

INTERMODAL AFRICA 2020

DAR ES SALAAM -TANZANIA

Topic: SHIPPING AND THE NATURE OF FREIGHT MARKET

Presenter : Mr. Julius Nguhulla (*FICS*)

JULIUS NGUHULLA (FICS)

SHIPPING IS LIFE BLOOD OF NATIONAL ECONOMY

- DERIVED DEMAND

DERIVED DEMAND

- Shipping is a derived demand:
- It does not depend on itself
- The availability of sea bone trade enables shipping services to be demanded

WHY TRANSPORTATION OF GOODS FROM ONE POINT TO ANOTHER

- Scarcity of resources (Ceteris Paribus)
- No country has all goods enough to fulfill the needs of its population.
- Goods move from the area of low scarcity to the area with high scarcity
- *From economic theory we have*
- Comparative Advantage
- Absolute Advantage

WHY MARINE TRANSPORT OF GOODS

75 % of earth surface is covered by water bodies.
This has made sea transport to be cheap means of
transporting goods compared to other means
(air /road transport)

90% of goods by weight is transported by sea

MARINE TRANSPORT ADD VALUE TO THE GOODS

- From port of loading the value of cargo increases in value due to marine transportation (freight charges) (*Loading and discharging cost , Maritime Security, voyage and Operating cost*) , wharfage and marine insurance ,Hire money in time charter , brokers com.
- Value of cargo also may increase due to :
- Demurrage, damage for detention.
- The first part of value addition is unavoidable.
- The second part of value addition is avoidable.

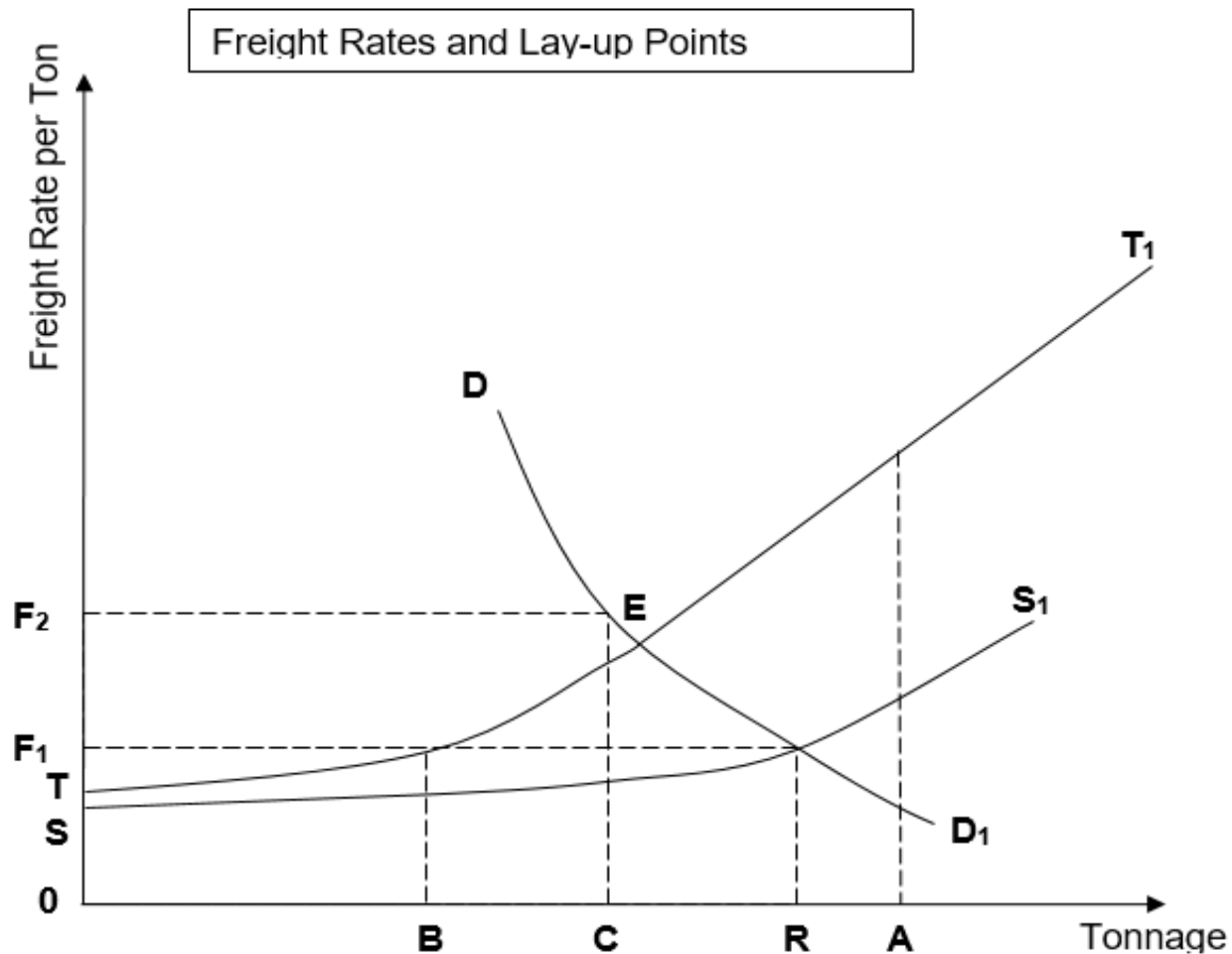
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- The value addition of cargo affects consumers price.
- When we work ,efficiently the consuming price for the owners of cargo will be reasonable
- Purchasing power will increase.
- The government will be able to collect duties and taxes frequently

