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A Review Of The South East Asian Container Port and Shipping Market

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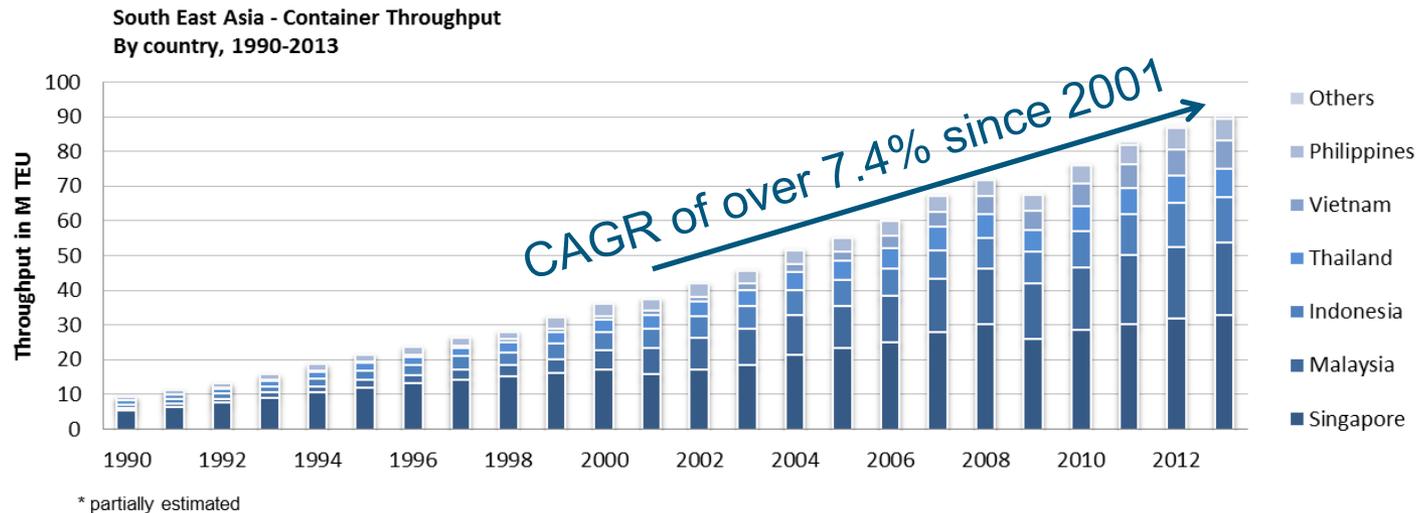
In the next 20 minutes...

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- ▶ ASEAN Port and Shipping Market
- ▶ Container Fleet Developments
- ▶ So What Are Liners Doing?
- ▶ Implications For ASEAN Port and Shipping Market

