Transportation: New challenges and rising costs

Han Ning, Director, Drewry China
ning@drewry.co.uk
Agenda

• New challenges – Economy and trade
• New challenges – Shipping and supply chain
• Rising cost - Freight rate outlook
• Solutions
New challenges - World Trade Flagging
Container shipping volumes being disrupted

Ratio of world merchandised trade volume growth to world real GDP growth, 1981-2016

Avg GDP multiplier = 3.2 (1980-07)
Avg GDP multiplier = 1.4 (2008-16)
New challenges - World Trade Flagging
Drivers of trade deceleration

- Nearshoring / regionalisation
- Product Miniaturisation
- Economic Growth
- Protectionism
- Digital Disrupters
- 3D/4D Printing

Global Trade
New challenges - World Trade Flagging

Increasing trade barriers can distort the existing trade flows

• During 2016, a total of 2,336 notifications related to standards and regulations were submitted by 79 WTO members, the highest number of notifications submitted in one year in the Committee's history.
New challenges - Geopolitics & Trade Protectionism

Mega Trends

Globalisation under threat

• Free movement of labour, goods, services and capital is not a by-product of the modern business landscape, it defines it.
• Globalisation has left losers as well as winners and now the world has to learn how to accommodate the new landscape driven by rising protectionism.

US & China or US vs China?

• Two biggest economies of the world are at crossroads, US turning inwards and China the big winner of globalisation becoming the advocate of free trade.

Prepare for Inward-looking economies

• An era that’s likely to be marked by an inward-looking trade and investment policies
• The global economies are highly interlinked by complex web of supply chains, labor and capital.
• Any stress on key linkages could send the global economy in a tailspin.
• BREXIT, US withdrawal from TPP, surge in support for economic nationalism across Europe are not blips and the full effects are yet to be discounted.

Manufacturing technology

• 3D, and now 4D printing
• Benefits of ‘Economies of Scale’ disappear
• Enabling of ‘low volume manufacturing’ leading to more ‘near shoring’ and ‘bespoke production’
• Technology creates a level playing field and allows niche producers to compete
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To evaluate a logistics provider’s service

- Service quality
- Market concentration
- Product diversification
- Schedule reliability
- Service provider
- Cost competitiveness
- Financial robustness
New challenges - Increasing market concentration
Lower return drives liner consolidation

Operational consolidation through alliances

Old

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New

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Three alliances re-shaping into two

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Source: Drewry’s Container Forecaster (www.drewry.co.uk/research)
Impact to shippers
Shippers are left with 3 alliances only.

• Less vendor, less bargain power
• Less port pairs available
• Capacity management / manipulation could be a major threat
• There is also concern of product diversification – port calls, routing, network, frequency, etc.
New challenges – Liner’s financial stress concern
Lower world trade growth has impacted financial returns

Forwarders have a “safe” Z score (>2.99)
Maersk and OOCL have a “grey” Z score (1.8-2.99)
All other ocean carriers who report financial results have a “risky” Z score
Hanjin (based on previous data) was by far the riskiest
Impact to shippers – Hanjin case
Shippers were facing a chaotic situation.

Hanjin was the seventh largest in the world before filing for court receivership. The company’s collapse resulted in hundreds of thousands of shipments around the world being delayed (est. 540k teu). Shippers were facing a chaotic situation and supply chains seriously disrupted:

- Some ships were sized in Asia, Europe and N. America. Uncertain of those ships still en-route.
- Some ports immediately refused to handle Hanjin vessels, and charged high release fee.
- Depending on contract terms, shipowners terminated ship leases and demanded return of ships.
- Some Hanjin agents closed their doors immediately.
- Hanjin offices were unable to provide update information. Customer service hotlines jammed.
- Hanjin’s alliance partners’ containers on Hanjin ships were affected in the same way.
- Many cargo missed the Christmas sales. Buyers threatened refusal of goods.
- A lot of cargoes have been diverted to air freight in the months afterwards.
- Shippers were responsible for all the costs.
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Rising Cost - Container Shipping Rates
Asia to Europe & US Exports (US$ per 40ft)

