Maritime Forum 2

Liner Shipping Market Outlook: Light at the End of the Tunnel?

Moderator:
Julian Proctor – Managing Director, Tiger Ventures Limited

Panel Speakers:
Alan Murphy – CEO & Partner, SeaIntel Maritime Analysis
Jeremy Nixon – CEO, Ocean Network Express
Eric Ip – Group Managing Director, Hutchison Port Holdings Limited
Nissim Yochai – VP Trans Pacific Trade, ZIM Integrated Shipping Services

Oversupply in the Liner Shipping Market

Alan Murphy, CEO of SeaIntel Maritime Analysis, started off with a presentation on what oversupply has brought to the liner shipping market in the last eight years, the improved market sentiment in 2017, and predictions on when and how a demand-supply balance may be attained. Murphy pointed out that the oversupply since 2009 was primarily caused by delivery of increasingly large vessels on the Asia-Europe trade. Excess supply has led to volatility in freight rates and losses for liner companies. In the past seven years, liner companies have lost money on average whenever they moved a container. Lines have been using blank sailings to manage excess capacity, but that affects schedule reliability.

According to Murphy, demand was good in the first nine months of 2017 and the fourth-quarter projected well. Year-to-date demand on Trans-Pacific trade has jumped 9.5 per cent, and demand on the Asia-Europe trade and Asia-Indian Sub-Continent/Middle East trade have gone up by 5.4 per cent and 4.2 per cent respectively. Trans-Atlantic demand has climbed 7.5 per cent. Freight rates were up at the beginning of the year, but have now dropped in all trades except on the Asia-Australia route. One of the challenges in the fourth-quarter is that shipping lines have almost completely stopped blank sailing since the third-quarter.

Murphy only expects supply and demand to reach a balance in 2019 or 2020 if the following assumptions are met: First, a complete freeze on new mega-vessel orders. Second, if high scrapping levels at about 500,000teu per year are maintained. Third, if global head-haul demand growth remains at four to six per cent a year. Fourth, if there is no rate war for market share. Fifth, if lines are willing to close some Asia-Europe services to balance new capacity. Sixth, if there are no ambitious market entrants. Seventh, if oil prices remain stable and no new regulations are introduced.

Prospects for 2018 and beyond

Jeremy Nixon, CEO of Ocean Network Express, and Eric Ip, Group Managing Director of Hutchison Port Holdings Limited, both emphasised the importance of balancing demand and supply for lines to make a profit.

Nixon foresees the market situation remaining difficult in 2018 and 2019 despite improving demand, due to insufficient control over supply.

Ip warned that although he has glimpsed a light at the end of the tunnel, it "is blinking all the time, sometimes on and sometimes off." He pointed out that market volumes have grown every year except 2009 by two to four per cent, but shipping lines always provide more supply than demand.

Impact of Digitalisation – A Kodak Moment for Liner Shipping?
Nixon does not expect a Kodak moment in the next five years. He suggested the need for digitalisation for shipping on two fronts: internally, lines need to digitalise manual processes to make data handling easier. Second, it might be useful to build a common external ecosystem to exchange information. He thinks that in the next 10 years the question will be not only what type of ships to build, but also how to upgrade and develop IT solutions.

Murphy does not foresee a Kodak moment for liner companies either as there will always be a need for shipping, but he admitted that improvement in the use of technology, especially in communications within the industry, between ports and terminals, lines and terminals, lines and forwarders, is essential. He thinks there is a huge potential for cost-saving, but whether or not the shipping lines can keep the savings will depend on their negotiating position.

Nissim Yochai**,** Vice-President of Trans Pacific Trade at ZIM Integrated Shipping Services, spoke about running a test live shipment with blockchain technology. He thinks technology can help lines reach a bigger audience and speak to customers directly.

Ip expects digitalisation to have no impact on the volume of terminal business. He agreed digitalisation makes logistic movement easier, but is not sure if it saves costs for terminals. In the next 50 years Ip expects to see fully automated terminals, fully automated trucks and fully automated warehouses, as well as semi-autonomous vessels with zero carbon emissions. Advances in battery technology in ship design are more likely than the construction of a totally unmanned ship, because there would be too many contingencies to prepare for with no humans aboard.

Sustainability in Liner Shipping — the IMO's 2020 Deadline for Fuel Change
When asked how shipping lines are dealing with the 2020 deadline the IMO has set for limiting sulphur content in ship fuel, Nixon said there are three options: The first is to continue burning the old fuel and put a scrubber on board, which would take up a lot of space and be expensive to retrofit. Another option is to buy low sulphur fuel, which may be extremely expensive if there is an insufficient supply. A third option would be to use LNG.

Most panellists expressed concern over whether there will be enough low sulphur fuel in 2020. Yochai doubted if lines could pass on any increase in fuel costs to customers. According to Murphy, most lines are waiting and no one seems to have invested in a scrubber yet.

Possibility of another Hanjin Episode & Others
Commenting on the impact of China's One Belt One Road Initiative, Nixon said the policy is positive for international trade and should benefit the shipping industry.

Some panellists thought it possible that current alliances will dissolve with increasing consolidation in the sector, which would be challenging for lines with no 20,000teu ships. Ip expects another round of grouping with fewer members, two at most, in a consortium.

He also thinks it unlikely that the Hong Kong Authority will cancel the Vessel Sharing Agreement for anti-trust reasons as it is widely accepted internationally.