

Very uncertain prospects await maritime transportation in the following years



Ing. Petr Rozek, PhD. (the Union of forwarding and logistics of the Czech Republic) for Transportation News

Now maritime transportation is going through a very turbulent period and there are some risks associated with it. Mr. Ing. Petr Rozek, PhD., executive director of the Union of forwarding and logistics of the Czech Republic (SSN), gave us his perspective to current development on sea.

[How would you characterize the period that maritime transportation is going through now?](#)

Basically, it is going through another crises, comparable with the one from 2008 to 2010 - the period 2009 – 10 is more accurate for maritime transportation. But in fact the crisis has the absolutely same causes. Planning at maritime transportation is lengthy – it takes at least three years from the moment, when you want something with the idea, it will prove successful on the market, until the moment, when you really have it. Therefore now, in the same way like in 2009 companies suffer from ordering a high quantity of new ships, in addition to that bigger ships. Ship-owners ordered vessels, for which they had work at the time, when they ordered them because the market went up fast; however, since 2019 the key market with China has been stagnating, at least. At the same time, there has been a major change, decline in the key sector of maritime transportation – in automotive. This is not a crisis because of coronavirus. Since the last autumn car manufacturers have decreased the orders for parts, which have been transported from China and to China. And this trend began to grow. The Chinese Lunar New Year provided little relief when it looked like everything was OK. That is always in February when Chinese don't work for three weeks therefore they stock up, in other words the January volume of orders was absolutely fantastic. Then everybody went for vacation and nobody has returned. Thus the whole business collapsed. We have statistics indicating in March the export from China on sea was 36% (Month over Month) of the previous volume. This is an unbelievable figure. And the disastrous pandemic came into it.

How do the ship-owners react to these fluctuations?

It is necessary to say in advance the market has enormously consolidated. During the last year (or two years) it has consolidated in an absolutely incredible way. It is not sweeping corners; it is tearing out the floor. Five years ago there were about fifteen big container ship-owners here. Now we have three alliances that are really three coordinating groups, each of them functions like one ship-owner. Each of them controls approximately one third of the market. There is no cranny for another large ship-owners on the market. And there is no space for smaller ship-owners at all. Smaller ship-owners either let themselves be bought or drop out of the market. Last time the important Pacific ship-owner PIL informed about termination of its activity in Pacific. This company will operate only from China to Africa. It is approximately such a change like if the car manufacturer Škoda announced in Czechia it would manufacture only tricycles. The consolidation is immensely strong and basically these three groups are so strong they don't even have an opportunity to openly compete with each other. Of course, they have to pretend a competitive environment but the market is so divided there are not many chances for any adjustments.

Mr. Ing. Petr Rozek, PhD.:

“Ecological rules became the second trigger of crisis”.

What role do the new rules about limitation of sulphur in fuel play in the crisis?

Immense. They became the second trigger of the crisis. By the way, it was known about the new rules two years ago. It is a very short period of time on sea therefore shipping companies didn't have a great chance to prepare for them. Most of the ships, that sail now, were already finished or at least their keel was laid down. All of the sudden ship-owners had to have 0.5% of sulphur in exhaust gases as of 1 January. Basically, before they could have had as much sulphur as they wanted, or 3.5% if they sailed to Europe or to the East Coast of the USA. That is something like a changeover from the emission norm number 3 directly to the emission norm number 7. We skipped over a few interchanges that the old vessels might have caught to manage and the new ships would already have new engines.

Large ship-owners begin to sail around the Cape of Good Hope. Firstly to save money for the Suez Canal but also because they have desperately little quantity of goods to transport so they further and further slow down their lines to avoid putting their ships out of operation.

The oil crisis significantly helped ship-owners, at least for some time. It was really rescue from the God. The oil price dropped approximately to the price level of mazut, which was used as fuel before. The price crisis in fuels reached such a level in April that it was possible to make money on shipping. But ship-owners will not buy diesel fuel for the stock and now costs already go back up again. The fuel surcharge goes almost for 100% up and it is possible to expect it will be even significantly more.