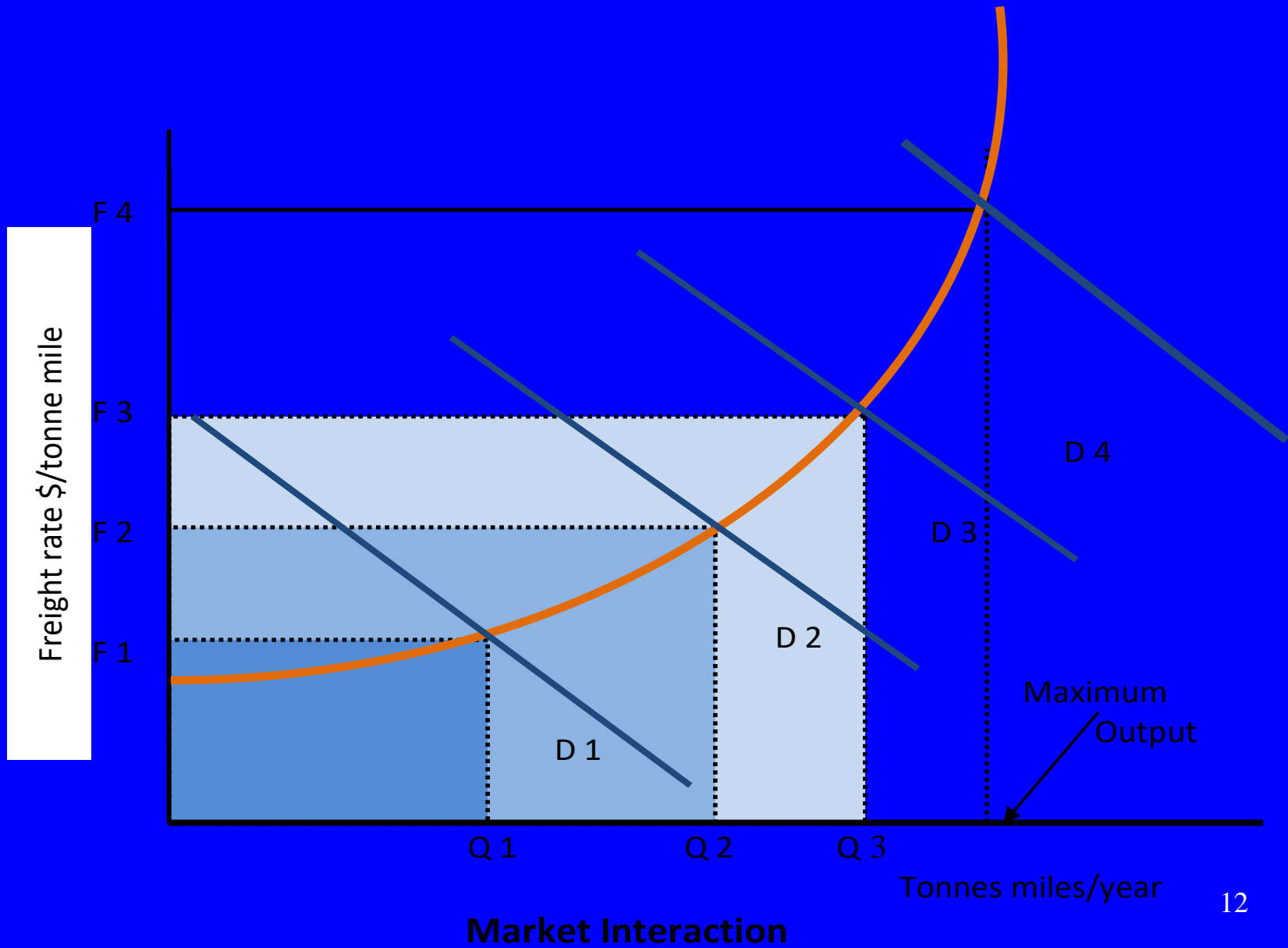
THE DEMAND FOR SHIPPING SERVICES

- Demand for shipping services depends on freight market.
- When freight rates go up the demand for ships decreases.
- When freight rates are very low, shipowners reduce supply of shipping services.
- Shipping industry runs well during equilibrium

SHIPPING TONNAGE VS FREIGHT CHARGES



SUPPLY AND DEMAND



EQUILIBRIUM

- During equilibrium the ships tonnage demanded equalizes with cargo tonnage.
- This is the time when ports are saturated with tonnage.

DISEQUILIBRIUM

- The time when ships tonnage does not match with cargo volume.
- When cargo volume is lower than ships tonnage freight rates becomes very low.(2015- 2016)
- When ships tonnage is very low than cargo volume freight rates goes high.
- This is disequilibrium

CHALLENGES

- Freight market in dry bulk is very volatile
- It is not easy to ascertain the time of equilibrium.
- Container lines make low freight
- Because of competition within
- Competition with air freight for high valued goods
- Competition with tramp for low valued goods.
- Fluctuation of foreign currencies eg. Weakening of us dollar can lead to unattractive shipping market
- Increase of oil prices

Challenges continues....

- During global recession
- Unforeseen event and change in policy /political issues i.e Brexit , Maersk Cyber?

Challenges continues..

- *These are called freight cycles.*
- Cycle 1: 1973-1979 - Oil Crisis which lead to fall in freight rates.
- Cycle 2: 1980- 1987 – -Oil Crisis dropped freight rates
- Cycle 3: 1988- 1995- Economic Recession.
- Cycle 4: 1996- 1999- Over tonnage supply & Asia crisis of 1997
- Cycle 5: 2000- 2002- Economic recession
- Cycle 6: 2003- 2008- Boom
- Cycle 7: 2009- 2012- Over supply of tonnage.

Challenges continues...

- From 1973 – 2012 . The average length is about six years for six cycles (stopford 2011).
- It is not easy to predict a shipping cycle because it is irregular.
- No one knows for how many years the cycle will be in period of boom.
