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Global Maritime Weekly Digest

Publishing Director: Prof Minghua Zhao **Editor: Richard Scott**

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*The **Global Maritime Weekly Digest**, based at **Southampton SOLENT University**, provides a regular flow of maritime news and analysis, of significance in a global context.*
Topics covered include shipping fleets and management, seaborne trade, ports, shipbuilding, ship recycling, maritime policy and regulations, and seafarers' labour.

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Editorial comments

- The vital role of shipping in ***energy commodity transport*** over many years is traced in item 1. But there are uncertainties ahead, and the significance of the three main commodities - oil, coal and gas - may change.
- Prospects for ***global economic activity*** have become brighter based on recent signs and data, and the latest assessment from the OECD organization confirms this more upbeat tone (item 3). GDP forecasts for the USA, Euro area, Japan and China this year have been revised upwards, contributing to what OECD economists describes as a 'more synchronised' upturn.
- According to analysis by consultants, ***China's investment in ports around the world*** could see further expansion (item 6). Abundant availability of finance from Chinese banks, underpinned by government support, is expected to result in more acquisitions of foreign port assets.
- One of the ramifications of container shipping line amalgamations is the effects consolidation will have on ***container port operations*** (item 7). Greater concentration of international route schedules points to collaboration among ports becoming a feature, designed to raise productivity and enhance competitiveness.

Richard Scott MA MCIT FICS
editor (email: bulkshipan@aol.com)

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(1) Clarksons Research, 15 September 2017

Global Energy Demand And Shipping's Promethean Feats

Since remote antiquity the essential importance of energy to human civilization has been well appreciated: in ancient Greek mythology for example, it was the secret of fire that the Titan Prometheus stole from the gods and gifted to mankind. Today the still increasing energy needs of humanity are greater and more diverse than ever before. And in this energy tale, shipping of course plays a titanic role…

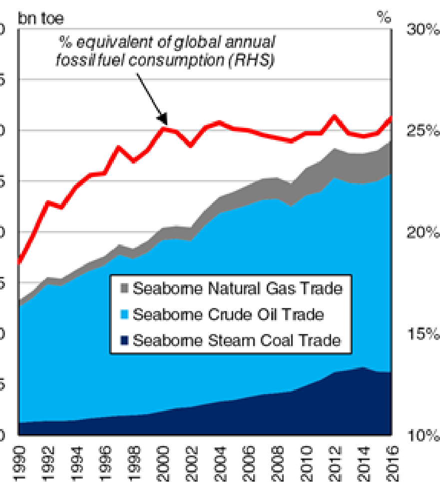
Setting The Scene

Energy consumption is ubiquitous in economic activity in the contemporary world, from the internal combustion engine to the many fruits of electrification. In 2016, total primary energy consumption was in excess of 13bn toe globally, with fossil fuels meeting 86% of energy needs. As far as shipping is concerned, the continuing relevance of fossil fuels has been highly beneficial over the long run, with rising seaborne trade in coal, oil and gas supporting growth in the bulker, oil tanker and LNG fleets to a combined 22,000 vessels as of start September 2017.

Graph of the Week

Passing The Torch: Seaborne Trade And World Energy Needs

The graph shows seaborne trade in crude oil, steam coal and natural gas in tonnes of oil equivalent to enable comparison of the energy potential represented by trade in the three fuels. Seaborne trade in these fuels stood at 2.9bn toe in 2016, which would represent about 13,000 terawatts of electrical output from modern power stations. The line represents the share of global oil, gas and coal demand represented by seaborne trade. A wide range of seaborne trade data is available in the *Seaborne Trade Monitor* and from the *Shipping Intelligence Network*.



Source : Clarksons Research

An Ocean Of Oil

In the last three decades, global oil consumption increased by 40% to stand at 4.4bn tonnes in 2016 (equivalent to 33% of global energy demand). But seaborne trade in crude oil increased by over 70% to reach 1.9bn tonnes in 2016, representing 44% of world oil consumption, versus 36% in 1990. While much oil is consumed where it is produced and large volumes are moved via pipeline, tankers have been vital in connecting oil producing areas such as the Middle East with distant areas of oil demand growth such as Asian non-OECD countries. With the US perhaps set to become a more significant oil exporter and Brazil a key source of oil production growth, long-haul trade to Asia looks set to remain a key feature of tanker and hence energy markets.

