of tonnage in most shipping sectors that was the biggest concern for delegates.

Shigeru Murayama, president of Japan-based Kawasaki Heavy Industries, said: "Over the past few years, ships have been built at a faster pace than the increase in maritime trade, which has resulted in oversupply."

The crisis afflicting the shipbuilding industry in South Korea was also the focus of much debate at the annual World Ocean Forum in Busan last week.

Speaker after speaker warned of the consequences of large scale redundancies at shipyards, which could be as high as 30,000 this year and next and impact a similar number of workers involved in supplying product to the yards.

One analyst told The Loadstar on the side lines of the conference that HHI's current orderbook stood at $2.3bn against its 2016 budget of $13.1bn, while DSME's orders so far of $1.3bn fell far short of its $6.2bn full-year target.

"Something's got to give," he said, "and it won't be pretty."

Delivering a speech at the Forum, Professor Tony Michell, of the Korea Development Institute and author of The One Million Jobs Initiative, called on the industry and Korean government to rethink its "narrow minded views of shipbuilding" and look at "other windows of opportunity" for sustained shipyard employment.

Prof Michell advocated targeting the cruise line industry, which is still seeing exponential growth and has the advantage of providing many more jobs than traditional cargo ship building.

And with the saturation of tonnage in the ultra-large containership sizes, it was argued that Korean shipyards should target shipowners' requirements for vessels in the smaller vessel sectors, which have largely been overlooked in the past few years.

For example, the Gdansk shipyards in Poland had reinvented themselves by concentrating on building for niche sectors of the maritime industry, such as ocean exploration vessels, and this was as a business plan that perhaps could be replicated by the shipyards in Korea.

(from: theloadstar.co.uk, October 20th 2016)

LOGISTICS

CHINA'S MAJOR LOGISTICS COMPANIES SEEK LISTINGS TO COMPETE WITH GLOBAL RIVALS

An interesting report from China claims domestic express operators are looking to list on both Chinese and international stock exchanges as a way of shoring up their positions against emerging competition from global express operators.

SF Express and YT Express both now have approval to list on the Shanghai bourse, while ZTO Express, also based in Shanghai, is looking to list in New York.

Analysts believe the funds raised from these efforts would be invested in building warehouses and expanding vehicle fleets, and would place further competitive pressure on the myriad smaller express operators in China serving its enormous e-commerce market.

* * *

China's major express delivery companies are moving to seek listings, both on domestic and overseas stock markets.

This is a strategy to increase their competitiveness as well as to combat competition from major e-commerce companies' logistics operations, experts noted on Wednesday.

But they also argued that such moves might make things harder for the smaller logistics companies, which have relatively low market shares.

The China Securities Regulatory Commission (CSRC) conditionally approved the backdoor listing plan of express delivery giant SF Express via a shell corporation, according to a statement the CSRC issued on Tuesday.

South China's Guangdong Province-based SF Express has joined several other express delivery giants in China in seeking a backdoor listing.

On September 14, Shanghai-based YT Express gained approval from the CSRC to go public via a shell company.

Another Shanghai-based express delivery company, STO Express, pursued a similar backdoor listing strategy in December 2015.

Xu Yong, chief advisor with the logistics portal cecss.com, told the Global Times on Wednesday that it's not a good time to go public, but most of the domestic express giants are still choosing to follow the herd, as none of them wants to lag behind in the market.

"The fact that most of the delivery companies chose backdoor listings shows their eagerness, as these listings are a lot faster than normal IPOs," Xu said.

The Shanghai-based ZTO Express, however, has blazed a new trail by filing for an IPO on the NASDAQ, according to a filing on the exchange's website on September 30.

"ZTO might want to arrange its business more in the global context, and that's why they chose to get listed abroad," Xu commented.

He also said that on the whole, going public will help the express delivery companies become more standardized, as most of them are still family businesses.

"Getting listed will largely increase the companies' market competitiveness," Xu noted.

An expert in the delivery industry who declined to be identified told the Global Times on Wednesday that delivery companies' listing efforts are also meant to combat the competition from Alibaba Group Holding-related logistics company Cainiao as well as the logistics services provided by e-commerce giant JD.com Inc.

"The delivery industry is one that needs to burn cash on such activities as building warehouses and buying vehicles.

Going public would lend great financial support to those delivery companies," the expert said.

However, he also mentioned that the delivery giants' listing moves will further put pressure on the smaller players in the market.

"In the longer term, the express delivery industry will become highly concentrated with only several companies splitting the market.

But in the short term, smaller players still have chances as the e-commerce trend is still on the rise in China, causing delivery demand to surge," he remarked.

According to a report by the 21st Century Business Herald newspaper on Wednesday, the majority of the delivery market is dominated by a few big players that have revealed their listing plans.

"The small companies are likely to be weeded out, and they should take measures to shift their business to a more professional and personalized type," Xu noted.

(from: theloadstar.co.uk/globaltime.cn, October 14th 2016)

LAW & REGULATION

EUROPEAN COURT OF AUDITORS: FUNDING INEFFECTIVE AND UNSUSTAINABLE

According to the European Court of Auditors, a third of EU spending on the renovation of EU seaports between 2000 and 2013 was ineffective and unsustainable.