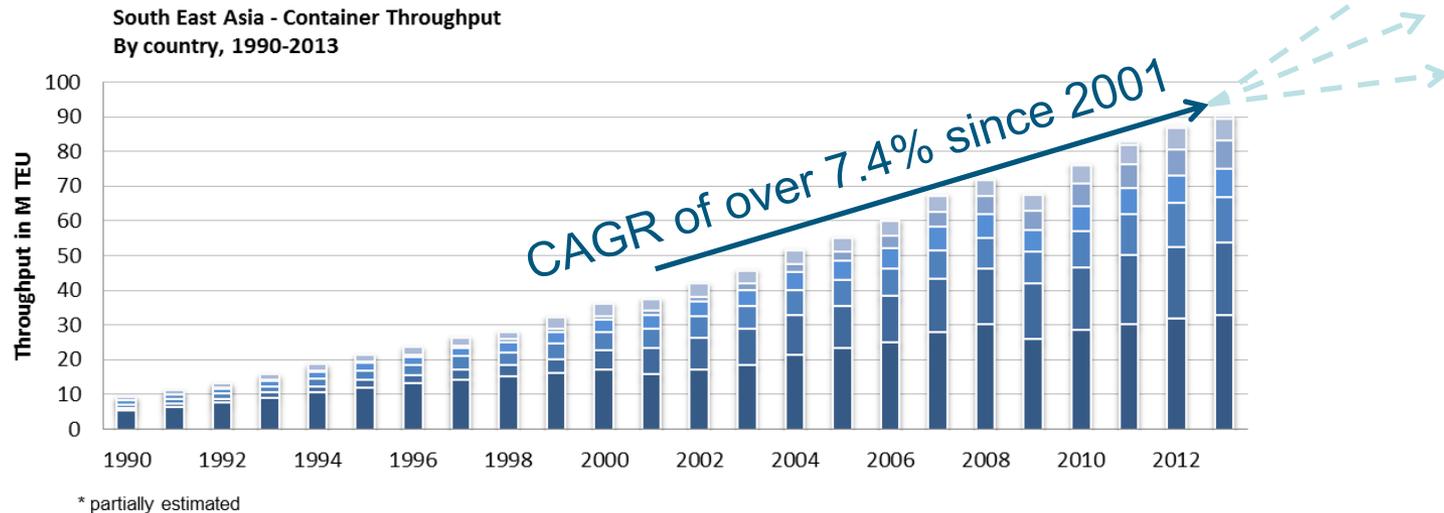


ASEAN port and shipping market has been growing fast



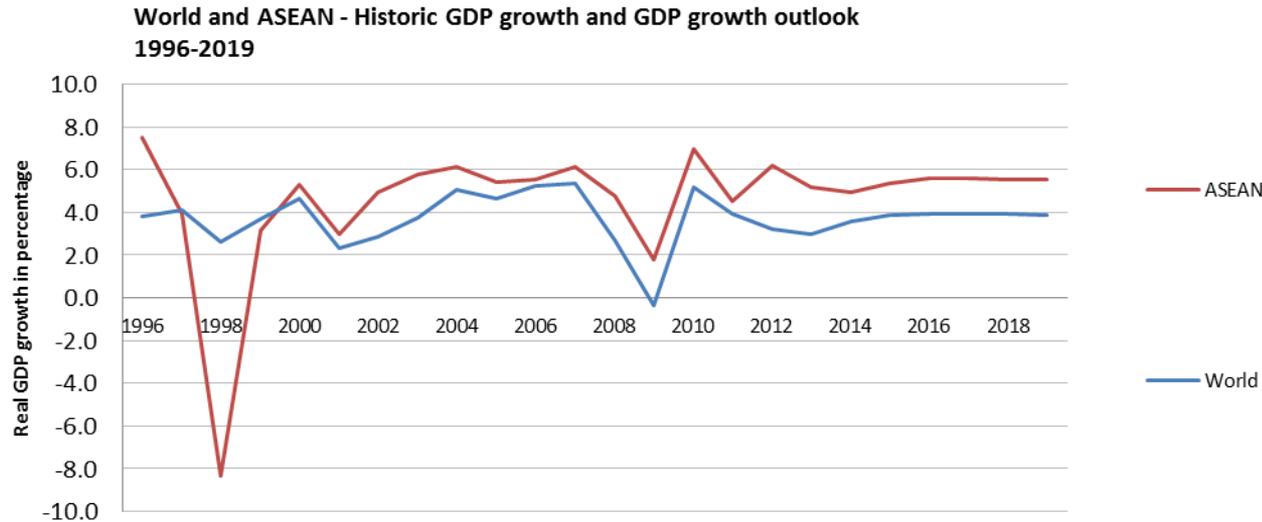
- ▶ Port volumes in ASEAN region grew with an average annual growth rate of over 7.4% since 2001: **Doubling almost every 10 years**
- ▶ Around 44-46% of the regional throughput is transshipment traffic
- ▶ **Port capacity is racing to keep up with demand** : Examples of recent/ongoing port capacity expansions are New Kalibaru, Teluk Lamong, Pasir Panjang, Pt Pelepas, Port Klang

ASEAN port and shipping market has been growing fast ... and how will that continue in the future