The Ascent Of Coal

Prospects are not so clear cut for coal. It has been a key energy source since the Industrial Revolution and in 2016, steam coal met 28% of global energy needs. China and India's fast growing economies have been key drivers of steam coal demand and imports (e.g. from Indonesia) in the last few decades, but pressure from environmental policies are clearly building. Still, seaborne trade represented 17% of global steam coal demand in 2016, compared to 9% in 1990.

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The Age Of Natural Gas?
In energy terms, global natural gas consumption was equivalent to 3.2bn tonnes of oil in 2016, accounting for 24% of global energy demand, up from 20% thirty years ago. The increasingly widespread adoption of LNG technology has seen the seaborne share of global gas consumption rise from 4% in 1990 to 10% in 2016. In a world where renewables like solar and wind still meet just 3% of energy demand, natural gas is increasingly seen as a 'bridging fuel' to a lower-carbon future.
So, in energy terms, seaborne trade in coal, oil and gas represented 25% of global demand met by fossil fuels in 2016, up from under 20% three decades ago, even with fossil fuel consumption up by 75%.
Energy is clearly a major part of shipping; but conversely, shipping now appears more vital to the global energy nexus than ever – a heroic feat indeed!
Source: Clarksons
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(2) Lloyd's List, 14 September 2017

Is the end of energy shipping near?

- **OPINION**

Despite burgeoning headlines about renewable energy and electric vehicles, demand for oil, gas and coal will not disappear in the coming decades
THE recent headlines suggesting a global shift to renewables and electric cars have caught the attention of many in shipping.
Several major economies are planning to phase out vehicles running on gasoline and diesel after 2030, while recent studies show consumption of fossil fuel could peak over the next few decades.
However, while it is true that such changes, if realised, would fundamentally alter trade patterns, calling an end to energy shipping remains premature. It is far more likely the world will continue to see significant amounts of seaborne oil, gas and coal trades well into the second half of this of century.
This is not to say shipping can ignore what is happening in the energy landscape. The UK and France aim to targeted to switch to all electric cars by 2040, while India set an even more ambition goal by 2030. As China is also studying a timetable to ban fossil-fuel-powered cars, gasoline and diesel consumption could face strong headwinds in the next 15-20 years.
That said, it could be misleading to equate demand of auto fuels with that of fossil fuels.
Electric vehicles' batteries need to be charged, and their charging stations could well be connected to power plants that use coal, gas or fuel oil. Hence, renewables are not expected to do it all in the coming decades.
For instance, DNV GL's inaugural Energy Transition Outlook has presented some of the most bullish forecasts on renewable energy lately.
The Norwegian-German class society forecast increased use of solar and wind power due to higher cost competitiveness later in the century and flattening oil demand over the next decade. Still, fossil fuel will account for around half of the total energy mix in 2050.
In Shell's scenarios, oil usage as primary energy will peak after 2030. But gas consumption will rise significantly from current level, while coal demand could remain resilient.
The scenarios show fossil fuel will still make up a healthy majority of the energy mix in 2060, even if demand for renewables continues to expand.
Furthermore, looking deeply into crystal balls for future projections like what Shell and DNV GL have did has never been an easy task.
Based on past experience, the reality tends to be less favourable to environmentalists than the predictions: just look at carbon trading, which was once expected by some to become the world's largest commodity market.
All that said, shipping should pay heed to dynamics in the power mix. The shift to gas is already happening, and demand for seaborne liquefied natural gas trade will continue to expand rapidly.
Renewables rely on shipping much less than conventional fuels, volume-wise, but there are still requirements for specialised cargo shipping to move wind and solar equipment around.
It is just that fossil fuel shipping, which roughly accounts for over 30% of total shipping demand, seems here to stay.
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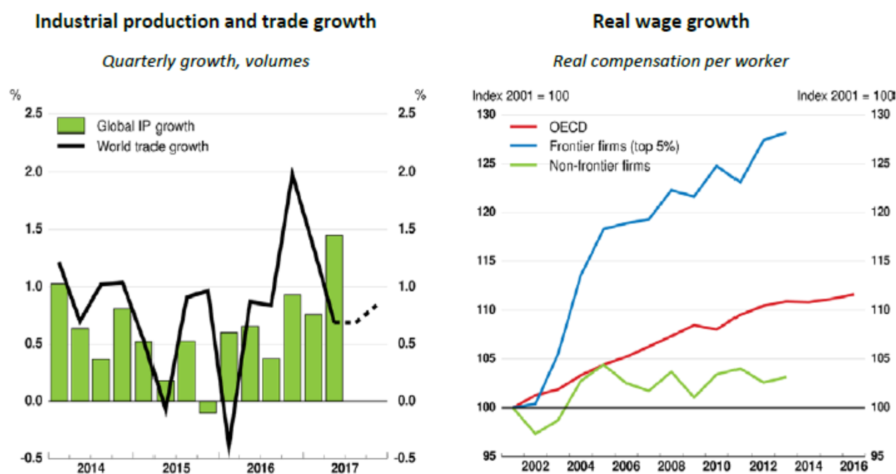
(3) OECD, 20 September 2017