About €194 million went on projects which duplicated existing facilities, whereas €97 million were invested in infrastructures not used or underused for more than three years.

The strategies adopted, according to the Auditors assessment, did not provide a solid base for port-capacity planning.

Moreover, neither the European Union nor the Member States had a strategic overview of which ports needed funding.

What is more, resources were not used in the best possible way.

In four ports, in fact, relevant areas were either still empty or nearly so, while another port showed no activities at all.

Mr Oskar Herics, the Member of the European Court of Auditors responsible for the report, observed that "… Needs assessments are weak and there is a high risk of the money invested being wasted.

Overall, this relates to almost 400 million euros of investment examined …".

The coordination between the Commission and the European Investment Bank (EIB) on the funding of port infrastructures did not work properly.

Indeed, granting of loans by the EIB to neighboring ports outside the Union had hampered the effectiveness of EU funding invested in EU ports.

In addition, it was found that, often, the ports concerned were not adequately linked to the hinterland and this would require further public investments to make the initial one work properly.

Furthermore, State aid checks should have been made more effective, maybe establishing guidelines on which user-specific superstructure could receive funding.

The Court made several recommendations, mostly to the Commission:

- Revise the current number of 104 core ports and set out an EU-wide port development plan;
- Consider the exclusion of EU funding for port infrastructure for container trans-shipment and storage as well as for superstructure which is not within the public remit;
- Ensure that all essential loan information on proposed EIB loans is shared between the EIB and the Commission;
- Prioritize core ports and key waterways with EU support for investment only where EU added value is clear and there is sufficient private investment;
- Issue port-specific state aid guidelines and monitor and follow up earlier state aid decisions;
- Reduce administrative burden and delays by promoting national "one stop-shops" for issuing permits and authorizations;
- Improve the competitive position of maritime transport compared to other transport modes by further simplifying maritime transport and custom formalities…

(from: hellenicshippingnews.com, October 24th 2016)

STUDIES & RESEARCH

SHIPPING: FOURTH SUCCESSIVE YEAR OF DECLINE IN OPERATING COSTS

The findings are set out in OpCost 2016 (www.opcostonline.com), Moore Stephens' unique ship operating costs benchmarking tool, which reveals that that total operating costs for the tanker, bulker and container ship sectors were all down in 2015, the financial year covered by the study.

On a year-on-year basis, the tanker index was down by 4 points, or 2.2%, while the bulker index fell by 6 points, or 3.6%.

The container ship index, meanwhile, was also down by 6 points, or 3.7%.

The corresponding figures in last year's OpCost study showed falls of 2 points in both the tanker and container ship index, and of 1 point in the bulker index.

There was a 1.2% overall average fall in 2015 crew costs, compared to the 2014 figure, which itself was 0.1% down on 2013.

By way of comparison, the 2008 report revealed a 21% increase in this category.

Tankers overall experienced a fall in crew costs of 1.3% on average, compared to the 0.4% fall recorded in 2014.

All categories of tankers reported a reduction in crew costs for 2015 with the exception of Panamaxes and VLCCs, which recorded increases of 1.4% and 1.2% respectively, compared to reductions for 2014 of 2.2% and 0.6%.

The most significant reduction in tanker crew costs for 2015 was the 3.6% recorded by Product Tankers.

For bulkers, meanwhile, the overall average fall in crew costs in 2015 was 1.1%, having stabilised 12 months ago at 2013 levels.

The operators of Handysize Bulkers paid 2.3% more on crew costs than in 2014, but the operators of other categories of bulker paid less, in the case of Panamax Bulkers to the tune of 3.2%.

Expenditure on crew costs was down 3.3% in the container ship sector, having stabilised in 2014 at the previous year's level.

The biggest fall in crew costs in this category was the 3.6% reduction recorded for vessels of between 2,000 and 6,000 teu.

Expenditure on stores was down by 4.3% overall, compared to the fall of 2.4% in 2014.

The biggest fall in such costs was the 8.5% recorded by operators of Capesize Bulkers, with Panamax Bulkers (8.2%) not far behind.

Other significant reductions included 2,000-6,000 teu Container Ships (8.0%) and Handymax Bulkers (7.5%).

For bulk carriers overall, stores costs fell by an average of 7.7%, compared to a fall of 3.7% in 2014, while in the tanker and container ship sectors the overall reductions in stores costs were 4.3% and 5.5% respectively, compared to the corresponding figures of 0.7% and 3.0% for 2014.

The only rise in stores expenditure by any category of vessel was the 1.5% increase recorded by Tankers 5,000 to 10,000 dwt.

There was an overall fall in repairs and maintenance costs of 4.3%, compared to the 0.6% reduction recorded for 2014.

Only VLCCs and Container Ships of between 1,000 and 2,000 teu recorded increased expenditure on repairs and maintenance, of 0.1% and 1.3% respectively.

Otherwise it was a case of reduced spending everywhere, the most significant example being the 7.9% fall recorded for Coastal Dry Cargo ships.