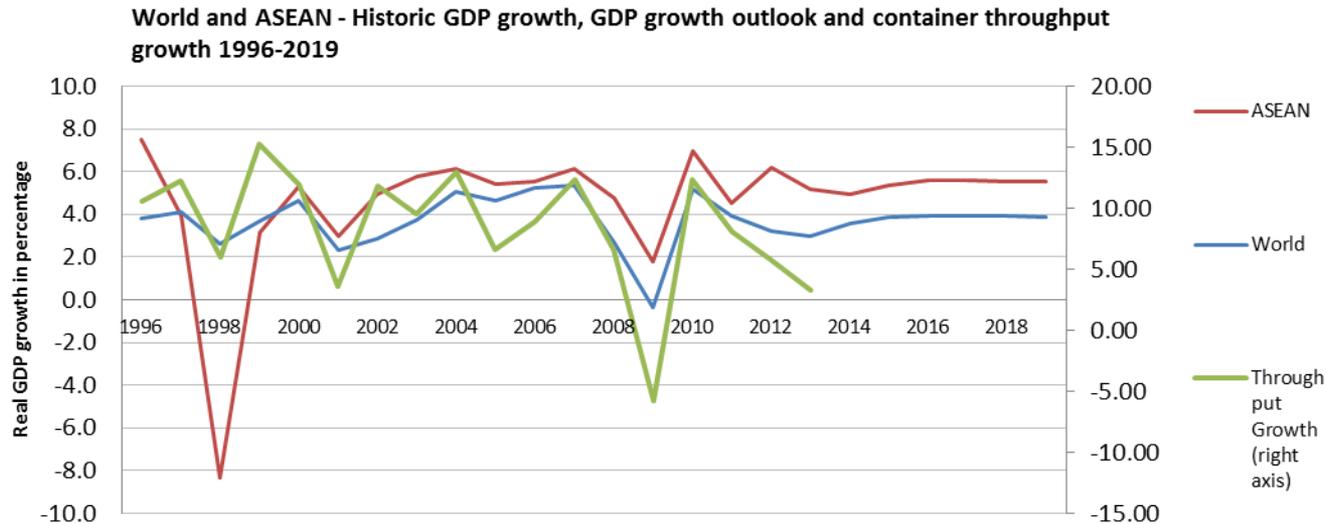
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GDP growth in ASEAN has been outperforming global economy since 2000



- ▶ Real economic growth in ASEAN has been around 1.5% higher than the global economic growth
- ▶ ASEAN and global economic growth are following each other and are linked
- ▶ Outlook for economic growth for the ASEAN region remains positive with expected growth rates in the region of 5%-6%

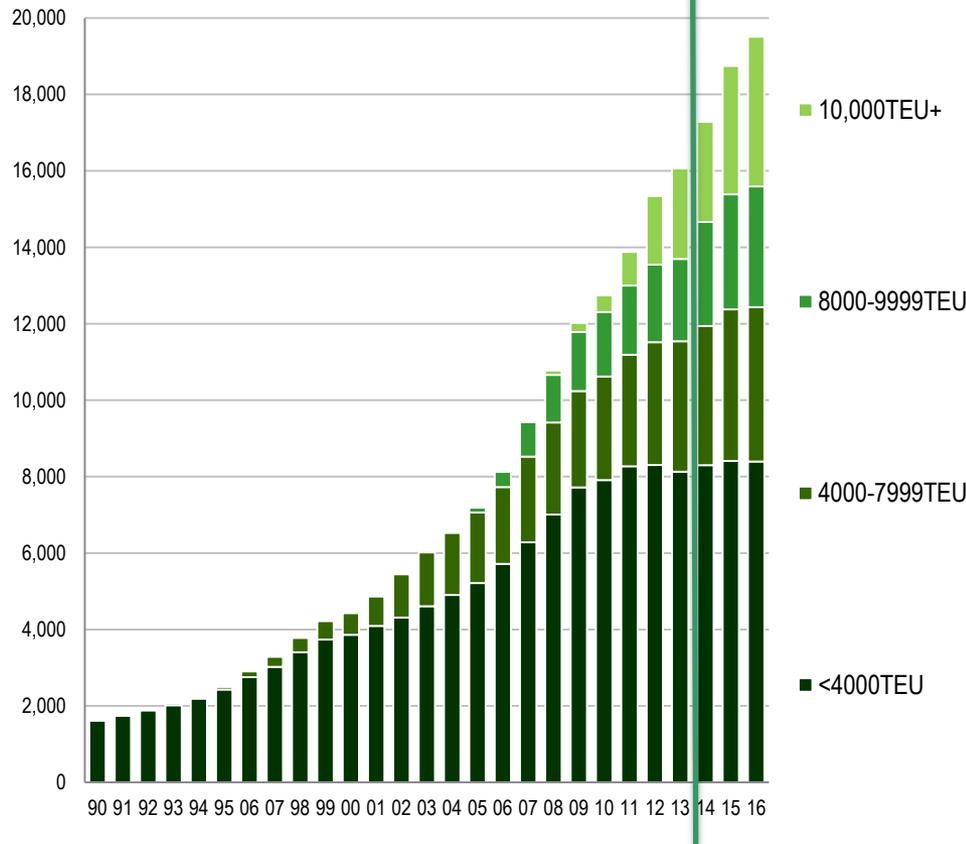
GDP growth in ASEAN has been outperforming global economy since 2000 and drives growth in container throughput