Short-term momentum: Will it be sustained?

By Catherine L. Mann, OECD Chief Economist and Head of Economics Department

Global growth is projected to increase to around 3.5% in 2017 and 3.7% in 2018 from 3% in 2016 in our latest Interim Economic Outlook. The forecast has slightly improved since the OECD June 2017 Economic Outlook, with the upturn becoming more synchronised across the world. Activity has picked up more than anticipated in the first half of the year in some of the largest economies – the euro area, Japan, China. Short-term momentum is reflected in a rebound in industrial production, consumer spending and investment since the second half of 2016, while trade growth has recovered from the slump in late 2015 and early 2016. Business and consumer confidence have strengthened. However, short-term momentum is no guarantee of medium-term sustainable growth. While the signs of recovery in business investment and trade are encouraging, they have not gathered sufficient pace to sustain healthy productivity growth. Wages have largely failed to pick up despite rising employment, limiting gains in household disposable incomes, especially for the bottom 10%.



Notes: On the left-hand side, trade growth is based on goods and services trade volumes. The dotted line shows June 2017 forecasts. On the right-hand side, real wages are measured as labour compensation per employee adjusted for the GDP deflator. OECD real wages are a weighted average for 24 countries.
Source: OECD Economic Outlook database; Orbis data of Bureau van Dijk; OECD Employment database; and OECD calculations.

Lifting medium-term global growth requires a durable strengthening of growth in emerging market economies – but GDP growth has slowed overall in these countries since the 2000s, and the ability of "catching up" economies to grow faster than advanced economies has been mixed. Deeper reform to enhance capital deepening and productivity gains will be needed to overcome the headwinds of rapid demographic developments in some countries, as well as a further moderation of growth in China.

Policy must not be complacent in the face of stronger short-term momentum. As the upturn has broadened, policy support for inclusive growth should be continued but further rebalanced from monetary policy towards fiscal and structural initiatives, while managing risks.

Monetary policymakers face a delicate balancing challenge. Monetary support remains necessary to ensure that the recovery is sustained and that inflation increases towards its target levels. Yet as the long

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period of low interest rates has boosted asset price valuations and encouraged riskier asset exposures, financial stability vulnerabilities persist and create uncertainties.

On the fiscal side, policymakers need to deliver fiscal initiatives focused on inclusive and sustainable growth. Underlying primary balances in many OECD countries are expected to ease under current plans in 2017-18, reflecting use of fiscal space – including through savings realised on government borrowing costs. Governments should ensure that fiscal easing is delivered, while making a better use of the mix of tax and spending policies. Priority should be given to public spending that yields the highest benefits for growth, inclusiveness and long-run supply. Education, hard and soft infrastructure, family benefits and health investments are the types of quality public spending that should be prioritised according to specific conditions in each country.

Stronger structural reform ambition should aim to address the missing engines of the current global upturn – private investment, trade, and productivity gains. More can be done to ease barriers to product-market entry and competition, both domestically and through a renewed commitment to trade and foreign direct investment openness. Improved competition would help revive the stalled diffusion of innovation between frontier firms and the rest of the economy, and address the growing productivity and wage dispersion. In many countries, there is significant scope to reform insolvency regimes, thus redirecting resources trapped in “zombie” firms towards productive investment.

Coherent packages of structural reforms can enhance their overall effectiveness. Reforms to reduce barriers to product market competition, trade and investment should be accompanied by labour-market measures to help vulnerable workers transition to new jobs. Integrated policy packages would help reap the benefits from innovation and globalisation while dealing with the job losses that are concentrated in specific industries or regions.

This period of short-term momentum in the global economy, along with the fiscal room created by the current monetary environment, gives policymakers space to address the structural impediments that hold back productivity growth and leave citizens behind. Sustained and inclusive growth depends on policymakers following through to meet the expectations of their citizens.