- The cycle depends on the law of demand and supply.

WHAT WE HAVE TO DO

- If shipping
- is full of cycles(demand & supply factors)
- Shipping in bulk cargo is volatile
- Container line make low profit
- Other unforeseen events.

STRATEGIC MANAGEMENT IN SHIPPING

- ❖ Port Authorities should not only be prepared for equilibrium market, they should also be prepared for disequilibrium and what should be done in that time
- ❖ Being prepared for disequilibrium will lead to finding means of hedging the risk proactively.
- ❖ When there is disequilibrium Port Authorities should not leave ship-owners and shipping companies to fight alone.

Strategic planning continue...

- What shall we do to help ship owners when the freight rates go down ? so that our port can remain competitive.
- Shall we change marketing strategy?
- Shall we improve efficiency?
- Shall we change pricing policy?

Strategic planning continues...

- If freight market in bulk ships are very volatile what we are supposed to do.
- If container lines are making low profits what measures do port authorities make to help operators not to get excessive loss?

BE UPDATED INTERNATIONALLY

- Since shipping is an international business having good local planning will help nothing if we do not know what is facing the industry internationally.
- We should know what is happening internationally in terms of :
 - Freight rates
 - Oil prices

BE UPDATED INTERNATIONALLY CONTINUES....

Exchange rates from Usd.

Ships tonnage in market globally

Number of ships laid up

Number of ships scrapped

CONCLUSION

- The ports being well equipped with
- Good Infrastructure
- Strong political position
- Suitable Geographical position
- Good relationship with landlocked Countries.
- They should know the nature of freight market.
- Demand and supply in shipping
- They should include the nature of shipping market in their strategic planning

CONCLUSION continues..

- Avoid being reactive and be proactive.
- Working with shipowners and cargo owners will create win win situation

FINITO