- ▶ Container Throughput in the ASEAN region has been following both ASEAN and global economic growth closely
- ▶ Outlook for the growth of container throughput demand is also positive and expected to return to rates of around 7% per year
- ▶ Port facilities will also need to expand in the future to facilitate this growth

Container fleet developments : More & Larger

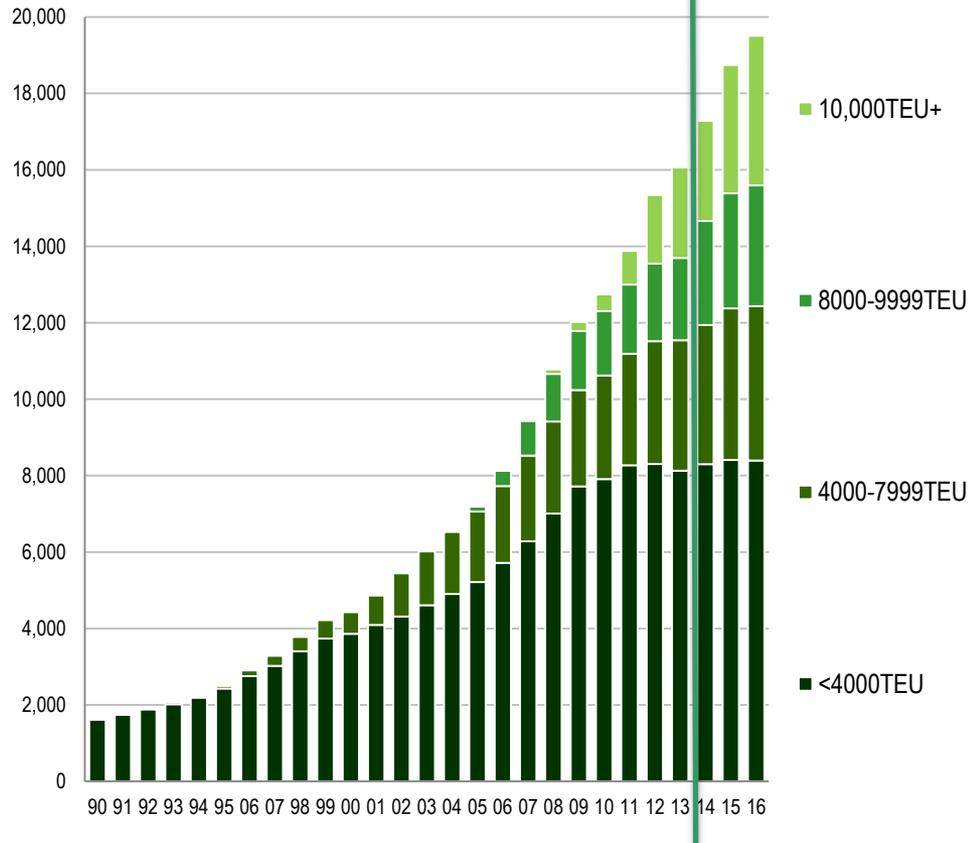
World Container Fleet Development 1990-2016 ('000TEUs)



- ▶ Fully cellular containership fleet expanded by 3.3% in 1H 2013 to 16.16m TEU.
- ▶ **Focus remains on larger vessels –** 8000TEU+ sector up by 10.8%.
- ▶ Trend for bigger ships well established since 2004 - 18000TEU+ ships in service.
- ▶ **Almost all major lines committed to ULCS:**
 - ▶ China Shipping confirmed current orders to be extended to 19,000TEU.
 - ▶ Expect other lines to follow – Maersk Line, CMA CGM, UASC all committed to larger tonnage.

