Hillebrand

FORWARDING PASSION

# STATE OF THE INDUSTRY

FEBRUARY 2022

**Emmanuel OLIVIER - Group Ocean Freight Director**

**WITH THE 2021 LEGACY…**

# A YEAR OF STRONG DEMAND,

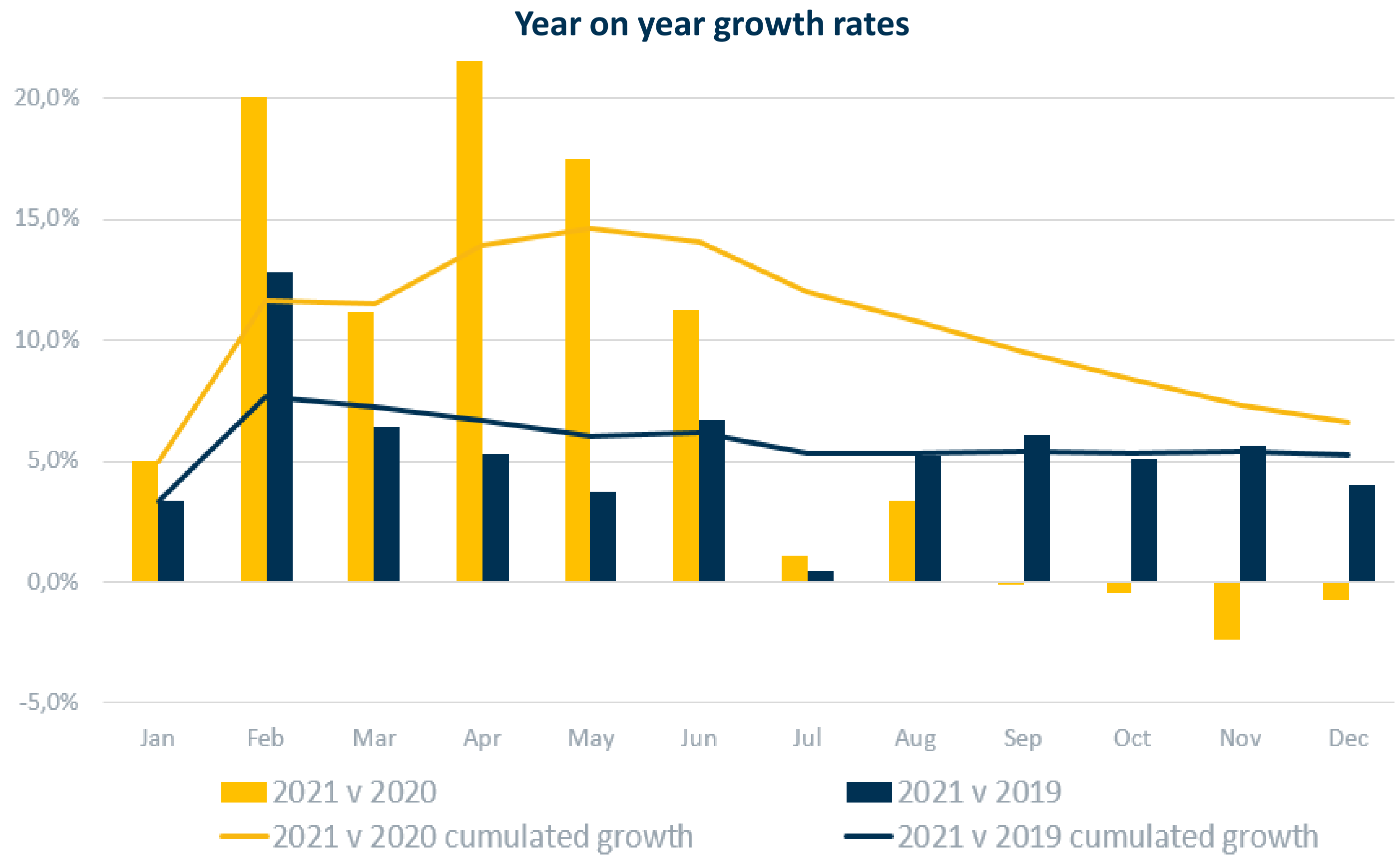
Global container demand grew a steady 6,5% in 2021.

After the first semester recorded 14% YoY growth, demand certainly slowed down progressively as of July, with the last three months of 2021 actually showing a slight drop vs same period 2020.

This did not come unexpectedly, as H2 2020 had already recorded strong growth vs 2019, when inventories were being rebuilt after the early pandemic lockdowns.

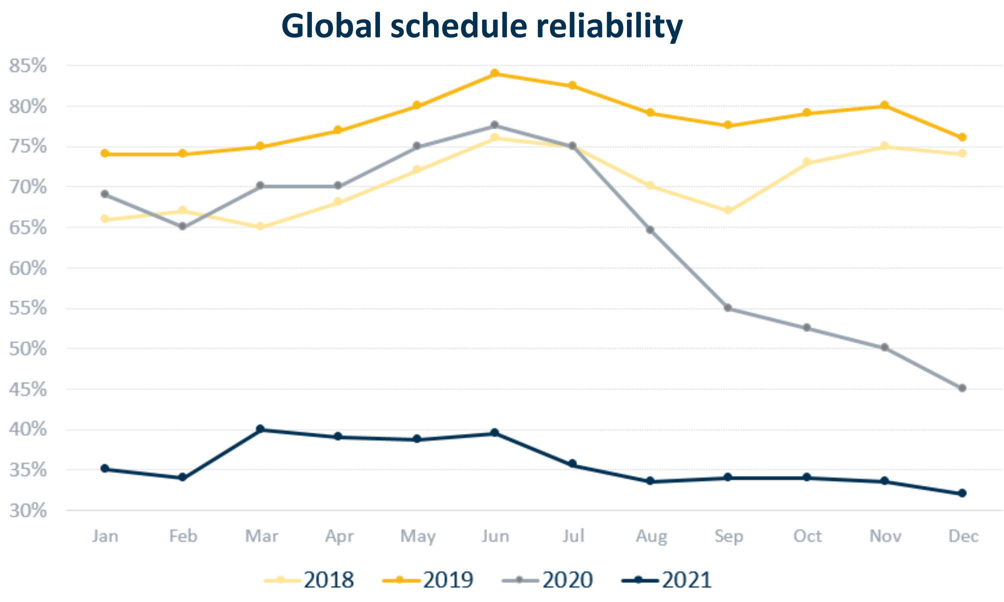
This relative slow down – reflected here by ports statistics – is also the result of fewer sailings available to shippers, as congestion, blank sailings and delays only further exacerbated month after month.