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(4) Clarksons Research, 22 September 2017

The World Fleet: Zoning In On Emissions

Air pollution is rising up the regulatory agenda and one way in which the maritime sector has responded is through the creation of emission control areas (ECAs), primarily aimed at limiting vessels’ SOx and NOx emissions. Vessel tracking data illustrates how the impact of ECAs on the world fleet varies by vessel sector, highlighting which fleets are more likely to invest in emissions reduction solutions.

Mapping Out The Rules

Vessels sailing in emission control areas (ECAs) are subject to stringent emissions limits. There are currently four IMO SOx ECAs, where ships must adhere to a 0.1% limit on the sulphur content of fuel: the North Sea, the Baltic Sea, North America and the US Caribbean Sea. This is stricter than the IMO’s 0.5% global sulphur cap which will be effective from the start of 2020. Further, vessels with a keel laid from 1st January 2016 onwards must comply with NOx Tier III emission limits when sailing in the North America and US Caribbean Sea ECAs. The North Sea and Baltic Sea will also become NOx ECAs from the start of 2021. In order to comply with ECA limits, ships must either use low sulphur fuels, alternative fuels such as LNG (which meets both SOx and NOx ECA limits), or invest in emissions abatement technology such as SOx scrubbers and/or NOx selective catalytic reduction systems. In addition to IMO ECAs, there are a number of national ECAs with both the EU and China imposing SOx limits (typically 0.5%).

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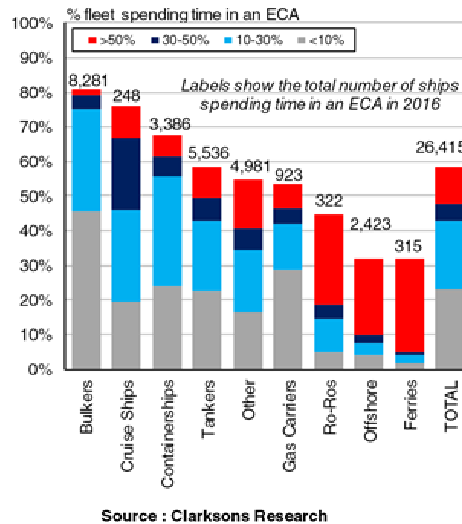
Graph of the Month

Vessel Emissions: Who's In The Zone?

The graph shows estimates of the proportion of time spent operating in current IMO emission control areas in 2016 by vessels in each sector (2,000+ dwt/GT). This analysis is based on data from the *Clarksons SeaNet* vessel tracking system, and takes into account the daily positions recorded for each vessel in the fleet at the end of the year (daily positions based on the first recorded position each day or the most recent daily position where no position was recorded in the day). It excludes vessels for which no daily positions were recorded during the year, taking total coverage to 86% of total fleet numbers.



Source : Clarksons Research

Emission Possible?
While many ships may have altered their routeings in order to minimise the amount of time spent in ECAs, on the basis of the analysis here, an estimated 58% of the c.45,000 ships for which daily positon data was recorded spent time in an ECA in 2016. A large proportion of these ships typically spent fewer than 75 days operating in an ECA. However, the proportion of time spent in an ECA varies by ship type. Looking at the major vessel sectors, 81% of bulkers, 68% of containerships and 58% of tankers spent time an ECA last year. This is more than 17,000 vessels but most of these ships spent less than 20% of their time in ECAs.

Vessels In The Zone
Meanwhile, an estimated 4,875 ships spent over 50% of last year operating in an ECA. 27% of ferries and Ro-Ros spent over half of their time in ECAs during this period, illustrating their concentration in the North and Baltic Seas. 22% of offshore units also spent more than half of 2016 in ECAs with many vessels operating in the North Sea and US Gulf. Generally, ships spending significant time in ECAs are the most likely retrofit candidates for emissions abatement technologies. However, market conditions may not support the economics of the retrofit of older ships and they could be recycled instead, potentially generating demand for new vessels to meet the regulations.
So, ECAs impact a large number of ships across the merchant fleet. While fewer vessels spend a large proportion of their time in ECAs in the major sectors, there are a number of segments where ECAs have a big impact on vessel operations. Whether owners invest in reducing ships' emissions will depend on a number of factors but the amount of time they spend in ECAs is certainly a key consideration.
Source: Clarksons
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(5) Hellenic Shipping News, 20 September 2017/ The Japan Times

Japan, U.S., India vow to work together on strategic port development as China flexes clout

The foreign ministers of Japan, the United States and India agreed Monday in New York to work together to develop strategically important ports and other infrastructure in the Indo-Pacific region, apparently seeking to balance China's bid to strengthen its regional influence.