The overall drop in costs of 3.2% recorded for insurance compares to the 0.4% fall recorded for 2014.

No vessels in the bulker category paid more for their insurance in 2015 than in 2014.

Handysize Bulkers paid considerably less (5.7%) as did Panamax Bulkers (5.3%).

Product Tankers and Tankers 5,000 to10,000 dwt were the only vessels in the tanker category to pay more for their insurance in 2015 than in the previous year, to the tune of 1.3% and 0.6% respectively.

The biggest increase in insurance costs, however, was the 2.6% recorded by LPG carriers in the 10,000 to 40,000 cbm range.

Perversely, gas carriers are historically regarded as among the safest vessels afloat, perhaps reflecting the effect on premium levels of the cost of potential claims rather than the legacy of claims records.

Richard Greiner, Shipping & Transport Partner, says: "This is the fourth successive year-on-year reduction in overall ship operating costs.

The reduction is three times that recorded 12 months ago, and a reduction at this level had not been widely anticipated.

The fall in operating costs is likely to be due in part to continuing good husbandry in a difficult operating environment for many, and partly to an extremely difficult market and wider economic climate.

The biggest cost reductions were predictably those in the Stores and Repairs and Maintenance categories.

Falling world oil prices continued to have a knock-on effect on lube oil costs in 2015, while increasing numbers of owners were looking to strategic short-term lay-up rather than spending on maintenance and repair.

The fall in crew costs arguably came as more of a surprise to an industry which has over the years absorbed increases of this type in excess of 20% and lived to tell the tale, but it was doubtless largely a consequence of reduced levels of trading.

The fall in insurance costs, meanwhile, will come as no surprise to anybody in the light of warnings from the London market that hull rates for many major fleets continue to reach new lows.

Last year was a particularly difficult one for shipping.

Confidence reached its lowest level for seven years, according to the Moore Shipping Confidence Survey.

Operators were not overly optimistic about making new investments in the short-term, while finance costs were predicted to rise.

Nobody was expecting good news on dry bulk freight rates, and the outlook for tanker and container ship earnings was little better.

The Baltic Dry Index, meanwhile, was getting ready to plumb the depths.

It was not an auspicious time to be planning new ventures; rather, it was a time for taking stock.

In short, for many, it was a time for keeping operating costs to a minimum.

Against a background of declining confidence in 2015, oil prices were on a steady downward trend, and the slowdown in the Chinese economy was becoming increasingly evident.

Neither of these factors was wholly good news for shipping and both, in different ways, served as a brake on 2015 operating costs.

A fall in operating costs is good news for shipping, particularly at a time when earnings from the freight market, for many, are so disappointing.

But the portents are not so encouraging.

Oil prices are predicted to start recovering significantly in the second half of 2017, while the price of steel, the bedrock of the shipbuilding industry, could increase much sooner.

The cost of manpower, meanwhile, is only likely to move in an upward direction under the terms of the Maritime Labour Convention 2006.

While the Ballast Water Management Convention still seemed a long way away from entering into force in 2015, it wasn't!

Now the convention has been ratified, the cost of trying to achieve compliance should become clearer over the next 12 months, as should the cost of making shipping safer and more secure against threats from the likes of cyber-attacks and fraud.

In conclusion, shipping can draw some comfort from a fourth successive annual fall in operating costs.

But it should remember that costs can move both ways.

OpCost records that, at year-end 2001, for example, the average daily operating cost for a Handymax Bulk Carrier was US$3,578.

In 2015, it was US$ 5,604.

For a Suezmax Tanker, the comparable figures are US$4,916 and US$9,170.

The indications from the freight markets are that shipping is still selling itself too cheaply.

Inflationary pressures on operating costs will remain, so maintaining the status quo will not be a viable option.

For many, the freight markets will remain challenging and so to remain competitive, shipowners need to continue to improve efficiency, innovate with new technology and harness the considerable benefits of 'big' data without delay."

(from: hellenicshippingnews.com, October 20th 2016)

ON THE CALENDAR

- 02/11/16 - 02/11/16 Londra 6th Annual Shipping & Offshore CSR Forum
- 15/11/16 - 17/11/16 Rotterdam Intermodal Europe 2016
- 15/11/16 - 17/11/16 Rotterdam Transport & Logistics 2016
- 16/11/16 - 18/11/16 Istanbul Logitrans 2016
- 17/11/16 - 18/11/16 Mombasa 16th Intermodal Africa 2016
- 20/11/16 - 23/11/16 Dubai 3rd International Conference on Coastal Zone Engineering and Management in the Middle East (Arabian Coast 2016)
- 23/11/16 - 24/11/16 Budapest Translog Connect 2016
- 23/11/16 - 25/11/16 Jakarta MARINTEC INDONESIA 2016
- 05/12/16 - 07/12/16 Dammam Saudi Transtec 2016
- 07/12/16 - 09/12/16 Guangzhou INMEX China 2016

The Secretariat of C.I.S.Co. is able to communicate detailed information on the programs of all the events and how to participate.