RISI Shanghai Conference

Challenges for the Pulp and Paper Shipping World

May 23, 2019
UNCERTAINTY
Markets never like uncertainty

- Trade dispute with US
  - Affecting exports
  - Affecting paper industry
- Paper Industry in China struggling with Prices
- Pricing stand-off in China in Q4
- Effect of big mergers
- Shipping markets in turmoil
  - rumours of acquisitions abound
Stretching Capacity

- This led to an unexpected and unprecedented spike in inventories
- 10% rule went out of the window
- Balance bonded to general trade reversed
- Proved what our capacity really could be
THE SHIPPING MARKET
1. BREAK-BULK
Break-bulk to China

- Recent consolidations mean there are two dominant carriers in the sector
  - Saga Welco and G2 Ocean
- Have recently seen other carriers appearing in sector
  - Panocean with Fibria contract (now Suzano)
  - Cosco ex Finland and now appearing ex Brazil (Suzano/Stora Enso)
- Westwood Shipping has a strong position from BC but with limited fleet
North America to China

- Main paper-grade pulp imports come from BC area
- Strongest BB carrier in this trade is G2Ocean with regular scheduled services to Qingdao, Yangtze and South China
- Westwood Shipping also has regular sailings to Qingdao and Changshu
- Today only one regular BB carrier from East Coast with limited capacity – Wagenborg bringing Rayonier pulp from the St Lawrence River
- Shipping to China from North America sees a preponderance of container shipments
- Most fluff is shipped by container
- This is due to cheap back-haul rates due to imbalance of imports to exports
  - Head-haul against back-haul
  - This could be in danger
South America to China

- The trade for pulp from South America to China is dominated by break-bulk
- There is less availability of back-haul containers in South America close to where the production areas are
- Brazilian economy has not been good resulting in less availability of empty containers
- Only 2 major producers are using containers to any dominant extent
- Shipments tend to be very large and we can see shipments of >50,000 t from one shipper/one port
- That would be 4000 TEU – a logistical nightmare
Europe to China

- Main volumes coming from Scandinavia and Finland
- This trade has traditionally been dominated by containers
- Some factors have led to less availability of containers
  - Russian sanctions
  - Growth in other trades such as lumber
  - Timber export from Finland to China particularly has seen spectacular growth which has also put pressure on the shipping sector
  - This represents a growth from 13,000 FEU in 2013 to 58,000 in 2017
- As a result we have seen the start of regular break-bulk shipments from Finland to China particularly from Metsa Fibre. Others including the timber suppliers have also dabbled in this due to container availability
Freight

- Breakbulk freight
  - Baltic Dry Index a good indicator of the health of bb shipping sector
  - very turbulent. Again hit a low at the beginning of this year

- Shippers are always happy to see low freight rates
- Ship-Owning is a long term investment.
- Ships have a limited life-span
- Owners must see sustainable long term rates in order to justify investment in new fleets

- Baltic Dry Index
Break-bulk issues for the future

- There is significant new pulp capacity possibly coming on-stream by 2022 including:
  - UPM Uruguay
  - Arauco Mapa
  - RGE
  - Metsa
  - Finnpulp

- Pulp is best shipped by Open Hatch vessels

- Carriers will need new capacity to be able to cope with these new volumes – vessels are also being scrapped as they get older.

- Vessels built before 2000
  - Saga Welco 23
  - G2Ocean 25

- Freight-rates must show a level of return to enable Owners to justify investment
Current orders

Traditional carriers

- Saga Welco took delivery of MV Saga Faith on 10 May
  - This will most likely be the last ever gantry vessel built
  - No other vessels on order at present

- G2Ocean – apparently no new vessels scheduled at present

Newer Players

- Panocean have 3 more vessels to deliver under the agreement they made with Fibria, now Suzano

- Cosco have taken delivery of two 62,000 dwt vessels. One more is scheduled for delivery in July. Total of 12 have been ordered

We must not forget that in the meantime the existing fleets are ageing
Issues facing break-bulk carriers and shippers

- Receivers wanting bus service
- Multiple calls with large vessels – Xiamen, Dafeng, Ningbo, various mill berths such as Dagang
- Particularly the case where receivers have been used to receiving by container
- Multiple calls cost time and money and increase risk of accumulative congestion issues
THE SHIPPING MARKET
2: CONTAINERS
Containers

- The Shanghai Containerized Freight Index is a good indicator of the container market
- It is fluctuating dramatically in recent times
- Over-capacity
- Competition between carriers
- Incidence of current trade dispute with USA
- However containers do have a large market share and are very aggressive in pricing
Container Carriers – comments coming out of last Transport Symposium

- According to Drewry – most carriers in Financial Distress
- After the Hanjin Debacle carriers trying to get more control through consolidation
- Short term view on rates
- Complaints about rollovers
- In any other industry would ‘back-haul’ rates be denounced as dumping?
- Are they dedicated to our industry?
- Do they carry cargo or containers?
Issue facing container carriers – North America and Europe