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Foreign Minister Taro Kono said he, U.S. Secretary of State Rex Tillerson and Indian External Affairs Minister Sushma Swaraj “completely agreed to coordinate with each other toward the realization of a free and open Indo-Pacific.”
They agreed to work to spread and establish their shared basic values of the rule of law and the freedom of navigation and overflight in the region, Foreign Ministry officials said.
The ministers affirmed that they will strengthen connectivity in the region through investment in infrastructure and work together to assist strategically important coastal nations in the region with maritime capacity-building, centering on key ports.
According to the U.S. State Department, the ministers “discussed the importance of a free and open Indo-Pacific region underpinned by a resilient, rules-based architecture that enables every nation to prosper.”
The affirmation is apparently aimed at China’s assertive territorial claims in the East and South China seas, as well as its drive to develop strategically important ports along the Indian Ocean in a way that would increase its regional influence.
Kono mentioned the port of Gwadar in Pakistan as an example of such a key port, and the three discussed specific countries that could be potential destinations for capacity-building assistance, the Japanese officials said without elaborating further.
Gwadar lies at the end of the nearly 3,000-km China-Pakistan Economic Corridor linking it to western China’s Xinjiang province. China and Pakistan agreed in April 2015 to launch the corridor with about $50 billion in Chinese investment.
The ministers also agreed to boost trilateral maritime security cooperation and to strengthen cooperation on maritime issues with the Association of Southeast Asian Nations, the officials said.
They welcomed Japan’s participation as a full member in July in the annual Malabar maritime exercises conducted by the Indian and U.S. navies, and agreed to further deepen such trilateral security cooperation in the Indian Ocean.
In their meeting on the sidelines of the U.N. General Assembly, the first such three-way gathering since Kono and Tillerson took up their posts earlier this year, the ministers also agreed to jointly call on other countries to fully and rapidly enforce U.N. sanctions on North Korea.
These sanctions include the most recent U.N. Security Council resolution that for the first time caps oil supply to the country, adopted in response to North Korea’s sixth and most powerful nuclear test conducted Sept. 3.
The ministers also confirmed the importance of China’s role in dealing with North Korea, the officials said.
Kono said he also held a brief meeting with U.S. Ambassador to the United Nations Nikki Haley later Monday. Kono told reporters that he thanked Haley for showing leadership on North Korea and had a “frank” discussion with her about what to do next on the matter.
He also said he exchanged a few words with U.S. President Donald Trump, but would not reveal the details.
Speaking to reporters ahead of the trilateral ministers’ meeting, Tillerson said the Security Council resolutions “speak for themselves” about the international community’s “unanimous view” that North Korea needs to “correct its situation.”
In a separate meeting on Monday, Kono and Australian Foreign Minister Julie Bishop agreed to work with each other and with the United States to maintain a free and open international order based on the rule of law, including in the Indo-Pacific region.
Kono and Bishop also affirmed that they will continue to work in close coordination on North Korea.
Source: The Japan Times
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(6) Lloyd’s List, 19 September 2017

Chinese appetite for global port assets remains strong

Drewry says China's port operators will maintain an aggressive overseas investment strategy

THE dramatic rise of overseas investment by Chinese port operators and investors shows little sign of slowing, as government backing continues to provide scope for more aggressive acquisitions, say analysts.

