ASEAN Ports & Shipping 2022
Enhancing Maritime Connectivity & Supply Chain Resilience in ASEAN - Lessons from the Covid Pandemic

Key findings from the Partnerships for Infrastructure (P4I) Practical study on Maritime Connectivity & Container Processing Procedures in ASEAN v2

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26 October 2022, HCMC Sheraton Saigon Hotel & Towers

Australian Government

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Australia - ASEAN

Objectives and scope

1 Study objectives

a Immediate objectives were to identify:

- Constraints within ASEAN region container circulation systems
- Factors behind these constraints
- Whether these are transient impacts of the pandemic or more structural

b Long-term objectives were to identify:

- Advance implementation of the ASEAN Economic Community Blueprint 2025, ‘Strategic Measure on Transport Facilitation’
- Support interested AMS to improve container circulation, thus enhancing trade flow capacity and reducing containerised cargo wait times

2 Scope

Phase 1

Analyse the scale and scope of challenges facing the container logistics sector, particularly owing to COVID impacts.

- Market analysis of ASEAN ocean container shipping networks and carrier capacity
- Map existing container processing procedures and dwell times
- Gap analysis and limitation assessment for existing container processing systems

Phase 2

Recommend short to medium term changes

- Develop guidelines to improve container freight services and enhance container circulation
- Assess readiness to adopt relevant international agreements or treaties related to containerisation

Note: The study did not focus on benchmarking of customs procedures and operations, which was covered by an ongoing ASEAN CUSTOMS study 'Feasibility of Implementing Simplified Customs Procedures for Low Value Shipments'.

Overview of findings

Key ‘transitory’ and ‘structural’ issues

The study identified key issues in ASEAN’s maritime and logistics sector impacting container circulation and classified them as **transitory or structural**.

1 Key transitory issues

Challenges with container shipping capacity and schedule reliability
These challenges should ease mid 2023 owing to an increase in supply of new vessels and subdued demand.

Reallocation of vessels outside intra-Asia services
As demand pressure eases, vessels will likely be redeployed back to the region.

High freight rates
Freight rates have increased since 2020. In 2022 rates have fallen and likely will continue downward as vessel supply grows and demand growth remains subdued.

Congestion at major transhipment hubs
Congestion at major regional transhipment hub ports created some opportunities to attract more direct port calls from China and N America to some ASEAN ports, but this has eased.

2 Key structural issues

Port capacity and hinterland connectivity needs improvement
In some ASEAN locations, infrastructure (‘hard’ & ‘soft’) has been delayed or developed in a fragmented way, with limited economies of scale. This impedes the development of maritime connectivity and exacerbates container circulation issues.

Container manufacturing
Container manufacturing capacity in Southeast Asia would diversify supply, address shortages and improve long-term resilience.

Container repositioning
In some members states foreign vessels require one-off approvals to reposition empty containers. This is a barrier to efficient empty container movements.

Customs coordination
Despite ongoing coordination between countries, challenges remain when interfacing among multiple regional/district customs agencies within some AMS.