Global container demand was also up 5,3% vs 2019, or 8% higher than in 2019.

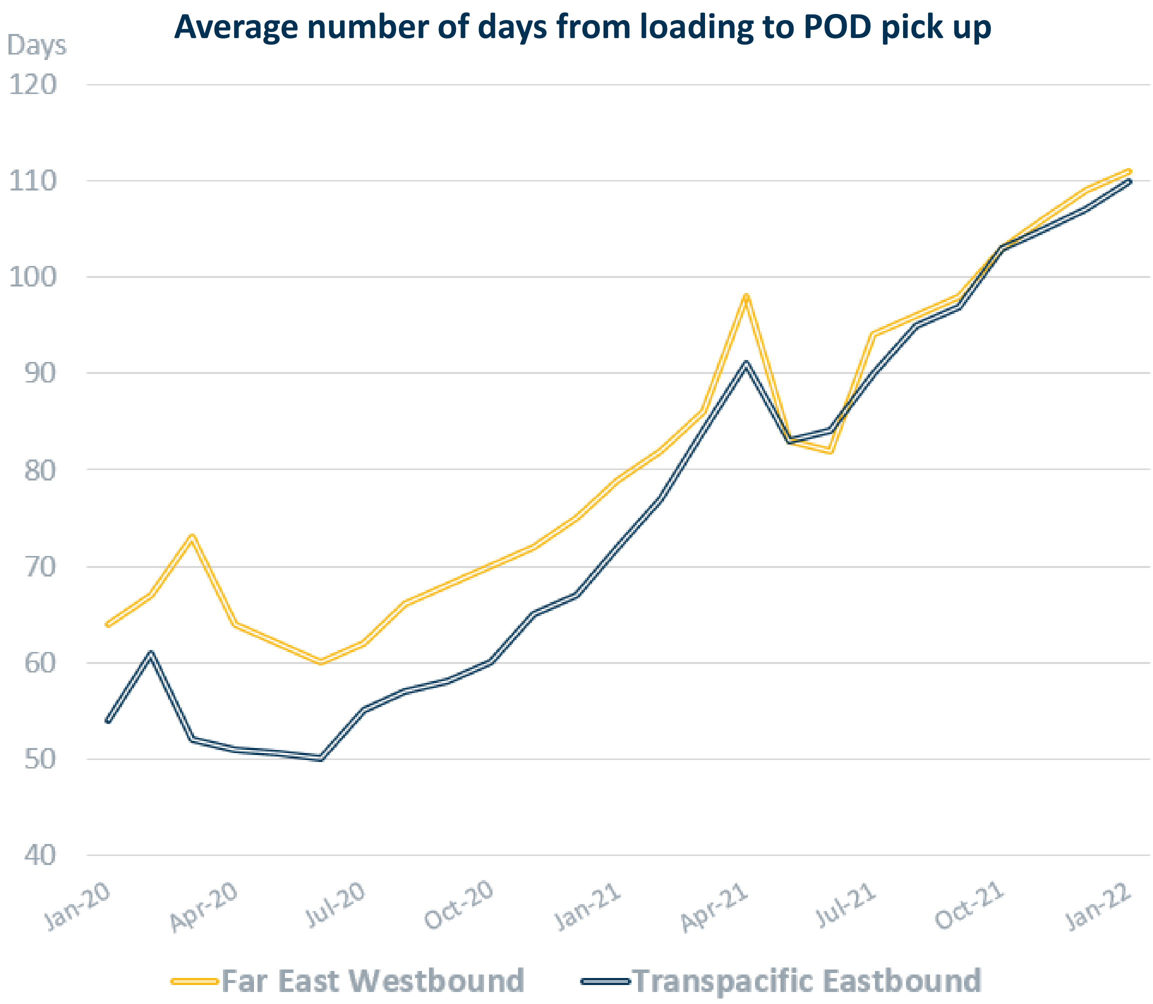


# OF RECORD LOW SHIPPING SERVICES RELIABILITY

Starting with North America, ports and intermodal networks congestion have forced carriers to constantly adapt supply. With global schedule reliability below 35% in 2021, shippers have faced unheard-of operational disruption all year long.




Which disruption continues unabated in 2022, and has meantime led overall lead times to dramatically explode on most trades.