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In a webinar held by Drewry Maritime Research highlighting the key findings from its quarterly Ports & Terminals Insight, senior analyst for ports and terminals Neil Davidson said that the motivation behind expanding the respective global footprints of the major Chinese players was still “very strong”.
On the one hand there was the straightforward financial incentive and geopolitical motivation, but more importantly there was ready available capital, he explained.
“The ingredients remain and the next steps only point to further expansion,” said Mr Davidson.
China’s big three, namely China Merchants Port Holdings, Cosco Shipping Ports and Shanghai International Ports Group, have until recently grown their respective businesses by and large domestically.
As recently as 2015, only about 15% of the Chinese operators’ equity teu, weighted by ownership share, came from overseas terminals, according to Drewry.
“This indicates that in volume terms they still have some way to go before they are as international and global as the big four global players (PSA International, DP World, APM Terminals and Hutchison Ports),” said Mr Davidson.
But recent growth among the Chinese companies had come predominately from overseas investment, he said.
China’s One Belt, One Road programme had played a central role in this trend, thanks largely to the unrivalled support of China’s banks offering domestic investors loans to drive the initiative with interest rates of just 2%-3.5%.
That put the more traditional operators at a distinct disadvantage, as Chinese companies in essence are willing to pay a price for assets that others simply cannot match.
Mr Davidson highlighted how CS Ports paid a premium for Spanish terminal operator Noatum that was equivalent to an enterprise value to earnings before interest, taxes, depreciation and amortisation multiple of nearly 15 times.
Typically, investors would be looking for a multiple of 12 times enterprise value/ebitda.
But this is not to say that Chinese investors are restricting their ascent overseas to the One Belt, One Road routing, as they would also be looking to fill more gaps globally, according to Mr Davidson.
“Africa and Latin America will feature very strongly for Chinese investors,” he said.
Earlier this month, CMPH acquired a 90% stake in Brazilian terminal operator TCP Participações, representing the first major foray by one of the major Chinese players, namely CMPH, Cosco Shipping Ports and Shanghai International Ports Group, in Latin America.
“Overseas acquisitions by Chinese port operators are earnings-accretive investments, and diversify risk simultaneously,” Mr Davidson added.
“They’ll also be looking to see if there are any major acquisitions they can make of groups or part of groups, so as well as looking to buy individual ports and terminals there may be some major M&As when it comes to terminal portfolios.
“The attitude to risk is a very broad one. Chinese companies are prepared to buy assets in very low-risk and potentially low-growth environments.”

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(7) Lloyd’s List, 3 September 2017

Container line consolidation: huge risks and fewer rewards for ports?

- *ANALYSIS*

As carriers amalgamate into a handful of very powerful players, should ports and terminals also consider merging in order to create scale and improve productivity?

NOWHERE is the impact on ports of container line consolidation more apparent than in the Los Angeles/Long Beach complex, where terminal operators are already feeling the pressure as carriers adjust their networks in response to mergers, acquisitions and the introduction of new alliances.

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Admittedly, the two southern California ports are not entirely typical, since most of the 13 terminals across San Pedro Bay are controlled by ocean carriers, which brings an added dimension to the unfolding drama.

But every time one line buys another, two carriers merge, or a group forms an alliance, ports will be affected one way or another, as service schedules are adapted to eliminate duplicate sailings, new port pairs are introduced, or other changes made to ship operations as operators endeavour to improve efficiency while also trying to differentiate their products.

For ports, there will be winners and losers, and it may not be apparent for some time yet which will thrive and which may fail. That is because even though, for the past three years, the container shipping industry has been in the throes of the biggest upheaval it has ever experienced, the shake-out is far from over.

Modest beginnings

It all began in a fairly modest way back in 2014, when Hapag-Lloyd and Chile's CSAV announced plans to merge their container operations.

That was the starting gun for the first round of consolidation since 2005, when Maersk bought Anglo-Dutch carrier P&O Nedlloyd and Hapag-Lloyd acquired CP Ships, itself the product of numerous takeovers.

Next came CMA CGM's takeover of German shortsea operator OPDR, while Hamburg Süd bought Chilean line CCNI. But even then, it was not clear that the industry was going to do much more than tinker round the edges.

The general assumption was there were too many vested interests standing in the way of any major merger or takeover, and any consolidation moves were more likely to involve regional players than any of the global heavyweights.

Singapore's sovereign wealth fund Temasek changed all that when it decided to put its interest in Neptune Orient Lines, up for sale after years of poor financial results – a move that would have seemed unthinkable a few years earlier, when a national carrier was considered more important than profitability. CMA CGM won the bidding war against Maersk when its $2.4bn offer was accepted in December 2015, with the transaction concluded in the middle of last year.

Throughout 2016, there were consolidation moves that were reshaping the industry almost month-by-month, with state-owned Cosco and China Shipping merging to form the world's fourth largest container line, and Hapag-Lloyd following up its merger with CSAV by amalgamating with Qatari-controlled United Arab Shipping Co.

Bankruptcy shock

But just as the entire container transportation community was absorbing all these realignments came the biggest shock of all: the collapse of Hanjin Shipping in August 2016. It left in its wake a trail of chaos as ships stayed out at sea for fear of arrest in port, and cargo was left all over the place.