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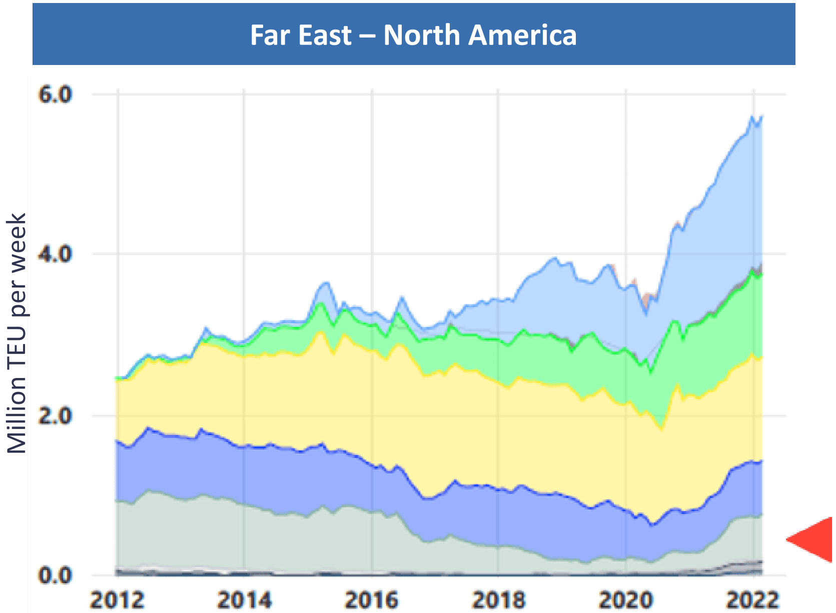
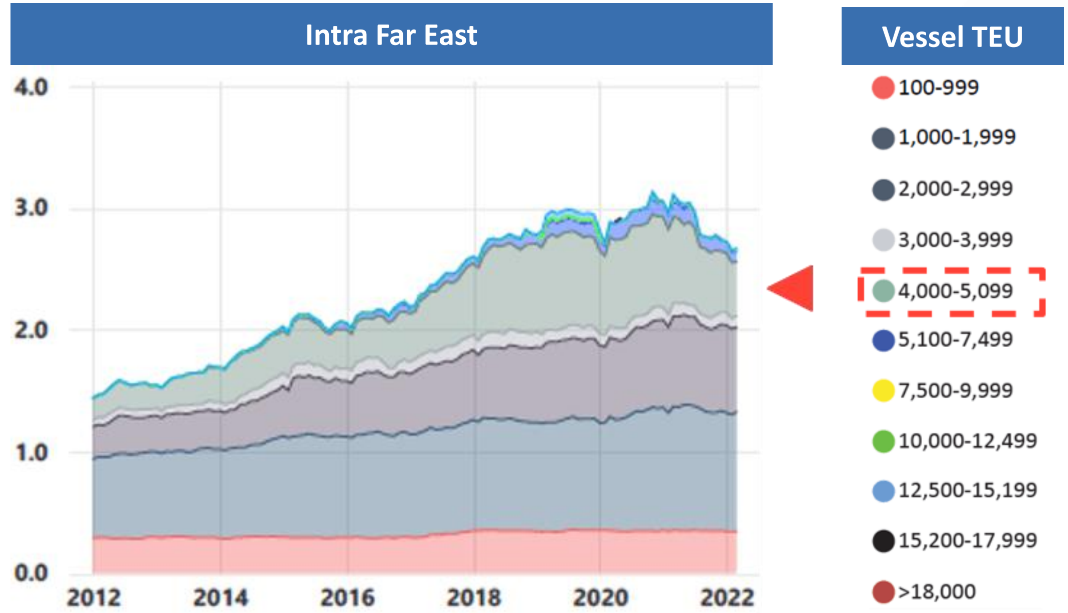
Shipping Services – Global

Re-deployment of vessels to higher yielding routes





- Most of the reduction in the Intra-Far East trade capacity is in the 4,000 to 5,099 TEU segment.
- The number of such vessels assigned to the Far East-N.Am trade was declining pre-COVID-19, from nearly 200 vessels in 2012 to under 50 vessels in Jan 2020, but then reversed. The freight rates pre-COVID-19 made it unprofitable to deploy such vessels on the Far East-N.Am trade. Similar pattern for Far East-Europe trade.

