thereeferbrief

The week that was...

Small segment charter market activity continues to dominate the column inches. Despite a slow start to the week, a number of laycan week 45 cargoes from Morocco and Mauretania were circulating towards the end of the week. With the Moroccan citrus season about to start and a very busy N Cont to N Africa potato season just around the corner, the current slack in the market should have been taken up by early November. In the short term, the market may soften from current levels before it strengthens.

The total volume of potatoes shipped into North Africa is forecast at 105K MT, a similar volume to last year. Of the total, approximately 60-70% will be shipped under COAs with the balance fixed spot. Vessels will next week start to position north in anticipation of what is likely to be a hectic week 46, when Danish cargoes join those from the Netherlands and France.

Fixtures:

The Avunda Reefer fixed a 5K MT fish cargo from Walvis Bay to Mozambique: two TBN GreenSea vessels fixed fish from N Cont to West Africa: the Cassiopeia fixed a meat cargo from Antwerp to the Congo and the Crown Jade is heading to the Faroes to carry fish into Russia.

Bananas:

The anti-Aldi movement has gathered momentum since the revelation that it will be paying significantly less for a box of bananas in 2019 than it did for 2018. First, Costa Rican national banana corporation Corbana last week and then Colombian banana association Augura and Guatemalan association APIB this week joined the chorus of condemnation of the German discounter, initiated by Ecuador. The four open letters express many of the same sentiments, but they also contain one common and unwritten theme – of which more below…

In Colombia, Augura and Union Sintrainagro issued a joint communiqué, covering 9 points. These include a statement which warns that a lowering of the price makes the Colombian banana sector more vulnerable in social and environmental terms and threatens socioeconomic stability in the three main banana producing regions of Urabá, Magdalena and La Guajira. The communiqué calls on European buyers to revise commercial policy. The final point is that: “we are sure that the final consumer does not know and surely would not support a commercial policy that annuls the innumerable efforts made by producers in the countries of origin to put in their hands a fruit of high quality, produced with social equity and environmental responsibility.” Given the general apathy of the European consumer, this may be a little optimistic!

Corbana General Manager Jorge Sauma summarised a complicated issue most succinctly. He says that the retailers are “attempting to create the conditions for a new war triggered by commercial interests.” He added that: “If the threat of the Aldi supermarkets materializes, it would have a direct impact on producers and would definitely reduce the possibility of maintaining the social and environmental conditions on banana farms.” Most significantly, when he says that: “Today, this European supermarket chain wants to punish the banana producers with a significant drop in the price of the fruit, which is inconsistent with what these companies preach to their clients,” he is accusing Aldi of hypocrisy.

In confronting the existential threat posed by retail power, what does the dollar banana bloc have in its armoury? How can dollar banana industry stakeholders best protect themselves against exploitation? Should they focus on a supply-side solution or is the answer in the management of demand?

On the supply side, Mr. Sauma suggests that: “This significant threat (…to the banana industry) would lead to the creation of a unified block formed by the banana-producing countries in Latin America, which represent 75% of the bananas imported by the European Union.” Hmmmm….!? Is that posturing or a feasible possibility?

The suggestion echoes an idea discussed in a Reefer Trends editorial of more than a decade ago, in which the publication advocated the unification of the dollar banana bloc under an inverted quota/licence system along the lines of the OPEC oil cartel. Unfortunately, under WTO rules the operation of such a cartel would be illegal, as would any trans national grouping designed to manage banana supply. Tempting and seductive an idea though it may sound, Mr. Sauma’s proposal is a non-starter, an empty threat.

In reality, the alternatives are few and soon to become even fewer. The common thread in the statements is a tacit acknowledgement that neither AEBE, Corbana, Augura nor APIB have any jurisdiction over the respective destinies of the Ecuadorian, Costa Rican, Colombian or Guatemalan banana industries. In the sphere of market behaviour, they are impotent; the fortunes of the stakeholders they represent are entirely dependent on variables beyond their control. Right now it is the price that Big Retail in the EU and US pays that determines the viability of dollar banana farming.