Container fleet developments : More & Larger

World Container Fleet Development 1990-2016 ('000TEUs)

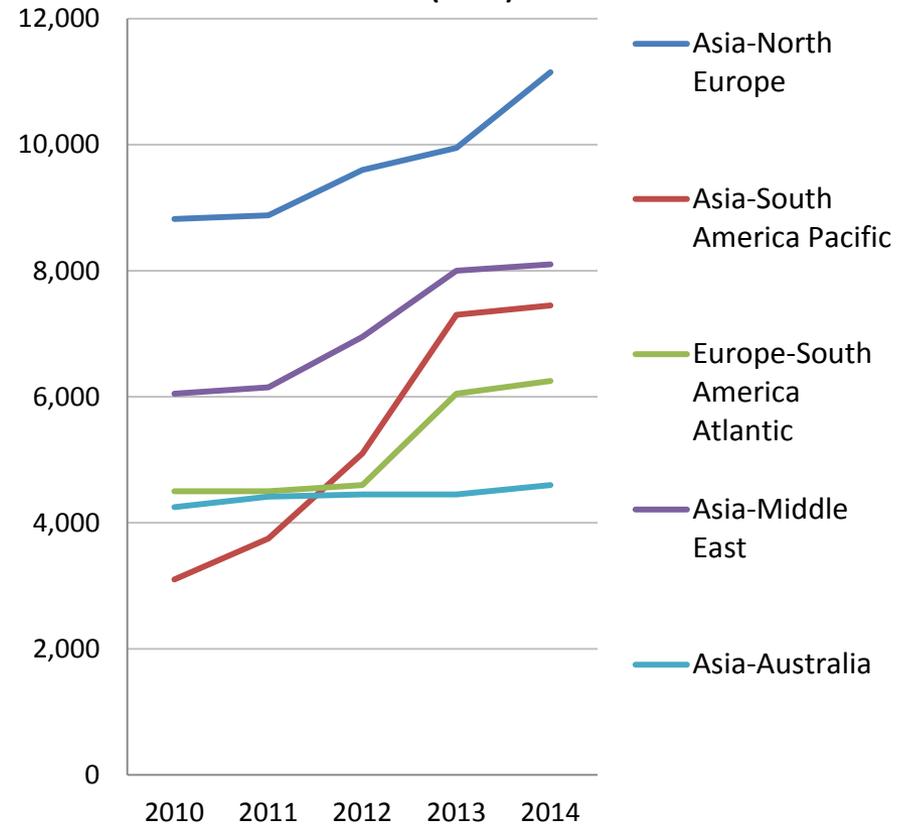


- ▶ Overall, a **massive expansion in fleet capacity** is forecast to continue towards 2016.
- ▶ This will be **almost entirely in the larger fleet sectors**, but 4000-8000TEU is also of interest – i.e. replacement for Panamax vessels.
- ▶ East-West trades cannot absorb all of this capacity so **vessel ‘cascading’** will result.
- ▶ A general increase in vessel sizes underway/anticipated for all deepsea trades.

'The Cascading Effect' is underway in Asia

- ▶ Much larger vessels are being deployed on 'Primary' and subsequently **also larger vessels deployed on 'Secondary' deepsea** trades – where port capacity permits (notable exception is Australia)
- ▶ This is driven by an **excess of mid-size vessels** displaced from primary deepsea trades cascading down to the secondary trades
- ▶ Actual demand at present seldom justifies these much larger vessels – but is a 'fact of life'.
- ▶ With ongoing orders of ever larger vessels **the cascading effect will continue**, which has and will become noticeable on the intra Asia trades

Average Vessel Sizes on Deepsea Container Trades (TEUs)