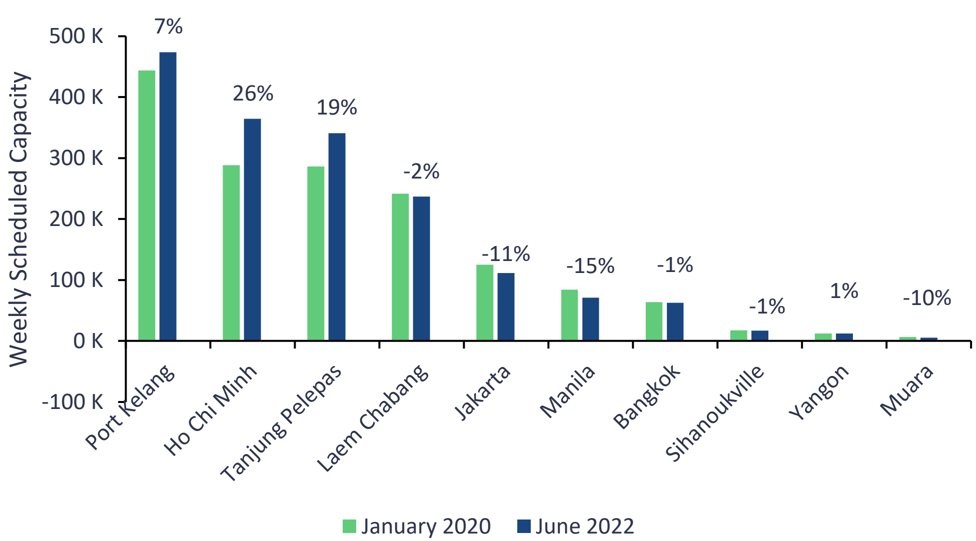
Suggests vessel re-deployment from FE-N.Am to Intra-FE may be transitory, and that as freight rates normalize in the future, these vessels will be returned to the Intra-FE trade, restoring capacity and increasing supply in the region.

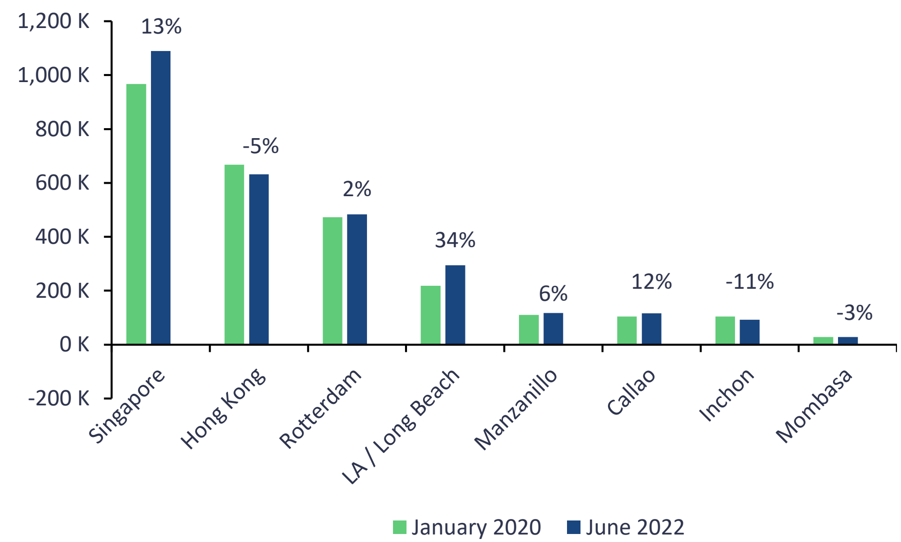
Note: Far East region encompasses East Asia and South East Asia within the Alphaliner database

Shipping Services – Regional

Increased scheduled capacity at major ports – some loss at smaller ports

- ▶ Scheduled weekly capacity at the port level appears to be relatively unaffected.
- ▶ The major transhipment hubs of Singapore, Port Klang and Tanjung Pelepas had large increases in scheduled capacity, reflecting the additional services added to the Far East - Europe and Far East – North America routes.
- ▶ The terminals in Ho Chi Minh (including Cai Mep) had an increase in weekly schedule capacity of around 24%, including a number of direct services to China and North America, avoiding the congested SE Asia hub ports.
- ▶ Many of other major ports in member states saw only marginal decreases in scheduled capacity.





Ports and shipping lines commented increasing dependency in direct calls to ports in Jakarta, HCMC and Laem Chabang to avoid congestion in major transhipment hubs. There is some indication from industry that this trend may continue even once congestion eases at major transhipment hubs.