However it won’t be long before shippers will have to battle against an equally formidable supply chain variable. Once the specialized reefer mode disappears, shippers will face less choice over their logistics solutions and therefore have less of a bargaining chip to negotiate rates. The container lines will be able to force through General Rate Increases with less opposition and producer returns will inevitably come under greater pressure. This pressure will only be relieved if there is price inflation in the market – which, as the Aldi price decision so clearly demonstrates, isn’t going to happen.

If they can’t affect supply, how about influencing demand? The problem for the dollar banana bloc is that no matter how unethical, unscrupulous and hypocritical the Aldi decision is, or is perceived to be, it is not illegal. This is a circle that cannot be squared. While stock listed companies face strict ethical guidelines over how to conduct business and treat suppliers, privately held companies face no such censure. As a private

SHIPPING

SPECIALISED SHIPPING

270,000 cbft

‘18	TREND	‘17
78c	***flat/down***	*100c*

450,000 cbft

‘18	TREND	‘17
30c	***flat***	*25c*

BUNKER PRICES (380 cSt)

	‘18	‘17
Gibraltar	*491*	*341*
Rotterdam	***463***	***324***
St Petersburg	*422*	*298*
Panama Canal	***463***	***318***
Fujairah	*497*	*343*
Busan	***547***	***355***

EX RATES

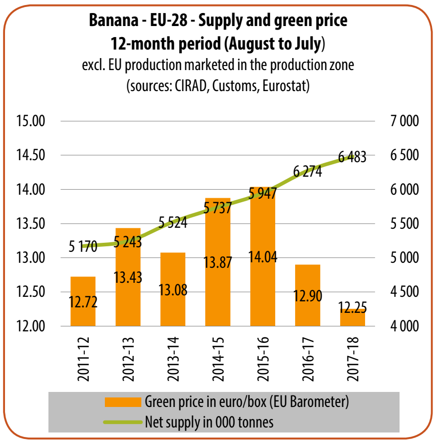
	‘18	‘17
US$ / SAR	*14.61*	*14.08*
UK£ / SAR	***18.73***	***18.66***
€ */ SAR*	*16.60*	*16.62*
US$ / €	***0.88***	***0.85***
UK£ / ***€***	*1.14*	*1.12*
US$ / ¥	***113***	***114***
US$ / RUR	***65.6***	***57.8***
US$ / NZ$	***1.54***	***1.46***
UK£ / NZ$	*1.97*	*1.93*
€ / NZ$	***1.74***	***1.72***
US$ / CLP	***678***	***630***
UK£ / CLP	*881*	*835*
€ / CLP	***781***	***744***
US$ / ARS	***36.78***	***17.48***
UK£ / ARS	*47.14*	*23.16*
€ / ARS	***41.77***	***20.63***

company, Aldi is well within its rights to disregard the spirit of the law and trade by the letter.

And although Aldi is under attack from the supplier base, it has no legal case to answer. It will argue strenuously and legitimately that it has not broken any law: it will add that despite being aggressive on price, it has retained its five core banana suppliers, none of which has complained: it will presumably demand to know against which standards it is being judged, and it may conceivably attempt to justify its action by stating that it is fulfilling a duty to the German public by keeping a lid on the price of bananas …

Under the circumstances, the only defence open to AEBE, Corbana and Augura, other than begging and pleading, is a loud-shouting, name-and-shame exercise in the hope that the mainstream media in Europe will run with the story. To date, there has been no progress: the respective domestic and trade media is on board, but that's sadly where the story will most likely die.

So, what next? The following conclusions offer no solace. There are two basic issues at the heart of the banana problem: the first is economic and the second relates to the rules and regulations governing commerce. As long as the supply of bananas exceeds the demand, the supplier will always be the price taker. One glance at the statistics reveals that banana shippers continue to make it easy for EU retailers (see graph).



Meanwhile, the World Trade Organisation (WTO) principle of free-trade-at-any-cost gives *carte blanche* to the most powerful stakeholders in the chain to pillage and plunder from the weakest.

If the commercial were to transcend to the political, the issue might gain traction, but the respective LatAm governments have yet to define their positions. The final hope is for some sort of epiphany: a damascene moment in which Aldi finds compassion and develops a conscience. What are the chances...?