- Imported recovered paper was 28-30 mill tons per year
- China has introduced a strict policy banning import of Mixed Waste and intends to cut back dramatically on all waste imports
- Loss of > 10 mill tons backhaul cargo as result of China’s new mixed waste policy
- Equivalent to 770,000 TEU
- If trade dispute continues at same level or worse lack of inbound containers will create an imbalance and problems for pulp exporters to China from US and Canada
Issue facing container shipments

- Difficult for customers to receive large volumes within free-time.
- Lack of flexibility for receiver in terms of when he can take delivery
- Strip and deliver solutions complex and expensive from large ports such as Shanghai Yangshan
- Shipping to inland destinations complicated unless freight to inland destination has been included
- Abusive reception costs make for very unhappy receivers
- Pulp ports offer the possibility of storage and consignment which is more difficult with containers
THE BIG ISSUE
This year’s big issue

- **IMO 2020 – Sulphur reduction**
  - From 2020 ships must burn low Sulphur fuel or have means to clean the existing type of fuel
  - Some carrier opting to fit scrubbers to bigger vessels to clean the fuel and enable them to continue to burn heavy fuel
  - This option has a cost which they will pass on to shippers
  - Others are opting to burn low Sulphur fuel. This fuel is much more expensive and cost will be passed on to shippers
  - There are some issues with availability in certain trades
  - Special session on this issue by a panel of experts at our Transport Symposium in Tarragona this year in September
PORTS AND DISTRIBUTION
Recent trends - CPT

- Pulp was traditionally sold in China on a purely CIF/CFR business
- About 5 years ago we saw that this trend was changing
- We began to see a change towards CPT terms
  - producers more confident in Chinese market
  - more competition
  - go West Policy and growth of capacity inland
  - a desire to have a closer relationship to customer
  - requirement to ensure better Supply Chain
  - requirement to improve quality which can only be done by controlling entire Supply Chain
- Through our terminal in Changshu we have seen this grow from about 30kt per year to over 1 million tons in this period
Definition of Supply Chain

Supply Chain Management:

Primary Objective: fulfill customer demands through the most efficient use of resources, including distribution capacity, inventory and labour.

Supply chain = match demand with supply with the minimal inventory.

Supply chain = creates complete efficiency rather than efficiency of sections.
Market trends in China

- CPT phenomenen – increase in volumes where inland shipment is for account of shipper
- Drive towards consignment
- Restrictions on truck loading – max weight by truck reduced and regulations being applied – some ports ignoring these restrictions when loading
- Leads to more barge / local truck moves
As the need for better Supply Chain continues:

- Shippers need to reduce lead-times
- From South America this can be as much as 100 days
- Need to guarantee supply to important regular customers
- We are now seeing a growth in ex-consignment sales – partially covering the requirements of important customer
- This requires a high degree of confidence between buyer and seller
- Also a terminal partner who can be trusted
- Free out or Liner out? Who and why?
Quality and reliability are key

- Pulp customers are becoming more and more demanding about quality.
- This applies to vessels and cargo condition as well as what goes on in the port
- On dock quality bonded facility is an essential part of this
- WMS system with bar-code or RFID capability
PULP FACILITIES
China ports situation

Qingdao

- Qingdao continues to dominate North China and particularly Shandong
- Facing competition from direct calls in Tianjin and Lianyangang
- Port does not have access to delivery solutions other than by road – therefore impacted by road restrictions
- Can also handle coastal t/s
- Largest part of volume handled in port is in containers
- But a number of companies operate off-dock bonded facilities and others sub-contracting
- Port’s model for break-bulk is rapid turnover with massive use of outside storage. It is efficient for large volume quick turnover to immediate hinterland
- Dominant and inflexible Port Authority with very changeable pricing policy
China ports situation

Yangtze River

- Shanghai handles major container volumes but today has limited breakbulk volumes
- Changshu dominates the Yangtze River
- In 2017 about 4.1 mill tons in Euroports terminal and about 700kt Indonesian Pulp in CCIP terminal
- Euroports terminal = 120,000 sqm of covered warehousing – of which 50% bonded
- Unusual in that bonded facility on dock
- Currently finding solution to open neighbouring berth to improve vessel turnover
- Additional gang capacity being added in 2018
- Additional re-loading capacity has been added – what comes in must go out
- Current warehousing capacity – 120,000 sqm
- 2 additional warehouses being built
China Ports Situation

South China

- Until now no modern pulp facility
- Break-bulk pulp being delivered
  - Ex barge from Hong Kong
  - Nansha
  - Huangpu
  - Gaolan

- Receivers, shippers and carriers have been looking for this gap to be filled
- Euroports started up terminal in Gaolan in January 2017
Gaolan facility

- Euroports started operating in Gaolan in January 2017
- G2Ocean and SagaWelco already calling regularly from South America
- We have just completed construction of phase 1 of our terminal and now operate 60,000 sqm
- Bonded facility on dock
- Full service operation as in Changshu
IFPTA is an association for professionals in the transportation branch of the forest products industry.

Members include professionals from Pulp and Paper Producers, World-wide traders, Ports, Shipping Companies, Railways and Forwarders.

IFPTA co-organizes with RISI the PPI Transport Symposium every two years. The 23rd edition will be held in Tarragona in Spain in September this year.

The Journal

IFPTA on the Road