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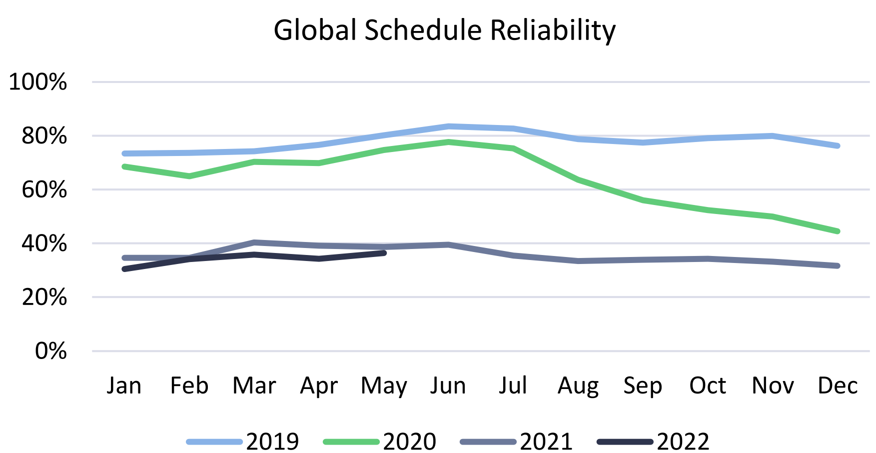
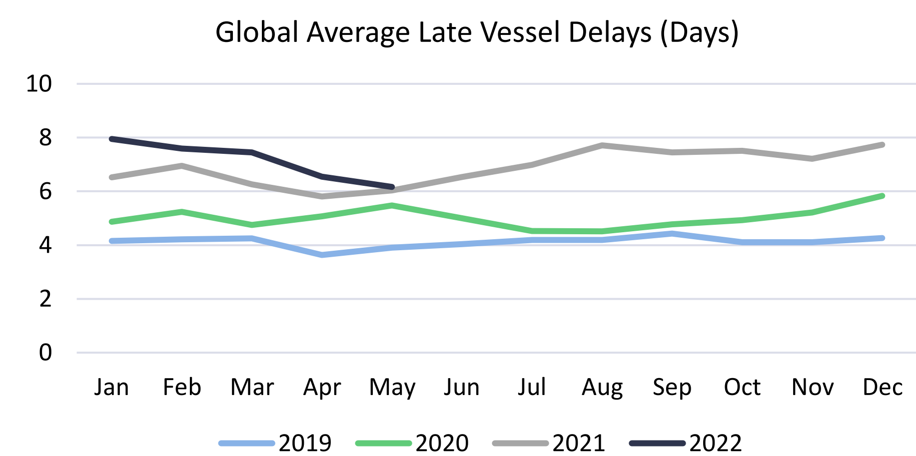
Shipping Services – Regional

Deteriorating vessel schedule reliability a key challenge

- Data on the service reliability shown in the figures below highlights the extent of the schedule reliability issues and their persistence into 2022.
- This information, supported by stakeholder consultation, suggests that the major issue facing ASEAN Ports during the pandemic recovery has been the reliability of scheduled vessel to arrive on time or at all, as opposed to any change in scheduled services.
- The ongoing restriction and shutdowns at Chinese ports are a key factor preventing service reliability from improving in the short term, although vessel delays are reducing.





Data and feedback from stakeholders indicate that port shut downs due to COVID is a major factor impacting schedule reliability, causing vessel delays in ASEAN and international ports. As COVID restrictions ease, schedule reliability is expected to improve.

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Recommendations

Response to transient issues

1 Carefully consider timing and type of government support to domestic shipping lines

Vessel purchase timing
Governments may need to carefully consider timing of any support for vessel purchases for new or existing shipping lines

Lower cost options
Identify alternative options with lower costs such as other incentives for domestic shipping lines

Why?

