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The impact of the crisis in shipping on container lines serving the East Coast of South America (ECSA) by Antonio Zuidwijk

Introduction

The shipping industry is going through its worst crisis for fifty years with many struggling to keep their heads above the water in order to mitigate the severe impacts.

What should shippers do?

Most think only about the economic crisis in terms of the inroads it has made on their particular market such as the welcome reduction in the high freight-rates of August 2008 in which today's present low rates - often far below daily operating costs - could not have been envisaged in even their wildest dreams.

However, for many shippers in the Latin American region and in Argentina in particular, it might pay to take a closer look at some aspects of the shipping crisis. It is possible that some of them will obtain lasting benefits which will remain long after the freight-rate pendulum has swung back again as it will inevitably do sooner or later.

Shippers should study the make-up of their present supply-chains and see if there is room for cost reductions in the total circuit from origin to destination. So far, shippers in the region (including foreigners who buy on FOB terms) have paid little attention to the possible benefits of the economies of scale in shipping. These have only been explored by a few ship-owners who dared risking their bigger vessels into the region and obliging the ports to take actions to offer more than minimum operational and service levels.

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In recent years there have not been enough ships to meet the requirements of the markets and shipping lines could decide freely at which ports to call with no necessity to see if there was room to improve the overall logistic system of their clients by offering additional port calls.

Regional governments have been slow to realise that shipping economies of scale and better supply chains can greatly improve competitiveness. But this needs enormous improvements in regional port and transport systems and the private sector will only commit the necessary investment if clear legal rules are in place. Brazil is arguably the only country willing to tackle the problem by appointing a special Secretary for Ports to work closely with the President. However, even there, much remains to be defined.

Can the crisis really be the opportunity quoted by many but which few really investigate?

As a result of the economic crisis, all region ports have reported significant Q1 2009 volume declines of between 15% and 30% compared with the same period in 2008 and which is line with the global Q1 pattern.

Concurrent with the decline in volumes is the unprecedented number of new and large vessels entering the market, many of which have capacities in excess of 8000 teu. These monsters were intended for services between Far East/Europe and Far East/US and even if the bottom had not dropped out of those markets, many of these large vessels would soon have had to start looking for work in other regions. Many mega-carriers that operate in the Far East, for example, also have services to East Coast South America (ECSA) and could shift vessels between trading areas and it is more than likely that because of the crisis, this process will be hastened. We will soon see ship owners starting to try out this market, instead of laying up vessels of 8000TEU We should not forget that some well known economists predict that recovery in this trade will be faster than in most other regions. Indeed, there have a number of predictions that by 2010 shipments to Brazil will be back to the peak levels of 2007.

The problem, of course, is the enormous hurdles that have to be overcome, not least being the lack of ports able to vessels of more that 6000 teu although there are indications that this may change in the near future.

Present Shipping Services map

This Map shows that while a few ‘joint-services’ serve only Brazilian ports up to Rio Grande do Sul in the south, most lines still include Montevideo and/or Buenos Aires in their schedules. In fact, almost all vessels call at Santos southbound and after discharging, vessels of 5000 to 6,000 teu then continue south with less than 40% or 50% of their capacity.

Many ship owners operate within several loops from US/Europe to ECSA, with one participating with twenty four vessels in two weekly services from the US and two weekly services from Europe. This means that every week, four of its vessels call at Santos, some of them quite big, which then run a considerable distance to the south with only 40% of capacity.

If these dropped their cargoes for the southern ports at Santos and transhipped them to vessels of its two other lines which continue southward, they would still give two weekly services for the southern ports, which is enough for normal requirements. This could save vessels or improve schedules in other areas.

Until recently this could not be considered as an option, as the Port of Santos could not offer adequate transhipment facilities as there was not even enough capacity to provide an acceptable service to Brazil's own export and import demands. As a result, Santos dissuaded transhipments by imposing very high rates.

Interestingly though, there are some changes in the pipeline that need watching. Firstly, because of the drop of volumes there is already some surplus capacity in Santos. Secondly, plans to build new terminals are going ahead and apparently will not be postponed because of the crisis not least because the Brazilian government has apparently realized that something must be done to remove the bottlenecks that foreign trade had to cope with in 2007 and 2008.

In addition, the urgent program to dredge all the country's important ports is reportedly being maintained, with the result that Santos will soon be dredged to 15 m depth, thus opening the way for regional economies of scale which will benefit Brazil's foreign trade.

Future Systems map

But also Argentine shippers will benefit, as they will have several new options for their supply chains as shown in the above Future Systems map. This system would have three types of port: (i) two hub ports in Santos and Itapoá where Hamburg Sud is developing its terminal for major vessel operators (ii) other ports that will maintain both direct lines with smaller vessels and feeders and (iii) feeder ports that will be served only by feeder-vessels.