[To what extent is maritime transportation profitable now?](#)

Revenues of the maritime business have been stagnating since the last autumn. Now the situation is on the technical minimum that it is possible to sail for. It is calculated if a large vessel sails from Europe to Asia and back, let's say the Triple E (+18,000), loaded for about 80%, which is probably impossible to increase anyway, it must concurrently earn approximately USD 1,650 (or USD 1,700) on a small container on both legs. It approximately fulfills the technical minimum but everything, which is suddenly above, the fuel price, plus some additional payments, for example an increase of some fees, everything is charged to the ship-owners account. And they usually don't even have the 80% of cargo...

That is why the demand for large ships arose earlier. They are calculated in such a way that it suffices even for USD 100.00 less for transportation of one container. However, the ship-owners, who ran on this wave, have two problems:

First of all: these vessels are technically unloadable to full capacity. Currently the biggest have the slot capacity 24,830 TEU. However, it is practically impossible to load so much. Although they are constructed more ergonomically, they have 24 cargo spaces, in other words smaller blocks; there are 24 containers on top of each other and 24 containers in width in these blocks. This multiplies the problem of loading and unloading without unnecessary movements. In addition to that, these ships basically have the same size as previous generations: 400 meters in length - it can not be more due to Suez Canal but they have a larger width by two containers, thus instead of 58 meters the width is 62 meters (or even 63 meters), which causes more problems by full utilization. For example, the first large new vessel, HMM Algeciras, that touched at in Hamburg at the beginning of June, had the reduced load to about 15,000 TEU to sail to the port at all. Therefore the repletion was roughly two thirds but the costs of the voyage were the same. They unloaded, they loaded, they left, it was a glory but it is not certain if any other such a large ship sails there at all.

[Do the difficulties of shipping companies push prices down elsewhere?](#)

First of all, the Suez Canal charges are lowered. Substantially. Even by 25% for container ships so that these vessels sail there at all. Large ship-owners begin to sail around the Cape of Good Hope. Firstly to save money for the Suez Canal but also because they have desperately little quantity of goods to transport so they further and further slow down their lines to avoid putting their ships out of operation. If you have a completely new ship, you can't keep it anchored for more than three months. Thus ship-owners solve it in such a way like they already did from 2010 to 2015 – they began to sail slower. However, if such a big ship sails at speed less

than 12 or 14 knots, then it is impossible to maneuver it. Thus the ship-owners began artificially to extend their lines. Furthermore, new vessels, that number increases, are put on the main line so ship-owners have work for them. It is like if you shortened the hoe of females on a field to half so more of them could hoe.

And how does the development at ports look like now?

There is another big problem associated with launching even larger ships: most of the ports don't catch to change the infrastructure, particularly the one on wharf, especially cranes. The crane must have the reach up to the last container on the board plus something in addition to it and it must still have the load bearing capacity 45 tons to be able to unload even heavy, large containers. And it is necessary to buy a new crane after the ships' width grew up because it is impossible to extend only the jib. They are balanced machines they have a gigantic lever and base. Most of the ports simply have not had longer cranes yet. It is mainly because they bought the previous line five years ago. Cranes for Triple E have a 60-meter long jib. Now they must have a 64-meter jib but the present crane has not paid out yet by far. Moreover, the phenomenon called the effect of Hoover enters into it. A large ship arrives to a port and loads anything – no matter whether it will be transported in the direction of the ship's journey or elsewhere. The cargo will begin to be separated in the next port. It is absolutely typical that a large vessel reaches Shanghai today and all goods, which is bound to south (that is almost everything) is loaded. Then nothing remains in that port. The port is empty for two days.

Then the ship arrives to the other part of the world and the opposite problem occurs. For example HMM Algeciras brought 8,000 containers to Hamburg and unloaded them ashore. The terminal has capacity of 32,000 containers therefore one fourth of the terminal was occupied by one ship. At the same time other ships arrive and the port simply gets clogged because it is not able to get the goods out in such a pace that the ship unloading is managed.

Can other big bankruptcies be expected among ship-owners?

