No stopping the push for bigger and bigger ships

Dale Crisp in Melbourne

MY KIWI friends tell me there was much tittering in certain circles at Otago's recent announcement it would begin equipping Port Chalmers for 6000-TEU ships.

"They're kidding themselves if they think anything that size is going to come to New Zealand," was one typical comment. "Another case of our ports big-noting themselves, which will no doubt trigger another round of 'me-too' over-investment. Ships that big could take half the country's business in one voyage."

Well, let me tell you, they're out there and they're coming.

As my colleague Dave MacIntyre has often observed, neither New Zealand nor Australia are agenda-setters when it comes to global shipping lines: in effect, we take what we're given.

The last time peculiarities of ANZ trades specifically determined the characteristics of vessels deployed was the advent of the P&O Nedlloyd/Contship 'Albatross' class, 4100-TEU ships on a shallow draught with high reefer capacity. These have proven to be compromised vessels in some respects, and where are they now? Dispersed around the Maersk network and exiled back to Hapag-Lloyd (as Contship successor) on non-ANZ services.

Only half of that fleet is still locally engaged, and then effectively on *feeder* services rather than long-haul. And that gives you a major clue as to the way things are heading — and, broadly speaking, have been ever since the advent of containerisation.

In 2002 when the Albatrosses were introduced, not only were they by far the largest ships in Australasian trades, they were also not disgraced in the world league. Today, 4250-TEU ships are considered the workhorses of international trades, up from 3500-TEU ones two years ago, 2900 TEUs four years ago, 2500 TEUs six years ago, 1700 TEU 10 years ago, etc.

Eagle Container Line's (Contship predecessor) second-generation ships in the mainline Europe-Australia trade, the 1000-TEU Brave Eagle class of 1985, was barely big enough for the trans-Tasman route just 15 years later.

French analysts AXS-Alphaliner recently calculated that there are already seven ships of over 10,000 TEUs in service — and a "frightening" 182 units of average 12,200 TEUs (between 10,000 TEUs and 14,900 TEUs) on order, with an overall value of US$30 billion.

Total capacity of these 182 ships is 2,226,000 TEUs, equivalent to 21% of the total existing cellular fleet (10.6 million TEUs) as at October 1, and they are on order for ownership or operation by the likes of APL, China Shipping, CMA CGM, COSCon, CSAV, Hyundai Merchant Marine, Maersk, MSC and Zim.

The eventual operators of quite a large number of these ships have not yet been disclosed, and many observers believe this may not be the complete order book as builders and owners are not keen to reveal the true situation to competitors. Deliveries are between now and 2012 and, as ASX-Alphaliner says, conceivably more could be added for the years 2011 and 2012 when not all yard slots are yet full.

The largest number of these 10,000-plus TEU ships is destined for Mediterranean Shipping Company — so far 44 in all — and the Swiss-based company currently has 63 known ships on order, totalling 646,000 TEUs. And the smallest is 4300 TEUs!

According to ASX-Alphaliner, MSC plans to have three series of eight or nine 12,500-13,500-TEU ships, and a series of nine 11,000-TEU class on order for delivery from 2008 to 2011. It will be in a position to offer five high-volume weekly loops on the Asia-Med-North Europe sector by 2011-2012, offering an annual capacity of 3.2 million TEUs.

If the carrier maintains three more loops with its current 8000-9600-TEU ships, its capacity would reach 4.6 million TEUs, nearly twice its current total on its existing six Far East-Med-North Europe loops (and more than the total annual Australian container trade).

MSC has already increased its capacity by 30% in six months on this route, according to AXS-Alphaliner's assessment. And both MSC — the world's number two — and CMA CGM — the world's number three — are rapidly closing the gap on the global leader, Maersk.

Now, I say again, ships of the 10,000-TEU ilk are unlikely to come to Australasia for decades, if ever. But virtually every newbuilding that's introduced displaces a smaller ship, the so-called cascading of tonnage, and this process works its way down through an operator's fleet and services. So while indeed a 14,900-TEU ship (the latest estimated capacity of Maersk's Emma Maersk class) won't be seen here, the domino effect may well mean that a 6000-TEU ship *does* end up in our waters, and perhaps sooner rather than later.

Sceptics say operators will continue to build smaller ships for the lesser trades and so there will be no pressure for Australasian ports to accept larger box boats. To some extent this is true. However, and by way of example, the estimated operating cost of a 12,600-TEU ship compared with a 10,000-TEU unit, is *45% less* on a per-slot basis. The savings are not so great in other size steps, but they are substantial just the same.

Historically freight rates are, in real dollar terms, lower than they have ever been — but of course operating costs are thousands of percentage points higher. In other words, shipowners are engaged in a ceaseless quest to drive their costs down because competition (and ill-discipline) renders them unable to command more acceptable results for their efforts.

The return-on-sales, and more-so the return-on-capital, are appallingly low at most carriers, and it doesn't necessarily matter how big you are: look at Maersk's results of late.

(In fact, *Containerisation International*'s latest assessment of profitability, based on container rather than group-wide activities, has Thailand's Regional Container Lines — the world's number 23 by TEU capacity — at the top of the table, followed by OOCL (12), APL (8), and China Shipping (7)).

Meanwhile, just a couple of years ago the concept of the 18,000-TEU Malacca-Max ship, envisaged as operating between no more than one or two Asian ports and Rotterdam, seemed way off in the distance. But just last week South Korea's Samsung Heavy Industries announced that it would be the first shipbuilder to build a 16,000-TEU vessel.

The new class will be 180,000 deadweight tonnes, 400 metres in length, and with 20% more cargo capacity than the 13,500-TEU class now the largest on order with the builder — and 10% more engine power. Rather appropriately, Samsung described the new "giant ship" as able to hold 2.2 million 29-inch TVs . . .

To relate all this back to the local scene, once more, I was looking back through some of the material prepared by the Victorian Freight and Logistics Council in support of the case for Melbourne's channel deepening.

At the end of 2004 the council was marvelling at the rush of orders for 8000-TEU vessels, and a briefing document the following year noted that 26% of the ships calling were then unable to use Melbourne at full capacity "and this is expected to increase to 36% by 2008".

Well, it's only 2007 and the number of compromised vessels has already exceeded 45% in several months this year.

There are now seven 4250-TEU ships engaged in Asia-Australia trades and, if what I hear is correct, at least another 10 will be added next year. That will push the percentage of depth-challenged vessels well over the 50 mark, an absolute disgrace for the largest container port in the region.

But that's a whole other issue.

• Dale Crisp can be contacted at decrisp@melbpc.org.au