That bankruptcy may have been the final straw for the big three Japanese shipping groups, as – in yet another extraordinary turn of events – they announced at the end of October plans to combine forces and create a single container shipping line. The new legal entity, Ocean Network Express, or ONE, came into being in July and will inaugurate services next April.

Not to be outdone, Maersk returned to the fray in December, with its $4bn bid for Hamburg Süd accepted, as Germany's Oetker family finally decided to sell its shipping business after considering the matter for several years and coming very close to merging with Hapag-Lloyd at one stage. The transaction should be finalised later this year.

Deal of the decade?

Finally came the biggest deal of all, with Cosco Shipping poised to swallow up perhaps the juiciest prize in the business, the highly regarded Orient Overseas Container Line, in a $6.3bn deal. That will propel the enlarged group into the world's top three carriers in terms of capacity, behind the European pair Maersk and MSC, but ahead of CMA CGM.

And there could still be more to come, with questions over the future of mid-sized players such as Taiwan's Yang Ming, Israeli line Zim, and Singapore's Pacific International Lines.

But as if this were not enough for service providers such as terminal operators to absorb, they also have to keep track of the new global alliances that now dominate the east-west container trades, and their continuing evolution.

The 2M alliance of Maersk and MSC now has a looseknit agreement with South Korea's Hyundai Merchant Marine, which failed to secure full membership – partly because of customer concerns about the risks associated with a line perceived to be financially vulnerable.

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Meanwhile change is afoot within the other two groups because of merger and acquisition developments. The balance of power within the Ocean Alliance of CMA CGM, Evergreen, Cosco Shipping and OOCL will shift as the Chinese and Hong Kong lines are combined – albeit while maintaining separate brands. And The Alliance of Hapag-Lloyd, NYK, MOL, K Line and Yang Ming now consists of three rather than five members, following the merger of the Japanese trio.

Every single one of these deals will have a bearing on ports, which are already having to cope with the rapid arrival of much larger tonnage into the main container markets, with 20,000 teu-class ships set to dominate the Asia-Europe route by the end of next year, and probably entering the transpacific trades on a regular basis in the not-too-distant future.

One uncertainty is how those carriers with terminal interests will respond. Maersk is pursuing one strategy, bringing its container line and port operations into a single business unit and ensuring Maersk Line moves as much traffic as possible through APM Terminals' facilities.

MSC and Cosco both have sizeable terminal interests that they are expanding, the former having recently taken a 35-year concession in Ivory Coast and the latter in the process of buying Noatum's terminals in Valencia and Bilbao.

CMA CGM, on the other hand, is selling a majority stake in the Global Gateway South terminal in LA that it acquired when buying NOL and its liner arm APL. There may be other former APL terminal stakes that it wants to dispose of, but still has plenty of port assets in its portfolio.

Likewise, Evergreen and the Japanese big three are among those with terminal interests, and may be wondering whether these continue to provide a strategic advantage, or would be better off in the hands of one of the big ports groups, or in need of new capital from private equity.

At the same time, Chinese state-owned ports company Shanghai International Port Group is investing in a container line by teaming up with Cosco in the takeover of OOCL.,

Port collaboration

For the terminal operator heavyweights such as Hutchison, DP World, and PSA, as well as smaller players and individual ports, there is also a great deal to consider.

With so much at risk as the customer base shrinks in number, collaboration between ports along the lines of the arrangement between Seattle and Tacoma is one scenario now gaining favour.

So could two of the world's top 20 ports eventually combine rather than continue with excess capacity and the inefficient use of berths and equipment because of the ownership structure of the 13 terminals located in Los Angeles and Long Beach, most of which are controlled by container lines?

Tale of two cities

To the initiated, the two ports that fill San Pedro Bay, some 30 miles from Hollywood, look like a single vast complex, with nothing to distinguish one from the other. Yet they are arch competitors, run by two separate cities, and the official line is that the status quo will remain.

The current set-up makes little sense any more, however. Whereas in the past, individual lines wanted their own terminal in order to guarantee berths and manage intermodal connections, that is no longer the case in the era of super-sized alliances.

All four members of the Ocean Alliance – Cosco, OOCL, CMA CGM and Evergreen – have their own separate facilities in the LA/Long Beach complex. But will Cosco keep its premises in LA when OOCL is building the most technically advanced terminal in the country across the harbour in Long Beach?