Weaker volume and lower bunkers reduces rates
Spot rates pick up after Hanjin bankruptcy; pre-CNY surge

Source: Drewry’s Container Freight Rate Insight (http://drewry.co.uk/cfri)
Rising Cost - Container Shipping Rates
Europe & US to Asia Exports (US$ per 40ft)

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Source: Drewry’s Container Freight Rate Insight (http://drewry.co.uk/cfri)
Rising Cost - Logistics Costs & Risks
Perfect storm of trade & supply-side impacts

- Trade & Regulatory Uncertainties
- Tightening Shipping Capacity
- Diminishing Economies of Scale
- Provider Consolidation
- Oil Prices

Costs & Risks
Rising Cost - Container Shipping Freight Rates Outlook
4 years of big rate reductions will see partial reversal

Annual freight rate trends, 2013-2018 ($ per teu)

Source: World Container Index

Notes: * Weighted average of two-way Transpacific, Europe-Far East and Transatlantic trades, inclusive of THC and intermodal rates where appropriate, covering both spot and contract markets ** Full-year projection

Source: Drewry’s Container Forecaster (http://drewry.co.uk/research)
Rising Cost - Break Bulk Vessel TC Rates

Time charter rate

USD $ per day

<4,000 dwt  7,500-9,999 dwt  10,000-14,999 dwt  15,000-19,999 dwt
Rising Cost - Break Bulk Shipping Freight Rates Outlook
Capacity conditions to tighten (Index: 100 = 2007)

Source: Drewry’s Multipurpose Shipping Forecaster (http://drewry.co.uk/research)
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Solutions: Supply chain management

- Service quality
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- Market concentration
- Product diversification
- Service provider
- Cost competitiveness
- Financial robustness
Solutions: Supply chain management

- Cost competitiveness:
  - Monitor freight spot market
  - Benchmark contract rate
  - Forecast freight rate
  - Monitor provider’s finance stress index

- Financial robustness:
  - Drewry Benchmarking Club

- Service quality:
  - Route-specific freight rate forecast

- Drewry’s e-Sourcing Ocean Freight Solution

Optimize procurement process; Advice on logistics provider’s negotiation
Remedies: Benchmark Costs
Confidentially benchmark contract shipping costs against peers

What are the business benefits of joining Drewry’s Benchmarking Club?

Drewry’s Benchmarking Club comprises several key features to support your freight procurement needs:

- **Container Freight Rate Benchmarking**
  Allows members to share their contract container freight rates confidentially with Drewry and to compare these with the average, minimum and maximum rates submitted by other members via customised reports.

- **Drewry Outlook Briefings**
  Provide members with Drewry’s expert analysis on the latest industry trends as well as our forecasts for future freight rate development via regular webinar briefings.

- **Best Practice Forums**
  Enables members to share best practice in freight transport procurement through a series of interactive webinars hosted by Drewry consultants.
Solutions: Seek Advice With Logistics Provider Negotiations

Drewry’s e-Sourcing Ocean Freight Solution

1 ➤ Audit

- Audit & Review
- Map & Measure Current Services
- Compare vs Market actuals

2 ➤ Optimize

- Provide advice on e-Sourcing Optimization
- Evaluate Current & Future Marketplace Dynamics
- Design & Manage e-Sourcing Optimization Event
- Analyse historical Costs & Service vs spot, contracts and future trends
- Conduct Competitive e-Sourcing event
- Perform real-time analysis
- Design go forward plan

3 ➤ Implement

- Obtain global Agreement & Implement decisions
- Jointly Manage QBR’s
- Monitor contracts
- Measure savings & performance
- Design & Measure carrier performance KPIs
- Train for next event
Conclusions

• Globalisation under threat, get prepared for Inward-looking economies

• Slowing world trade & excess capacity are diminishing logistics provider returns

• Lower return drives liner consolidation, and shippers are left with less choice

• Increasing risk of failure amongst top shipping providers

• Shipping freight rate is rising. Latest global container spot rate forecasts for 2017 is a rise of 12.3% on average

• Cost effective freight rate procurement and making the right carrier selections are critical to mitigate these risks