It is very intricate. If it was only due to too many ship-owners on the market, but it is not, because the three large groups will probably not clash among each other, one of them would have to announce the termination of its activity. However, none of them can afford it because there is a great amount of invested funds. Now large groups are not self-financed, everything is covered by big loans; moreover, most of the ship-owners (except of Maersk) are not proprietors of ships, the ship-owners borrowed them. Certain alleviation for ship-owners is in the sharp decrease of the daily vessel's rent borrowed by the ship-owner from the proprietor – estimated to half of the price before one year, sometimes even more. Thus the automotive falls now; however, most likely consumer goods will significantly go down too, the consumption of households will probably drop as well. Collapse of dollar is expected at the same time... It is not rosy at all.

And how do the ship-owners try to find a way out of it? It looks like through the ground logistics as well...

It is not an absolutely new trend ship-owners buy or create their own logistic department. It has already happened for more than 15 years. For example the shipping company Maersk fully starts this business already for the third time. CMA, the world's number three among shipping companies, purchased the French company Ceva Logistics, which hasn't been much focused on maritime business so far, I am curious, how it will end up. And the third example is MSC, which is the world's number two, this company creates its own logistic department that it had a long time ago but it was a little aside and only now it begins to expand. And all of them enter this business with a feeling there is an interesting margin hidden on the ground.

However, in my opinion the ship-owners haven't realized yet the freight forwarders behave completely differently from them. Shippers are learnt to communicate with customers in a completely different language – such a logistic one: What can we do for you? On the contrary to that the ship-owner has its services described, although well described, but fixed. Contrarily, the freight forwarder is always flexible. He must be, otherwise he wouldn't survive. Moreover, ship-owners always have a secured timely encashment by the freight-forwarder, no credit is provided. The freight forwarder always calculates to his funds the price of money, which he gets later from the customer. Some freight forwarders give their customers much longer due period than when they pay to ship-owners and they pay the ship-owners in many cases immediately.

And the third problem could be the freight forwarders already have their logistic base straddled to agencies in the world so if a ship-owner would like to commence fast but he wouldn't buy an agency or a ready-made freight forwarder, in such case he doesn't have a great chance. It takes many years to create such a network of contacts. On the other side, today ship-owners have one big advantage – they have the data about shipments. Basically today it is impossible to hide before ship-owners the owner of the shipment unlike 15 years ago.

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So far the ship-owners have been winning in this race because they have been offering lower prices. However, it's also a noose around his neck – when the ship-owner offers lower prices than the freight forwarder, he will get to the same trap like before because he will be again on the operational grounds.

The ship-owner has one indisputable advantage: he has ships therefore he can approach the customer with a little lower price. In the meanwhile it is only difficult to estimate what will come out from the connection between continent and sea. Now I have a feeling it will be only chaos because of course customers will go over to the other side for a while so freight forwarders will not have customers but eventually customers will notice it is not so nice by the ship-owner, the customers

will feel they talk to some robots. Then customers will want to return to the freight forwarder who laid off a part of employees in the meantime because he couldn't maintain unused capacities...

Would it be a vicious circle?

Well, if it were a circle, it would be better; however, in my opinion it is more likely a spiral. I am afraid we have been still immersing into a bigger and bigger problem. We always try to return to that circle but it doesn't work. And we go into a vortex that pulls us down. And if ships really don't have anything to transport, who will pay it? Banks will go to bankruptcy, not ship-owners. Ship-owners usually have their other activities so when they say: We return the ships or we will stop paying the rent for ships because we don't have money for it so the problem jumps to the creditor's bank. It is really a large amount of money. Now a really large ship costs almost USD 400 million and these vessels have been still constructed. Thus it is difficult to imagine now what will happen later...

Maritime business has one not negligible quality. Since about 2010, when the first crisis faded away, the whole maritime transportation has been pushed through volume. Bigger and bigger ships have been constructed to increase efficiency with help of bigger volume. However, suddenly there is a break, downturn. If the ship doesn't sail loaded about on 83%, it is loaded on for example 79%, it loses USD 15.00 per every container. If it loses USD 15.00 on 15,000 containers during one voyage, it is a colossal loss. And it can be in such a way six times a year and who knows how many years it will take before a new boom begins...