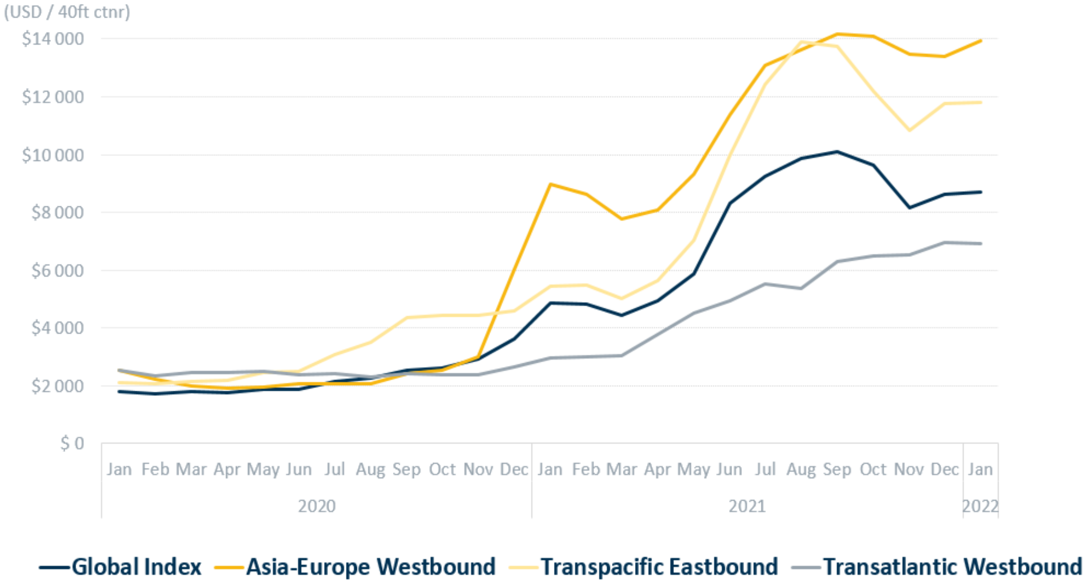


# BUT A YEAR OF RECORD RATES AND PROFITS FOR CARRIERS !

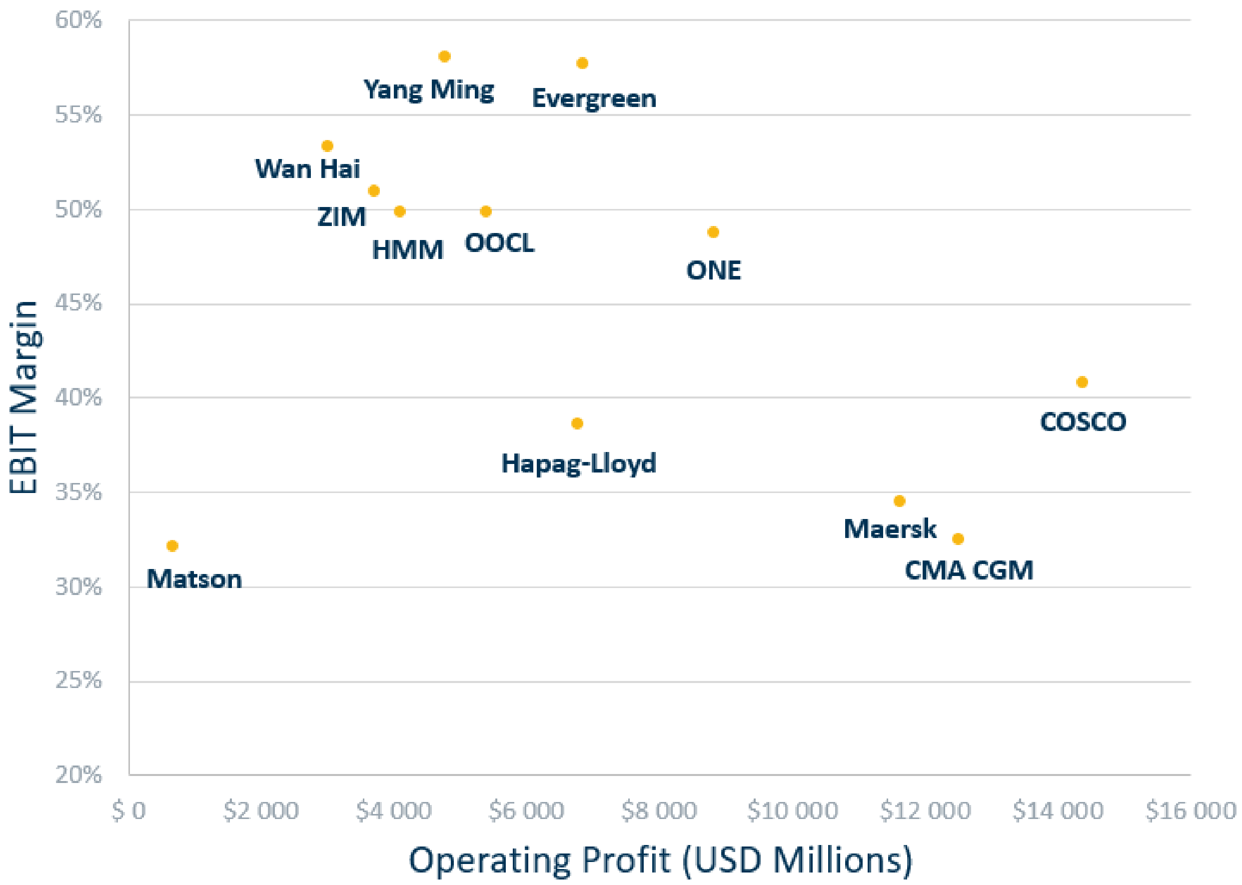
Shipping lines are expected to collectively generate USD 180bn in 2021, as a result of the most favourable supply demand conditions ever.

Ocean rate levels have reached record high levels on all routes, whether headhaul or backhauls, and remain steady as global ports congestion continue to feed under-capacity in a strong demand context.

**Drewry freight rates indices**




**Carriers financial results - Q1 to Q3 2021**



… DISRUPTION REMAINS VERY HIGH!

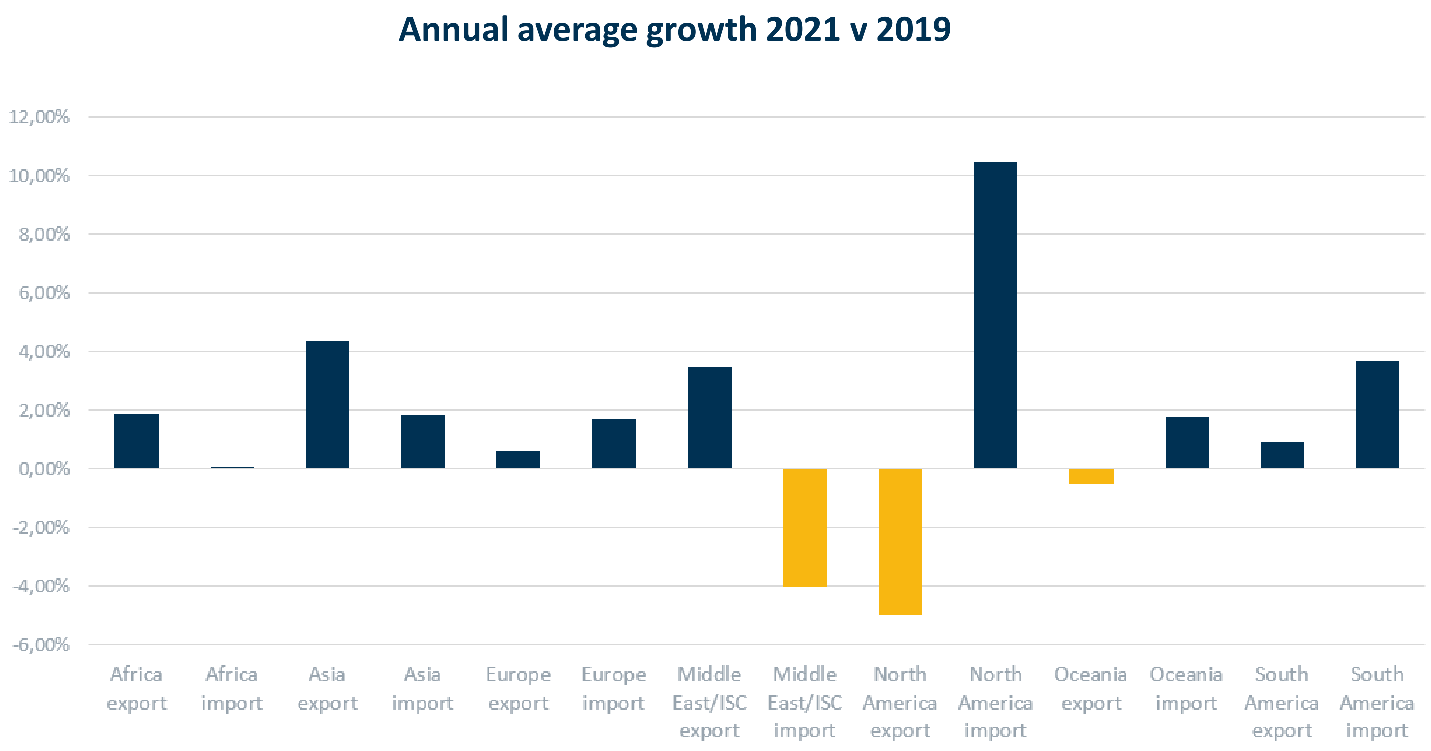
# WITH REGIONAL UNEVEN DEMAND DEVELOPMENT,