Evergreen has stated consolidation of the Ocean Alliance's terminals within LA/Long Beach is not being considered "at this stage", leaving open the possibility that rationalisation in one form or another may happen eventually.

Within The Alliance, will the Japanese lines that are now combined into ONE keep their separate terminals?

And Hyundai Merchant Marine has already decided to close its California United Terminals that was on land leased from APM Terminals in LA, now it has a 20% stake in Pier T in Long Beach.

Each of the container terminals in LA/Long Beach is the size of a small port in its own right, leaving a large amount of latent capacity and the inefficient use of assets that has been brought into stark relief by a more concentrated container shipping industry and the arrival of three huge vessel-sharing agreements. And such challenges are replicated – on a smaller scale – in ports around the world.

So, at a time when so many extraordinary events have occurred in an industry that had been somewhat stuck in its ways for the best part of 10 years, who is to say that a merger of Los Angeles and Long Beach ports could never happen? After all, the Port of New York and New Jersey crosses state lines.

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Maybe one day, California will deem that one plus one makes sound commercial sense and, in so doing, catapult San Pedro into the top 10 in a show of strength to competitors from ports in Canada, Mexico and on the US Gulf and east coasts.
Stranger things have happened.
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(8) Hellenic Shipping News, 20 September 2017/ Xeneta

The Box Carriers: Consolidate or Compete?

Only six years ago, in 2011, there were 20 global container lines operating in a very fragmented, often very confusing industry. It's different today; with Cosco's takeover of OOCL, the top four carriers control 53.8% of the world's container cargo. It would be fair to say that consolidation, not competition, is the word of the day, and shippers would be wise to be concerned about the decrease in the amount of carriers available for them to move cargo.
Cosco is the tsunami on the horizon. Their purchase of OOCL makes them the world's 3rd largest carrier; their 2.42 million TEU's and an additional 640,000 TEU on order gives them 11.6% of the world market. It also makes them the largest carrier on the Asia-USWC / Asia US-EC lanes, with 18.1 %; jumping them past CMA CGM-APL's 14.2%. Should the Japanese merger of NYK, MOL, and K Line be approved, the Ocean Network Express (ONE) Alliance with 16.5% will then push CMA CGM back to third on the Asia-US routes.

No Serious Push-Back Expected

Although the Japanese merger was rejected in South Africa and the US told them to resubmit their application once the merger is completed, industry sources say no serious push-back is expected from the regulators since none of the alliances have 20% of the Asia-US and Asia-EU markets,
The era of consolidation is likely ending excepting for the fragmented intra-regional carriers who the mega carriers can swallow in order to use as a feeder system for their Asia – EU / Asia-US routes. Africa-centric Pacific International Line (PIL) is the first likely candidate as the remaining carriers (Zim, Yang Ming, Hyundai Merchant Marine and Evergreen) are government-financed or have some sort of government ownership or affiliation. As each of the four has only 1.5-2.8% of global market share, there should be no regulatory reasons for them not to be acquired.
However two of the four are tied into alliances; HMM with the 2M, and Evergreen into the Ocean Alliance. Should they be acquired by any of the mega carriers, regulators might well look harshly at the resulting market share for the acquiring companies, and force lane adjustments prior to approval.
That leaves Yang Ming, who announced plans for a share sale in order to raise U.S. 164 million – which is only 46% of the $ 330 million they are said to need to survive this year. Drewry reported some months ago YML's debt exceeded its equity by some 457%; on a purely economic basis one could make a case YML is marginally a going concern without a massive cash infusion. Their stock price continues to flounder in the 12-14 TWD range, closing Monday at 13.38; this remain lower than their post reverse-split price of 15.03TWD.

"Oligopoly" Industry Tendencies

However on a geopolitical basis, as the Chinese government continues to its efforts to seize sovereignty in the S. China Sea, a Taipei-financed acquisition of YML by Evergreen would maintain Taiwan's all-important water access to the rest of the world.
But the carriers need to be careful not to slip back into their old ways of price-fixing; the OECD shipping expert, Olaf Merk, called the industry an 'oligopoly' following the Cosco-OOCL announcement, and let's not forget the American FBI's current investigation of the Box Club regarding pricing collusion.
A lack of competition is not healthy, and the upcoming 12-14 months as the Cosco-OOCL purchase is finalized and the lanes rationalized, should be most interesting. Shippers should pay attention.
Source: Xeneta