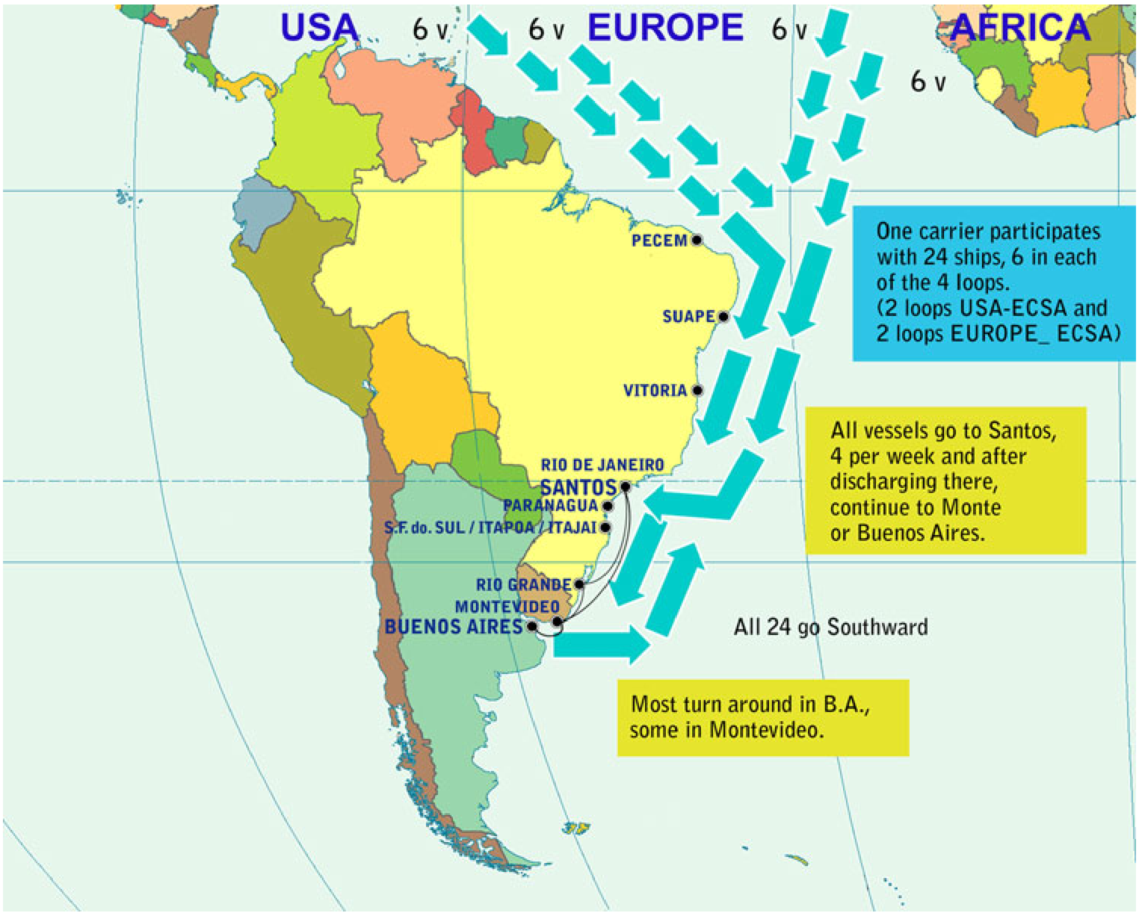
When this system is in place, Argentina shippers will be able to take advantage of the River Parana-system to improve their supply-chains instead of having to rely for all their container movements on the badly located city Port of Buenos Aires which is being strangled by a 12 million population and where an efficient rail access is out of the question.

By using the Parana-ports, Argentina, where low-value cargo travels by road often over more than 1000 km, can start to develop a real intermodal system with far less effort than many believe. Proof of this lies in the fact that the container throughputs of ports on the River Parana such as Terminal Zarate with its good rail connections, are continuing to grow - unlike other ECSA ports in which volumes continue to decline.

Terminal Zarate on the River Parana has a 33ha rail transfer terminal 1km from the port.

Another very important development for shippers in Argentina will be the Tecplata project in La Plata, with 34 ft of draught (10.36 m). Completion is scheduled for late 2010. "Tecplata is going to have a good future and can count on the full support of the

Federal Government, said President Cristina Fernandez, adding that the terminal “will become one of the main international ports of the River Plate and the region.”



What actions can shippers take in this crisis?
In Brazil, they should just make sure that the government continues the efforts to improve the country’s ports and that the depths in access channels will be sufficient to safely accommodate the big vessels.

In Argentina they should realize that the country is far behind Brazil where planning is concerned (of which very few are aware) and they need to correct this failing as well as working towards closer cooperation between the two countries. Furthermore, clear rules and legal security have to be guaranteed in order for the private sector to continue to invest in the country.

Argentine shippers should learn the lessons of how economies of scale have reduced global unit transport costs in areas with similar characteristics. A good example of this is the huge deepsea Port of Rotterdam in Northern Europe where terminals are built on land reclaimed from the sea. And ports like Hamburg and Antwerp located far inland on rivers, but which since the nineties, have been catching up with Rotterdam - their principal competitor.

Shippers should investigate why these ports have been able to improve their position during a period when many were predicting that their market share would drop when the new generation of big ships came on stream and which has thus far proven to be incorrect. The reality is that Hamburg and Antwerp offer the best logistic chains for the important industrial zones of Europe.

The important role of inland ports like Duisburg which is located in the German industrial heartland should also be examined, after which shippers should aim to work closer with the shipping lines which now have a direct interest in improving the system and are currently in a listening mode.

Shippers need to understand that this new system will be to their benefit as it has proven elsewhere in the world. Development of the system will make the region more competitive and this is in everybody's interest. Shippers then need to work with all trade organizations and add their weight to demand for the system to be in place at the earliest opportunity.

Argentina has a new Secretary of Transport and now is an excellent time to discuss these matters with him. Shippers Councils and other Shippers Associations also need to look at the Future System not least because cheaper transport always results in greater cargo flows.

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