If demand grew a strong 6,5% in 2021, very unbalanced split per regions are causing the logistic issues the industry has to deal with today.

Besides steep freight rate increases, the North American demand boost has continued unabated all year long, growing over 10% vs pre-Covid 2019.

If the third largest trade in the World – Asia Europe – has also remained strong, on the back of solid European economies, other secondary trades have grown more modestly, or retracted, especially on the backhaul routes.

This is also the result of less capacity made available to backhaul shippers, as carriers have preferred to move empty containers, or to skip more backhaul calls, so to rapidly position assets where demand proved stronger.

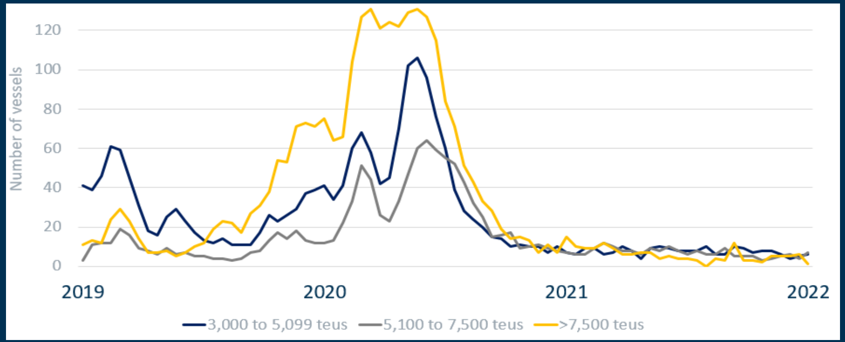


# CARRIERS DEPLOYED RECORD, BUT… UNEVEN CAPACITY !

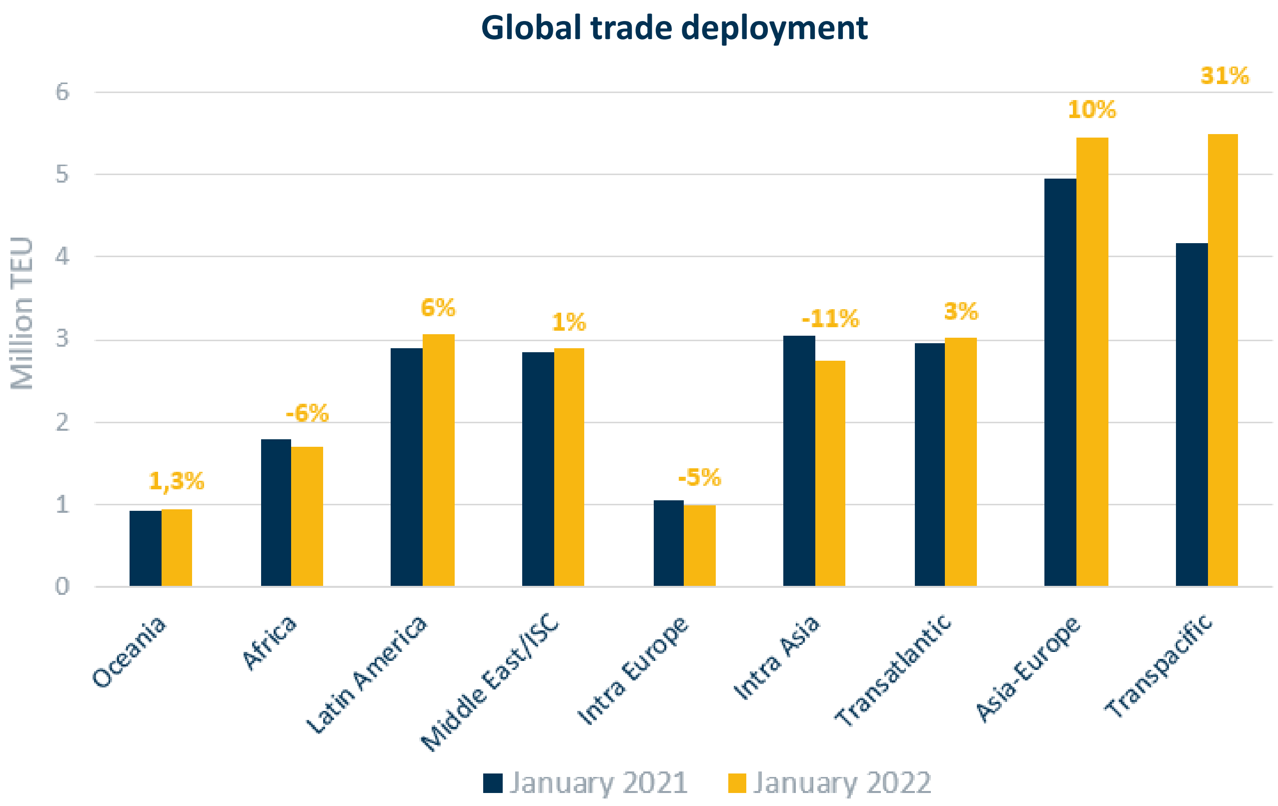
Global container capacity reached 25 million TEUs by end December 2021, up 4,5% from 2020. The largest worldwide container capacity available *ever.*

Carriers have reacted to the demand, making use of every vessel available, cutting the un-used fleet to a record low – below 1% of global fleet - all year long.