- Vessel prices are now at record highs – supporting domestic shipping lines would require significant public funds
- Extensive additional new vessel capacity will come on stream in 2023-24 – liner profitability will likely decline
- Last 2 years are an exception to the low returns on capital in the container shipping industry over the past 2 decades

2 Avoid counterproductive price controls in the container sector

Avoid price or schedule controls
Any direct action against shipping lines such as price or schedule controls would likely be counter-productive

Increasing international partner coordination
As market concentration becomes more visible, ASEAN could work with international partners to increase coordination against further consolidation in the liner shipping industry

Why?

- Government intervention on price controls would likely cause shipping lines to divert services to more commercial routes, especially when demand-supply is tight
- Individual AMS control relatively small markets, and so have limited scope to influence the global liner industry if acting alone – working through ASEAN would increase leverage

Recommendations

Response to structural issues

3 Improve port capacity and hinterland connectivity

Renewed focus on port delivery
The renewed focus should include PPP regulations and implementation

Review masterplanning
Focus on the 3 Cs (Capacity, Competition, Connectivity) at key current and planned port precincts

- **Capacity:** Port capacity and ability to expand 'contiguously' as demand necessitates
- **Competition:** Optimise competitive dynamics between operators, while retaining economies of scale
- **Connectivity:** Align hinterland infrastructure capacity for road/rail/barge

Why?

- ASEAN demand drivers remain strong - growing port volumes provide scope to increase the number of direct port calls at mid-tier ports
- This requires appropriate infrastructure and capacity ahead of demand to attract shipping lines
- The region faces challenges in timely delivery of new port capacity that is properly integrated with existing facilities and supporting infrastructure

Recommendations

Response to structural issues

4 Make repositioning of containers quicker and easier

12 month or multi-voyage licenses
Although some member states can apply for a temporary permit to move empty containers between domestic ports, they may wish to implement 12-month or multi-voyage licenses

- This helps clear congestion at ports, thus benefiting domestic ports and shipping lines; and would progressively address imbalances, rather than waiting for acute challenges

Why?

- There is often disparity between demand and supply of empty containers between different ports within the same country
- This could be partially alleviated by repositioning these containers internally, but international shipping lines are sometimes prevented from undertaking such services
- Some member states provided exemptions during the pandemic for international lines to undertake domestic repositioning of containers

Recommendations

Response to structural issues

5 Support container manufacturing in ASEAN

Develop container manufacturing in ASEAN
This would benefit all member states and support the ASEAN Framework on Industrial ASEAN-based Industrial Initiatives

- Short-term market conditions may make this financially challenging so government support could help ensure the new ventures are successful in the longer term

Why?

- New containers enter the ASEAN market mainly through Chinese exports, then take time to be repositioned
- For example, Vietnam is well positioned with a domestic steel industry and large demand for export containers. Other ASEAN member states could also develop this capability

6 Enhance customs process resiliency

Focus on coordination and alignment
among provincial customs offices within AMS not just international coordination

Ensure internal transfer mechanisms
for revenue recognition are in place, to allow temporary switching of clearance locations if needed

Review customs KPIs
to drive more efficient container movements

Why?

- Separate revenue collection for provincial customs offices can inhibit collaboration and slow container transfer between ports during supply chain disruptions

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Recommendations

Response to structural issues

7 Enhance ASEAN customs transit system

Encouraging adoption of the ASEAN Customs Transit System (ACTS)

ASEAN could encourage adoption of the ACTS by more member states and expand it to a greater number of customs entry and exit points.

Why?

ACTS advances regional integration and supports connectivity in line with:

- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
- Regional Comprehensive Economic Partnership (RCEP)

Both the CPTPP and RCEP have requirements for transit of goods through countries.

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Thank you

As a Comprehensive Strategic Partner of ASEAN, Australia is committed to supporting ASEAN priorities and concrete cooperation under the ASEAN Outlook on the Indo Pacific.

Australia's Mission to ASEAN delivers several programs that support ASEAN member states to progress maritime connectivity, including the specific findings of this study.

Please contact us for further information.

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