Bunker Review:

The Bunker Review is contributed by Marine Bunker Exchange www.mabux.com

World oil indexes dropped significantly during the week. It looks like the concerns about a tightening of supply, which dominated markets until two weeks ago, have abated despite the fact that the reasons for them (falling Iranian oil exports, declining oil production in Venezuela, reduced spare capacities etc.) still apply.

Saudi Arabia said the oil market was in a good place and it would not rule out the possibility that country would produce between 1-2m bpd more than current levels in future. The statements followed concerns that Saudi Arabia might cut crude supply in retaliation for potential sanctions over the killing of journalist Jamal Khashoggi. Meantime, both world business and political leaders have been distancing themselves from the Kingdom. The United States and other Western nations are in a dilemma about how to respond because of lucrative business ties, including weapons sales to Riyadh.

Saudi Arabia and Russia may go forward and institutionalize the OPEC+ partnership, likely moving to create a Secretariat based in Vienna. It is expected that such kind of deal would allow the participants to regularly coordinate and share information and views about the oil market, supply and demand, and what kind of intervention the alliance needs to make, if any.

At the same time the OPEC+ nations are struggling to fully deliver on the oil production increase of 1m bpd promised in June. Saudi Arabia put the most extra barrels on the market, boosting its production by 524K bpd in September compared to May. However, Iran's production slumped by 376K bpd in September from May, Venezuela's output plunged by 189K bpd, and Angola saw its production drop by 17K bpd between May and September.

The International Energy Agency (IEA) says that the losses in Iran's oil exports are expected to continue, but it is still hard to believe the Trump administration will manage to cut Iran's exports to zero. An estimated 20m barrels are destined to flow from Iran to China over the next few weeks, up from the usual 1-3m barrels each month.

Meanwhile, the United States warned Russia to not consider helping Iran to evade oil sanctions. It was reported earlier that at an Iran-Russia-Turkey summit in Tehran in September (hosted by Iranian President Hassan Rouhani and attended by Russia's President Vladimir Putin) Iran and Russia cut a deal under which Iran would export crude oil to Russia via the Caspian Sea, Russia would refine the oil in its refineries, and then export the products worldwide. In re-turn for the crude oil supplies from Iran, Russia would provide unspecified trade and service benefits to Tehran.

The EU from its part plans to explore some extra functions for the special purpose vehicle (SPV), designed to help European companies to do business with Iran while evading U.S. sanctions. The idea is to work out a long-term plan that will protect European companies in the future from the effect of illegal extraterritorial sanctions.

Although Russia hit a post-Soviet record in its oil production last month, it doesn't plan to raise output to 12m bpd by the end of 2018, or in the near term, because, as per message from Moscow, this wouldn't fit Russia's economic development plans. In September, Russia's oil production reached 11.36m bpd (a record high for the post-Soviet era). Currently, Russia is pumping 150,000 bpd above the October 2016 level, so in total, the country has increased production by 450,000 bpd since May.

The IMF says that China's GDP growth could slow from 6.6% this year to just 6.2% in 2019, although the risks are skewed to the downside because of the trade war. The Fund said that a worst-case scenario in which the U.S. slaps stiff tariffs on nearly all imports from China would cut off 1.6% points from Chinese growth. As for oil demand, the impact remains unclear. The IEA still thinks that total oil demand in China will rise by 525,000 bpd in 2018, a 4.2% increase compared to last year. That will slow to 465,000 bpd in 2019.

The International Maritime Organization has rules on marine fuels set to take effect beginning from January 01, 2020, and they are expected to significantly tighten the market for low-sulfur fuels. There are some signs that the Trump administration is hoping to phase the regulations in over time, although it is not clear how successful that will be. Besides, at the moment the U.S. even has stricter requirements in place along its coastline. Given the fact that the rules take effect just at the year of the U.S. presidential campaign, the Trump administration probably fears a political price from higher fuel costs.

There are still many uncertainties in both demand and supply, with demand that could slow down with trade wars, weak emerging markets and currencies, and possible supply declines from Iran, Libya, Nigeria and Venezuela. We expect bunker prices will stay in a state of a high volatility and will change irregularly next week.

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