**Inactive fleet** (vessels > 3,000 teus)




However, carriers have also focused on deploying vessels on the strongest demand routes, starting with the Transpacific, where capacity grew 31% ! By domino effect, this has ‘impacted’ other – and less remunerative - trades, which have not seen any capacity influx besides demand growth.



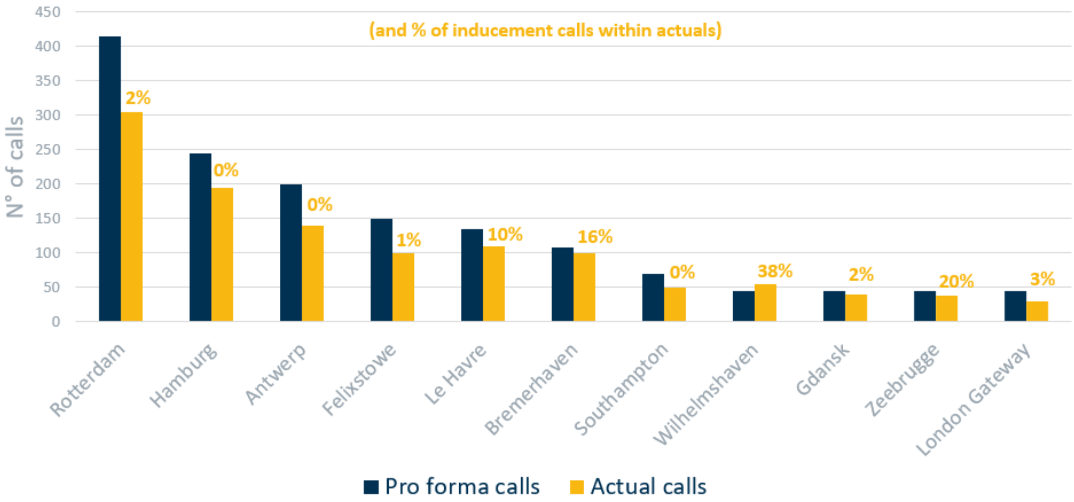
# CONGESTION AND DELAYS NOT EASING UP,

These geographical disparities have only compounded the global paralysis. Unable to cope, US intermodal networks bottlenecks continue to further worsen congestion at ports.

With vessels waiting times still above 15 to 20 days in many US ports, congestion has expanded beyond the US borders.

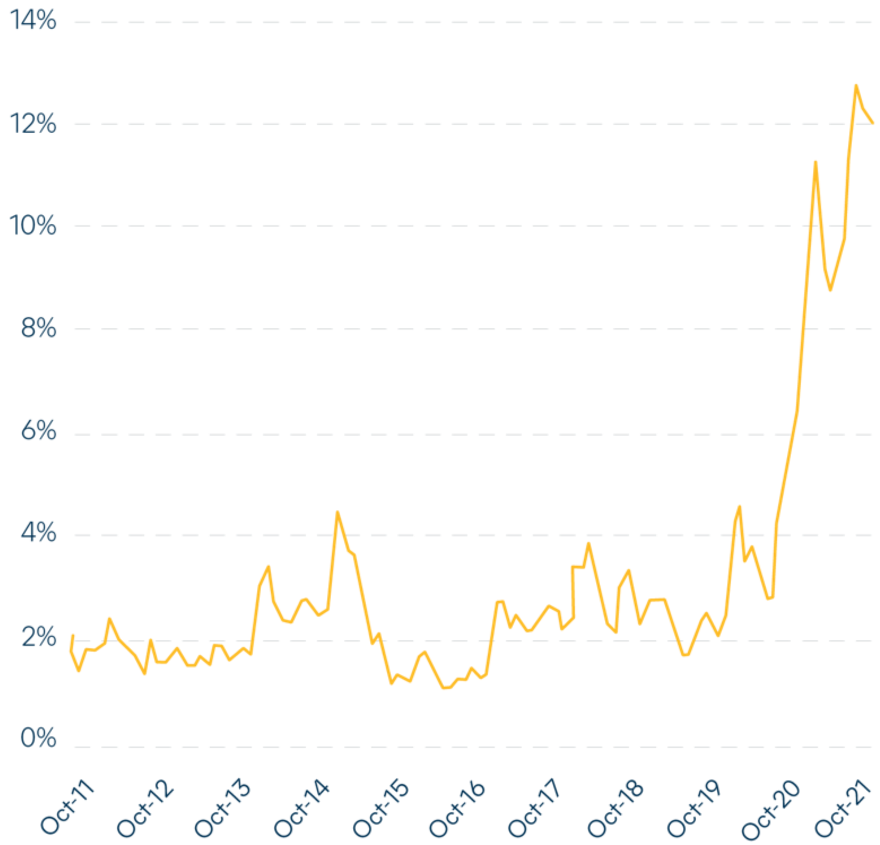
In H2 2021, congestion prompted carriers to drop 25% of all North Europe calls (400 port calls) on their Far East loops.

North European calls of Asia-Europe services : July - November




By end December, **around 13% of the World capacity** was made ineffective by delays! Like removing the equivalent of CMA-CGM’s entire fleet.

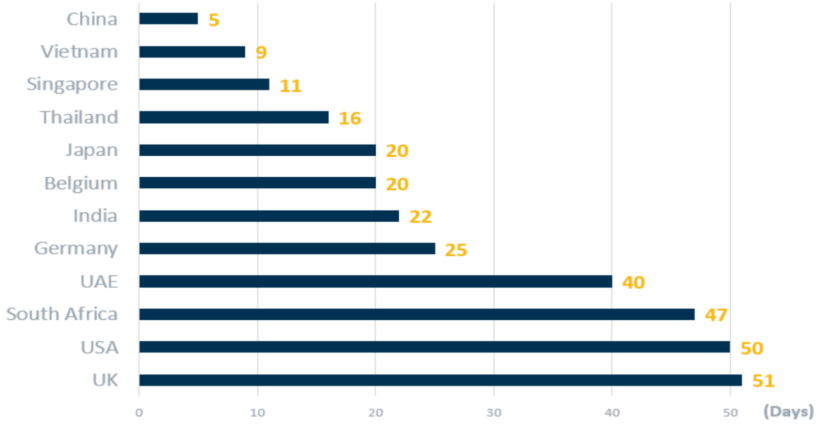
Absorption of global fleet due to delays



# AND CONTINUES TO IMPACT EQUIPMENT AVAILABILITY.

Delays, congestion and lack of truckers or chassis have seriously deteriorated actual container availability ! Empty equipment idle time increases, but containers are badly needed.