And the size of the container vessels does not stop here

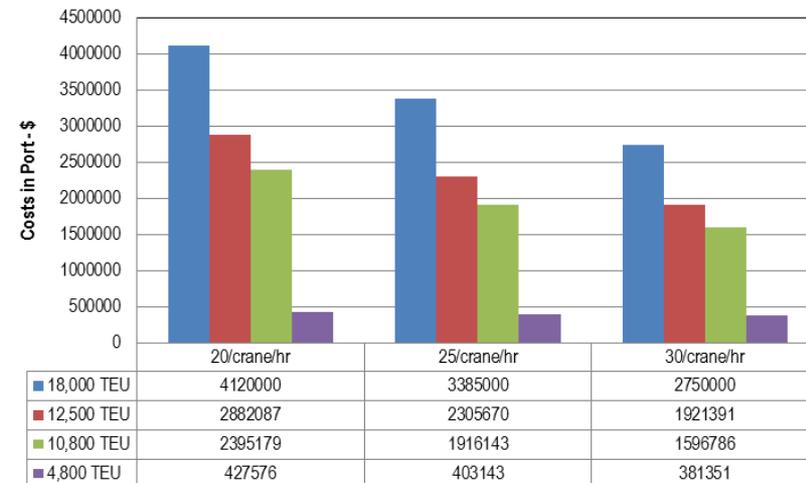
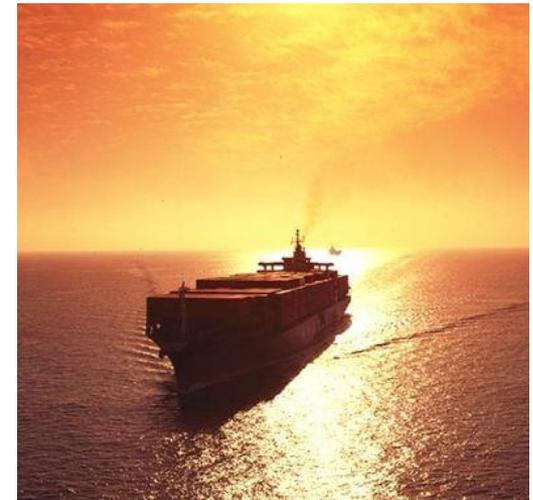
Indicative Deep-Sea Containership Trading Costs 2012 - US\$/day							
	12500TEU	14500TEU	16000TEU	18000TEU	20000TEU	22000TEU	24000TEU
Capital Costs	46174	53595	59779	66788	74209	81217	85752
Operating Costs	10656	11573	12337	13203	14120	14986	15546
Fuel Costs At Sea	98537	110295	113145	117207	120770	124689	128395
Fuel Costs In Port	3049	3049	3049	3049	3049	3049	3049
Total Costs at Sea - \$/day	155367	175463	185261	197198	209098	220892	229693
Total Costs in Port - \$/day	59878	68216	75164	83039	91377	99252	104347
Per TEU at Sea - \$/day	12.43	12.10	11.58	10.96	10.45	10.04	9.57
Per TEU in Port - \$/day	4.79	4.70	4.70	4.61	4.57	4.51	4.35
Per FEU at Sea - \$/day	24.86	24.20	23.16	21.91	20.91	20.08	19.14
Per FEU in Port - \$/day	9.58	9.41	9.40	9.23	9.14	9.02	8.70

Source: Ocean Shipping Consultants

- ▶ From a study by Ocean Shipping Consultants and Lloyd's Register followed that there are no technical limits to build and operate **even larger vessels up to 24,000 TEU** are technically feasible and will lead to further cost savings.
- ▶ **Scale economies are the driver** – at-sea slot costs are 23.1 per cent lower for 24KTEU vessel versus 12.5KTEU and 17.4 per cent less than for a 16k vessel.
- ▶ For preliminary designs terminals maintaining their role on the Asia-Europe trades will see vessels of **430m x 62m**. **Draught will remain at around 16m** – so a depth of 17.5m should be 'future proof'.

So what are the lines doing? – Supply Side Management

- ▶ The emphasis has been on supply-side management. To remain profitable strong focus on cost reductions. Despite self-inflicted wounds of over-capacity, **further ordering of even larger vessels seems inevitable.**
- ▶ The overall effect will be further concentration and **greater transshipment activity.** New generation container feeder vessels – 1,800-2,000TEU (and larger) will be typical.
- ▶ Fuel is much more expensive – there are pressures to slower steaming and dropping port calls but **difficult to see true scope for further slow steaming.**
- ▶ Looking for other savings at the margins which are really a distraction from key supply-demand issues
 - ▶ **Focus on service levels and port productivity** to increase turn around time of the vessel
 - ▶ **Greater pressure on stevedoring tariffs** especially for restricted facilities.



