

## **The future roles of ports of the Atlantic- and Pacific-coasts in both hemispheres.**

A look at the competition between East Coast- and West Coast-ports of the U.S.A and lessons that can be learned by South American Port Authorities.

As always, there were several presentations in the Terminal Operators Conference in Amsterdam in June that deserve a lot of attention and provided “much food for thought”. Much attention was paid to the problems that the excessive advance of Ultra Large Container Vessels are causing to almost all ports in the world, which was made very clear in an important paper with the title: ***Growing ULCV Fleet to Cause Catastrophic Economic Failure***. But port-authorities of countries in South America, should not only pay attention to this paper, but much more to what was said about the problems faced by the ports of the East Coast of the USA., one year after the opening of. the new locks of the Panama Canal, which has an important role in this question. **Many in the USA consider that the great expenditures that have already been made in East Coast-ports to receive vessels of 12.000 teu, which now can transit the Panama Canal, are already too high and have nothing to do with the advantages of a real system of “economy of scale”, where the necessities of the trade must be well balanced.** Many believe that these vessels are already in excess of normal demand and that it will take a long time, before these vessels will really be able to prove their advantages for the commerce of the U.S.A. And here is something very important which South American countries should be aware of: **The USA still has the best railway-system in the world and can “balance” the advantages of the ports of the West-coast (Pacific) and of the East-coast (Atlantic).This is not the case in South Americas and you will find more about this in a next article.**

**It is important to note that a well-known professor of a U.S.-university already made a clear warning in T.O.C. Amsterdam, that some authorities are preoccupied by a dual competition: first between the East-Coast-and the West-Coast ports that are not limited by the use of the Panama Canal and second the ports of the East Coast, trying to compete to receive ever bigger vessels. The authorities are aware that these bigger ships are not an advantage for the trade but are being “cascaded from Asia-Europe traffic, where they are displaced by an excessive amount of vessels of up to 21.000 teu, that are still coming in, notwithstanding a longtime overcapacity which still is growing and only now starts to come a little under control. These ships of 12.000 teu coming now to the East Coast of the USA, do not respond to normal demand of the U.S. and their advance should be “checked”. The professor even had a “warning”, that if things are not better controlled, the USA authorities might forbid vessels in excess of 12.000 TEU to call at its East Costs ports for the time being. (In this question, the formation of the 3 alliances of liners operating between Asia and Europe and Asia-N.America and how this can be controlled, form part of the discussions in the USA, but was not mentioned in the T.O.C. as far as I know. The USA probably will change its Shipping Act for this)**

Although the article “*Growing ULCV Fleet to Cause Catastrophic Economic Failure*” has a warning for the future, no clear information was given about the problems which excessive Ultra Large Container Vessels in maritime transport are causing already since 2009 in many “less developed” countries. This problem, which started to hit the USA only last year, started already in many “emerging” countries. immediately after the financial crisis of 2008 and I mentioned it already in the T.O.C. of 2009 in Buenos Aires, when the “lines” started to cascade their excessive vessels of 8000 TEU into the trades of the E.C.S.A. that were much better served with vessels of 5000 TEU. Sending those 8000 TEU vessels to this trade in 2009, had nothing to do with “economy of scale”, but took place because the lines had no other alternative then to try to “oblige” the ports to find ways to receive them, as otherwise they had to lay

these vessels up. The fact that since 2011 nearly all lines have had great losses and in 2016 altogether reported losses of about 3,5 billion dollars, is proof that there is a chaos in shipping and now everybody starts trying to find out who is to blame for this "chaos". Many start to point their fingers to the "lines" themselves. But before doing so, it might be better if everybody that is affected by this problem, (many of which do not pay any attention to it), try to come together and to have a good look how the world came to this bad situation. **Maybe there are lessons to be learned! First of all, probably several regions in the world should take a good overall look at their port-systems and see if "cooperation", instead of ruining competition can be in the advantage of all.** "Competition" is not a clear-cut word: lack of competition is bad for the economy, but overdoing it has always proved to be worse.

People should go back to see how maritime transport changed and IMPROVED in the last 50 years and the enormous impact it has had in the evolution of "Trade and Transport". It was the efficiency of maritime transport that changed the industrial world, now soon the industrial world might be changing maritime transportation, which no doubt has lost its efficiency. If ship-owners lose billions of dollars per year, nobody can talk about "efficient maritime transport".

About fifty years ago we still had a system of great shipping-lines, (a few still dating from the times of colonies), which operated in many traffics in the world, which together with many small operators in other regions, formed a worldwide network. The USA, Europe and Japan had the most important fleets, but even these were all very small in comparison with the present picture . The European ship-owners were favoring the "Conference System", where they divided the traffic between their members. They fixed the freight-charges, **where the motto was, "to charge the freight-rate which the cargo can bear", because if the freight would be too high, the cargo would not move.** They assured regular services to most parts of the world and kept control of the balance between "demand and supply", demand of ships for the cargo they would have to transport. New-buildings were usually well studied , but even so there were always some "pig-cycles". There were always outsiders, operating outside the conferences, mostly of Greek origin, that always offered lower freight-rates. These outsiders avoided excesses of the freight-rates of the Conference-system. But Shippers Councils were against this "collusion" and little by little the Conferences were abolished.(In 2008 the European Union repealed EC Regulation No. 4056/86, ending the anti-trust immunity that many groups of shipping lines had long enjoyed). But is the world now better off without the Conferences or would the present crisis have been avoided? The chaos that now exists, is clearly the result of "excessive competition", which probably could not have been the case in the old conference system. But the real danger is, that instead of many small companies, which "competed amongst themselves with a certain type of "collusion", we now are going into a unclear phase of a few very strong alliances, that will possibly have control over rates in the near future, in 2 or 3 years when they can reach a balance between "offer and demand".

Did anybody study how it was possible that the freight-rates of the East Coast of South America could have extraordinary increases already in 2015 ? How rates increased in a short period from rock-bottom to the highest in the world? How can anybody explain that today the SCFI (Shanghai Container-freight Index) shows freight-rates on the spot-market of less than US\$ 1000,-- from China to the Mediterranean and a little above \$1.000 to N.Europe and a rate of US\$ 3600,--to the East Coast of South America? What happened exactly in the recent "container-crunch" in the very important traffic from N. Europe to Asia, where shippers were accustomed to ship a container for less than US\$ 400,-- to China, below operating costs alone?

Last year many consultants explained how the increase in rates from ECSA was done: One line after another withdrew capacity and could raise the freight rates. Consultants gave advice to the lines to do

this all over the world, but then these lines would have had to send a great portion of the excessive ships to lay-up, as was done in November 2009, when 11% of the container-fleet was "idle". Rates were sky high in 2008, when all the shipyards in the world could not build sufficient vessels that were needed for the enormous demand created by the explosive expansion of China. Since 2004 there had been a lack of vessels and in 2007 the race to build ever bigger vessels started and "economy of scale" became a password. New shipyards grew like mushrooms, especially in China which displaced Korea and Japan from the first spot. But with all those big shipyards fully booked for several years with many ships with capacities of 18.000 teu, this changed dramatically in 2008, when demand slowed and dropped from 17% growth per year in some trades, to less than 4%. It was in 2009, just when the crisis had started, that many ships of 13.000 TEU entered and the "suicidal completion" started. Those bigger ships reduced the cost per transported container and only one company avoided losses in the next few years, because it had started the run for "economy of scale". But this was the reason for other lines to do the same and although there was a growing excess of vessels, ships of over 20.000 teu were ordered by many owners. This was how shipowners digged their own grave

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