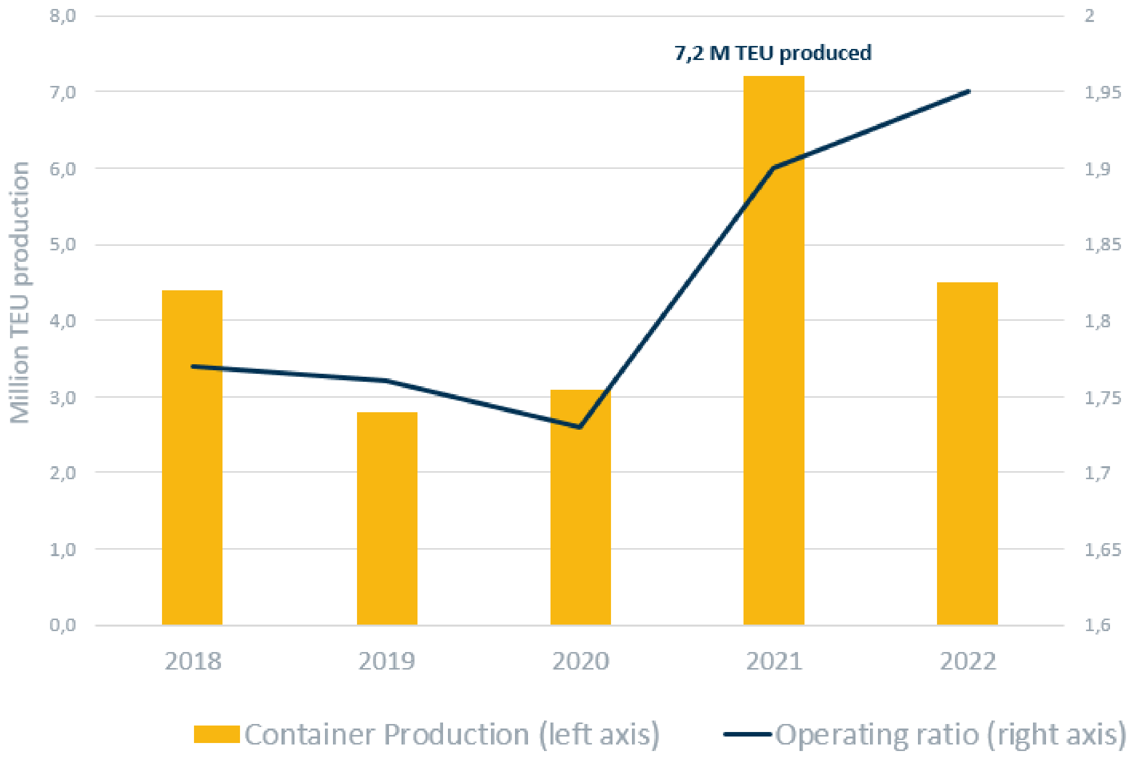
**Average median time containers spent in depots in 2021**




Besides the solid equipment production in 2021, primarily ordered by ocean carriers, the actual (operating) ratio of available TEU per slot, remains low and will only marginally improve ahead, due to poor equipment turn around time.

With the large difference between back and headhaul freight rates, carriers prioritize empty containers repositioning – further impacting backhaul shippers on some routes.

**Equipment fleet : production and operating ratio**



TURBULENCES WILL LAST!

# OPERATIONAL COSTS KEEP INCREASING,

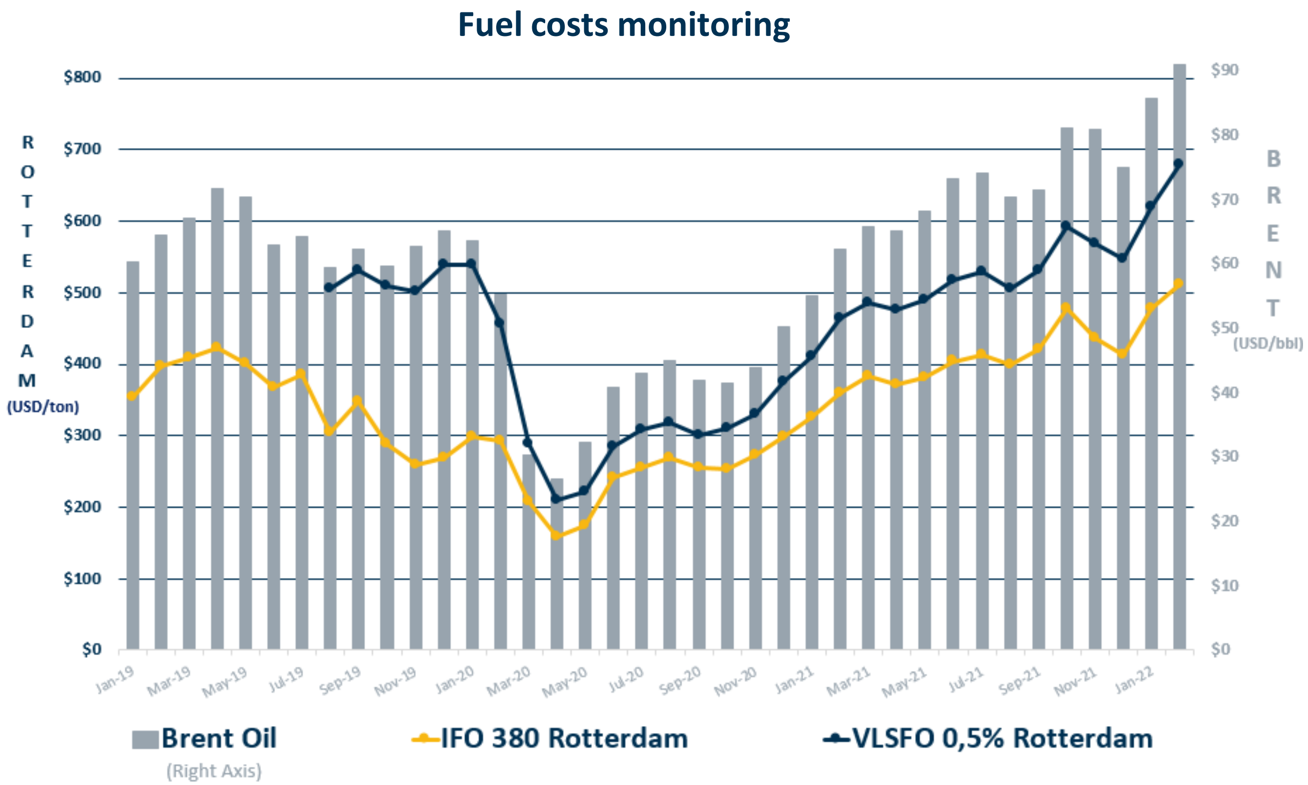
The whole supply disruption is pushing all operational costs upwards.