So what are the lines doing? - Consolidation

- ▶ Consolidation by **mergers and forming consortia / alliances**
- ▶ Consolidation leads to **increase in operational efficiency**
- ▶ The **pooling of vessel capacity** by two or more carriers :
Exchanging slot capacity (slot swaps) or by pooling vessels.
- ▶ Consortia have vessel sharing agreements on certain trades and usually also jointly procure port and terminal services.

P3 Alliance

- ▶ Container shipping's 3 largest operators are establishing an operating alliance – plans to start in Q2 2014.
- ▶ Combining fleets on Asia-Europe, Transpacific & Transatlantic routes.
- ▶ Expects to operate 255 vessels and capacity of 2.6 million TEU:
 - ▶ Maersk Line (42%) – 1.1 million TEU.
 - ▶ MSC (34%) – 0.9 million TEU.
 - ▶ CMA CGM (24%) – 0.6 million TEU.



How will P3 impact competitive landscape?

- ▶ **Changing Market Dynamics: 4 Main Port Customers Remain**
 - ▶ G6 Alliance – 132 ships, 0.92 million TEU capacity.
 - ▶ CKYH (+ E) Alliance – 201 ships, 1.38 million TEU capacity.
 - ▶ CSCL/Zim/UASC/Independents – 226 ships, 1.28 million TEU capacity.
- ▶ **Change in Port Calls**
 - ▶ Little impact on Asian port calls, but changes expected in North Europe and Mediterranean. Algeciras and Rotterdam potential losers.
 - ▶ In Asia Pt Pelepas is expected to win at the expense of Port Klang
- ▶ **Improved Service Levels:**
 - ▶ Improved service levels, especially for MSC in enhancing schedule reliability.
- ▶ **Freight Rates**
 - ▶ Potential short-term boost, but ultimately driven by market competition and individual shipping line strategies.
- ▶ **Other Alliances will (need to) react:**
 - ▶ G6 Alliance expanding to transatlantic and Asia-US West Coast trades
 - ▶ Other alliances formed to be able to compete

So what will drive the ASEAN port and shipping market?

Key factors of note for lines operating larger vessels:

- ▶ Port Concentration:
 - ▶ Terminals have to meet needs of larger ships.
 - ▶ Potential fewer ports of call.

- ▶ Transshipment:
 - ▶ Intensifying in key locations.
 - ▶ Hub & Spoke, Relay/Interlining used.

- ▶ Alliances/Consolidation:
 - ▶ Individual lines lack overall traffic to successfully utilise bigger ships cost-effectively – hence alliances.
 - ▶ G6 Alliance, P3 Alliance, CKYHE grouping will all continue in major trade lanes.



Implications for ASEAN Container Terminals

- ▶ Terminals must expand and make **better use of existing facilities to handle larger vessels** and consignment sizes
- ▶ Terminal productivity has increased –but there remain a need for **further improvements in productivity**. Terminals which do not lift productivity will see market share decline
- ▶ Need for dredging – approach channels and berths. Clear planning needed for all terminal developments. **Depth alongside is critical to ‘future-proof’ terminals**. Channel and approach dredging can follow later.
- ▶ **Longer berths** ; larger terminal area; increased gate pressure
- ▶ **Larger/Heavier Quay Cranes** - Longer reach; Taller clearance; Twin/Tandem Lifts
- ▶ Increase in load on quay structures and increase in electrical loads and electrical infrastructure



Conclusions on a review of the ASEAN market

- ▶ **ASEAN Regional demand growth will continue to be strong** – both for import/export and transshipment demand.
- ▶ **New and improved facilities** need to be developed to keep pace with the growing demand
- ▶ Increased number of **(regional) t/s hub** options and in t/s in general
- ▶ Terminals have to become **increasingly efficient and look to offer 'something different'** to be able to attract calls
- ▶ The requirements of the lines is increasingly focused on
 - ▶ Handling the largest vessels
 - ▶ High service levels and terminal productivity
 - ▶ and combining import/export and transshipment activity in a single port call.



Thank You

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