

FREIGHT RATES FOR GENERAL CARGO AND CONTAINERS FOR THE EAST COAST OF SOUTH AMERICA (E.C.S.A.).

In an interview in Spanish, with Mr. Jan Hoffmann of U.N.C.T.A.D. on April 20 which was published in Trade News, you can read a very important general observation:

Our studies identify six main determinants of freight: distance, economies of scale, imbalances, the type and value of cargo, the level of competition and, finally, ports.

(This interview can be opened in this link: <https://tradenews.com.ar/puerto-buenos-aires-consolidacion-navieras-jan-hoffmann>)

But it is necessary to make a comparison between the evolution of "freight rates" on the east coast and the west coast of the continent, which shows important "INCONGRUITIES" that must be analyzed with great care.

We could start the history of freight-rates on the East Coast around the end of the 80s and the beginning of the 90s, when the ridiculous "40-40-20" rules of the United Nations were finished. These rules divided the "rights of the countries", in 40% of the cargo for carriers of the country of origin, 40% for those of the country of destination and 20% for third flags.

With those rules and the laws of cargo reservation of the countries of South America, freight rates did not depend on the general rules mentioned now by Mr. Hoffmann Those who then set the freight rates were the state navigation companies, the Gran Colombiana Fleet, Lloyd Brasileiro and ELMA.(Argentine State Fleet).

When the authorizations of the local authorities were requested for "rate-increases", which were prepared in the local meetings of the Freight Conferences, it was always ELMA that justified the "cost increases". Of course everyone applauded this.

But not only the freight rates continued to increase, but also the subsidies that the governments of the countries had to give to maintain "the fleet of their flag ", due to their lack of "efficiency" and their excessive costs.

Meanwhile the more efficient ship-owners of other countries earned much money with those high freights, with which they could pay the construction of the very expensive new container ships, which were demanded and they continued to grow.

But when the governments decided to stop that bleeding and the competition was opened to all, the freights immediately dropped and the South American state fleets "went bankrupt". Only a few private fleets remained.

In those days, the system of Freight Conferences still governed, which the "Cargo" fiercely opposed. (However, the advantages and disadvantages of that system deserve a review, because an analysis of what has happened in "shipping" in the whole world between 2009 and this date and what may happen from 2020 onwards, could prove that this system was not so bad for the "CARGO", (Beneficial Cargo Owner) where the motto from 1980 was "charge what the cargo can bear".

But it is very important to observe what happened on the E.C.S.A. between February and May 2015, in a totally opposite situation, when the offered ships-capacity was 8% higher than the "cargo" demanded in the whole world and all freight-rates were ridiculously low.

The carriers of the E.C.S.A, who now are all mega-carriers operating in all the main-traffics in the world, decided to take (one by one) a bit of the "over-supply" out of this traffic, starting in February.

And in April they had taken out in total 40/45% of the offered capacity.

From "overcapacity", THEY CREATED A LACK OF VESSELS AND LOCAL SHIPPERS HAD TO WAIT TO EXPORT THEIR CARGOES.

And with that the competition began, which shipper paid more and with that the freight rates from and to the East Coast of South America rose from incredibly low levels to levels that nobody could have thought of.

(Possibly these were the only profitable freight-rates, a fact that should not be lost out of sight). The freights paid from the ECSA to Asia were ridiculously low: for US \$ 100, - it was possible to send a container from Santos to China and for US \$ 500 / 600, - from Buenos Aires. This does not fit in any system that can last very long).

And soon you could see in the "SCF / SHANGHAI Containerized-freight Index" how China's freight rates to the C.E.S.A. went up. **They climbed to "heights never thought of" and at a certain time were 3 times higher than rates from China to N.Europa.**

And since then, freight rates from the C.E.S.A are still the highest in the world.

From that moment the 6 normal rules mentioned by Mr. Hoffmann do not apply all to the E.C.S.A: They are manipulated by the "Vessel-sharing Agreements" (V.S.A.s), which made a balance between demand for cargo and the offered CAPACITY OF VESSELS in our E.C.S.A. traffic only, something that should have been done worldwide.

And with the entry of a small competitor, outside the V.S.A.s, they have already have come a little down again.

Some more notes:

Note 1

In March I read an article of carriers, fighting for market-share in the Far East-Europe trades, in order to fill the newbuildings of more than 20.000 TEU that were entering the market and how this battle caused "volatility" or better said "ruined the freight-rates".

I mentioned that Drewry published an article in 2017, with information how carriers of the E.C.S.A. acted at the begin of 2015, withdrawing more than 40% of capacity. Drewry put this as an example for all carriers in the world. But that could only work if all carriers did again, what they did in November 2009, when 10 to 11% of the total container-fleet was idle. Now they probably would have to withdraw 6% to get some results.

But I put the question, why did carriers chose the E.C.S.A. trade and no other traffic?

The way this was done, makes the countries of the E.C.S.A. a little less "competitive".

What is the reason therefore?

But there are some other points that might need clarifications:

I wonder how it is possible that in many programs of Tunnels under the Andes Mountains, (that enormous hurdle for the connection between the east- and west-part of S.A.) , promoters always declare that container-lines from the West Coast of South America offer advantages over E.C.S.A. FOR EXPORTS OF ARGENTINA TO ASIA.

From 1998 TO THIS DATE, you STILL can daily read that Chilean ports declare that Valparaiso is 2.400 nautical miles closer to "ASIA-PACIFICO" than the Port of Buenos Aires, as if "ASIA-PACIFICO" were one fixed point and the earth would not be a globe.

And Asia-Pacifico is not only China, which buys and probably always will buy, mainly basic products without any added-value.

And many believe that India soon might be more important for Argentinean exports than China and that Singapore already is an important destination.

China offers the best finance for many projects OF TUNNELS between Chile and Argentina in so-called "Bi-oceanic Corredors" which should link a port on the Atlantic -Coast, with a port on the Pacific-coast.

One of these reportedly will start soon and might be confirmed in conversations of April 25th 2018 between President Macri and President Piñera.

(It is the project of the Tunnel of "Agua Negra", between the ports of "Porto Alegre", a port of a lake (Lagoa dos Patos) in S. Brazil with 17 feet draft and an unknown port, "Coquimbo" in Chile).

And in many Chinese charts, which are always shown in the repeated big conferences about THE MEGA-PROJECTS OF "BI-OCEANIC CORREDORS AND TUNNELS" you can only see the maritime connection between the whole of South America, from the West Coast of S. America, as if there were no lines to China from the East Coast, which have been, still are and most probably ALWAYS WILL BE.

TO SAY THE LEAST, this is blatantly confusing.

Note 2: In this comment I mentioned that also the articles should be read about the "crunch", at the begin of last year, when the VSAs withdrew offered capacity from the ports of N. Europe to Asia, but without affecting the capacity from China to N. Europe.

What was the reason that they could do that, apparently without any counter-action by the authorities?

(The ridiculous freights that were "the norm" from N. Europe to China of US \$ 400, - for all cargoes ended soon and rose to US \$ 1,000, - in a short time.

But later over-supply of vessel-capacity was created again, with the entrance of new and even bigger vessels and the freight rates went down again and they continue to oscillate now.