- Fuel costs at their highest in seven years.
- Extra tonnage deployed to maintain some sort of service integrity…
- Vessel charter fees 4 times higher than a year back.

| Size | Nov 2021 $/day | Dec 2021 $/day | MoM Change % | Dec 2020 $/day | YoY Change % | Jan 2022 $/day |
|---|---|---|---|---|---|---|
| 8500 teu | 131,500 | 135,000 | 2.7% ↑ | 35,000 | 286% ↑ | 135,000 |
| 5600 teu | 101,500 | 102,000 | 0.5% → | 30,000 | 240% ↑ | 102,000 |
| 4000 teu | 87,000 | 87,000 | 0.0% → | 23,500 | 270% ↑ | 87,000 |
| 2500 teu | 66,500 | 61,000 | -8.3% ↓ | 15,500 | 294% ↑ | 63,000 |
| 1700 teu | 44,000 | 44,000 | 0.0% → | 12,750 | 245% ↑ | 50,000 |
| 1000 teu | 30,000 | 29,500 | -1.7% ↓ | 8,300 | 255% ↑ | 30,000 |
| Alphaliner Index | 438 | 433 | -1.1% ↓ | 119 | 265% ↑ | 444 |

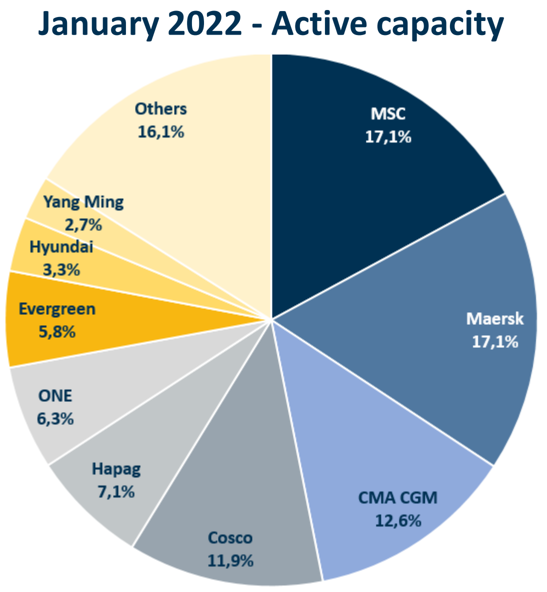
- Newbuilds prices double vs a year ago, at $6000 a 40ft dry.
- Port and intermodal congestion costs, increased demurrages…

At $150,000 a day for a vessel burning 100 tons of fuel daily, every 24 hours waiting at a port, does come at a cost !



# LIKELY UNDER-CAPACITY WILL CONTINUE IN 2022,

Including their order book, the top 8 shipping lines, organized in 3 alliances, still control close to 85% of the World's capacity!





The new vessels Order book accounts for 6 million TEU, or 23% of the existing fleet.

However 2022 deliveries are set at around 1 million TEU, or around 4,5% from existing fleet. Lower than expected container demand growth!

# AND IMO 2023 MIGHT EAT UP SAID CAPACITY!

The International Maritime Organization has set new objectives for container shipping in terms of CO2 emission limits comes January 2023.

Over 50% of the existing fleet is not compliant with the new objectives.

From 2022 onwards, most of the 6,000 existing vessels will need to dry-dock for technical changes (replace propellers, bulbs, engine power limitations…)

To reduce consumption and emissions, carriers will most likely need to reduce vessels speed! In doing so, more vessels will be needed to maintain schedules!

But real additional capacity will only truly come through after Q2 2023…

IMO 2023

**2023**
Start of
IMO regulation

**2030**
**-40%** of $CO_2$ emissions
(vs. 2008)

**2050**
**-70%** of $CO_2$ emissions
(vs. 2008)

**REGULATORY CONTEXT : per ship basis**

**VESSEL DESIGN**

**EEXI 2023**

Vessel design
efficiency compliance

*Limit Engine Power & max. speed*

**> 55% of the World Fleet is not compliant**
**Investment needed to optimise Engine Power Limitation and speed**

**VESSEL OPERATION**

**CII → Every year from 2023**

Yearly $CO_2$
emission compliance

*Lower consumption through optimized operations or lower ops speed*

Yearly ranking
A B C D E

A, B or C compliant
D non compliant : 3 years to remedy
E non compliant : 1 year to remedy

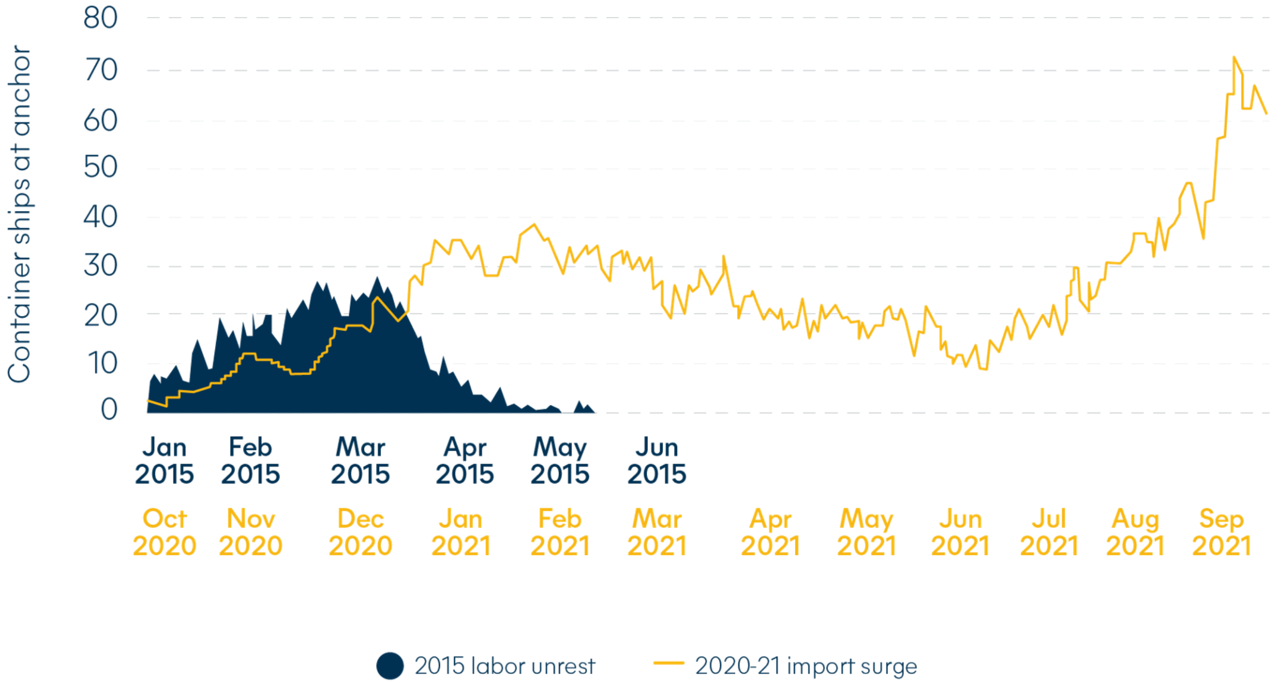
*CII target reinforcement 2% per year from 2023 to 2026*

# MEANWHILE, A NUMBER OF UNCERTAINTIES REMAIN…

Besides all pure supply / demand driven current challenges, the industry may face further turbulences ahead:

- How long for actual ports congestion to go away, as post Chinese New Year demand will now resume ?
- Further costs increases with demurrage and detention as containers cannot move as per plans.
- Political instability with the Ukraine / Russia crisis.
- Very concretely, the ILWU (California longshoremen union) contract renegotiations in June. At their last contract discussions in 2015, the work stoppage had provoked the highest congestion and disruption California had ever gone through. At the time, that congestion was three times inferior to the current situation…

**Los Angeles/Long Beach congestion : 2015 v 2020-21**



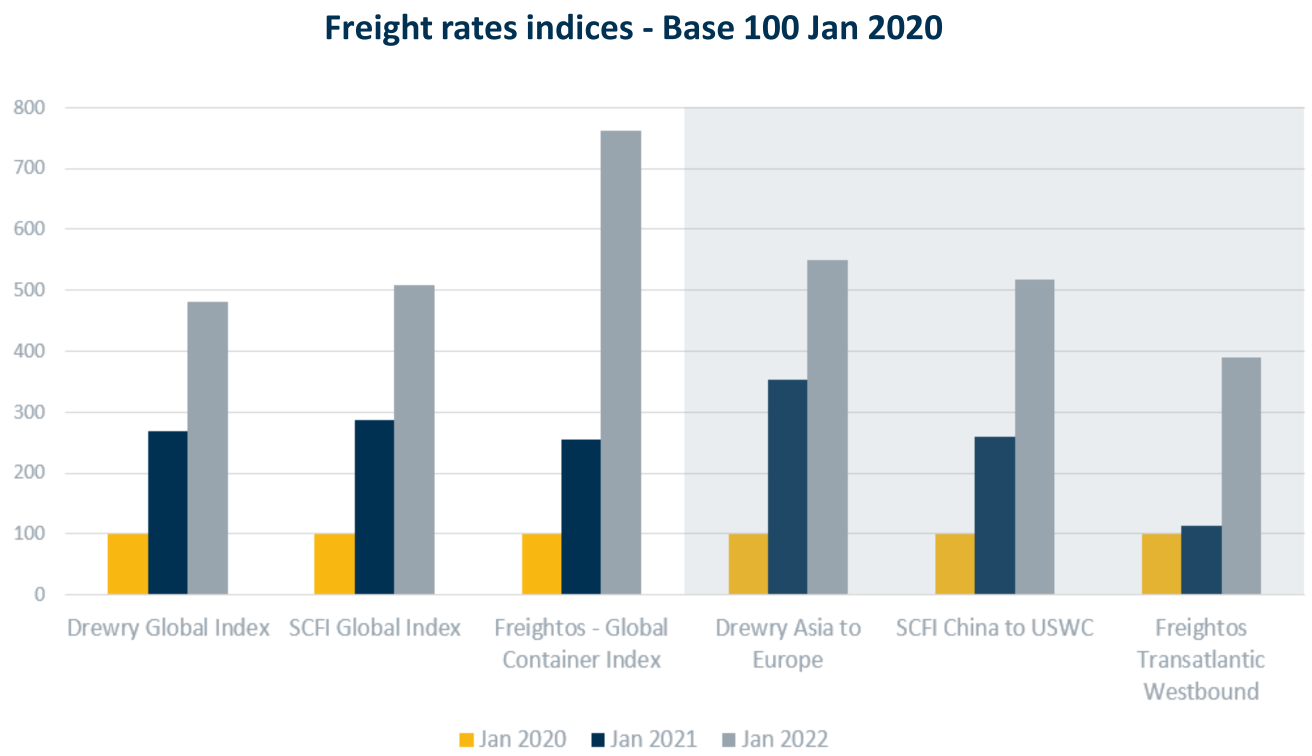
# ALL INDICATING FREIGHT RATES AND TRANSPORT COSTS WILL REMAIN HIGH !

Spot / short term rates exceed $20,000 on the Transpacific and now flirt with $10,000 per container on the Transatlantic.

Besides the obvious fuel costs, shippers must expect:

- Rates to keep increasing, and remain volatile, unless committing long term.
- Terminal handling charges as well as port demurrages fees to increase.
- Landside costs to remain very high due to power shortage.
- Free time provisions to reduce, and per diem fees to increase, as carriers want equipment moving.

Longer term, comes 2023, supply / demand most likely gets more balanced and rate levels may stabilize. Rates will not collapse though, as carriers have learnt how to manage capacity.




*© Drewry – SCFI – Freightos - Hillebrand*

# THE WAY FORWARD?

Lack of space, lack of containers, high disruption and high ocean freight rates will remain essential parameters in 2022.

Shippers need to…

- Increase inventories, anticipate and allow for longer lead times.
- Adapt to reduced container free times, expect higher per diems linked to delays and landside bottlenecks.
- Prioritize long term contracts and secure capacity.
- Provide reliable forecasts and deliver commitments to protect allocations.
- Consider long term engagements.
- Accrue for freight rates to remain high.
- Consider groupage / LCL solutions.
- Consider air freight alternatives for urgent flows.

# THANK YOU