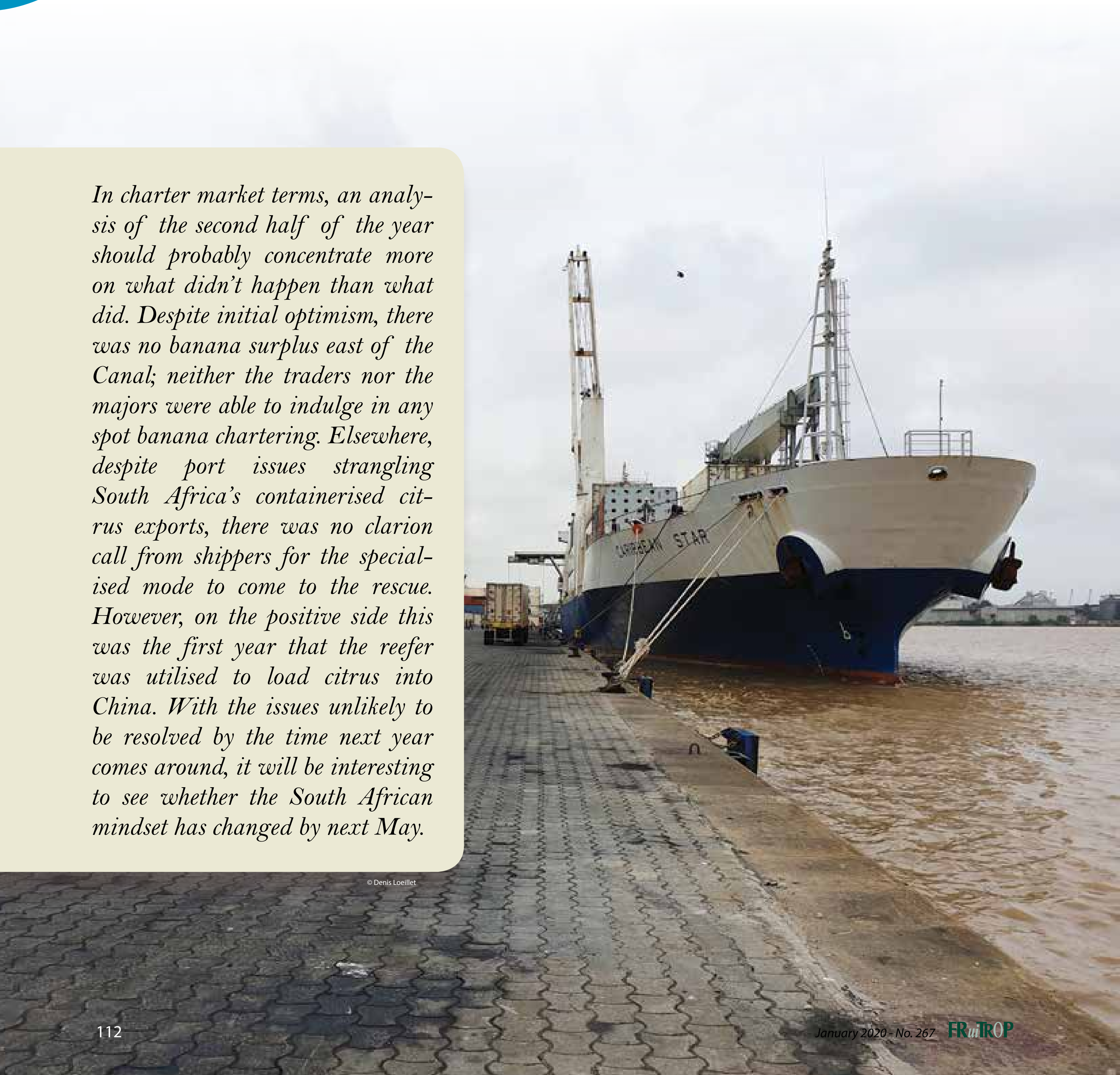
H2 2019

In charter market terms, an analysis of the second half of the year should probably concentrate more on what didn't happen than what did. Despite initial optimism, there was no banana surplus east of the Canal; neither the traders nor the majors were able to indulge in any spot banana chartering. Elsewhere, despite port issues strangling South Africa's containerised citrus exports, there was no clarion call from shippers for the specialised mode to come to the rescue. However, on the positive side this was the first year that the reefer was utilised to load citrus into China. With the issues unlikely to be resolved by the time next year comes around, it will be interesting to see whether the South African mindset has changed by next May.



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Most significantly, there was not/has not been any mass beaching of the reefer fleet ahead of the switch to IMO 2020 regulation LSFO bunkers. It's possible that vessels will head to the beaches of the Indian subcontinent as the new regulation comes into effect, but there are reasons to suggest that a delay is more likely. This is because on paper and very much in theory, the first half of next year should provide rich pickings for reefer operators. Pressure is continuing to build on reefer capacity as Asian markets demand ever more protein to supplement the pork that has been lost to African Swine Fever. Meanwhile if the squid catch in the South Atlantic anywhere near matches expectations, there won't be enough equipment or tonnage to meet demand on these and potentially other core reefer trades. With reefer containers voyaging across the Pacific full of poultry, pork and beef when they should be empty and ballasting south en route to South America, South Africa and New Zealand, it will be interesting to monitor the availability of equipment in the early stages of the southern hemisphere deciduous season.

In terms of the reefer operators, the second half of the year saw contrasting fortunes for Seatrade, Cool Carriers/Baltic Shipping and Star Reefers. While the tonnage provision model worked well for Star up to last year, the decision by two of its major customers Chiquita and Del Monte to join Fyffes in containerising all their bananas has rendered the 12-month, period charter almost obsolete for the specialised mode. Of all the majors trading bananas, only Geest, Africa Express Line (AEL) and Cosiama remain as takers of reefer tonnage.

On the other hand, the liner trades operated by Seatrade and Cool/Baltic Shipping have not only survived but flourished, suggesting there is still a premium niche for charterers who prefer a more personalised and certainly faster, dedicated and more direct route to market than that offered by the carriers.

On the positive side, Star has taken the opportunity to demolish its older units, retained and built upon the 4-vessel AEL charter from West Africa, with 3 units replacing the Lady Rs on AEL's Med service. Given the age and quality of the Star fleet, the success that Seatrade and Cool/Baltic have had in maintaining and even growing their liner and COA charters, and also that both operators will need to charter in tonnage to maintain their services, Star vessels should still be in demand in 2020 and beyond. If the above forecasts on squid and pork are accurate, Star will benefit directly or indirectly from both 90-day and spot voyage charters.

In the medium term, the situation for Star is less clear: the 2 units Star is handing back to head owners early next year are to be retro-fitted with scrubbers and chartered to Baltic Shipping. However, with other older tonnage likely to be demolished in 2020, there should continue to be sub charter opportunities with Baltic/Cool and Seatrade as well as employment in the seasonal trades. Seatrade, meanwhile, appears to have fallen back in love with the specialised mode, acquiring several of the units from Chartworld and MPC that it had previously been operating.

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Elsewhere, following its support of the three 570'cbft newbuilds announced by Fresh Carriers in June, kiwifruit charterer Zespri announced in October that it had sealed a 5-year COA with Cool Carriers. While the FCC units will be traded to and from Asian markets, the deal with Cool is for shipments to the Med and N Cont. In the unlikely event that New Zealand becomes suddenly better served by the carriers, Zespri will continue to depend upon the reefer. The (necessary) goodwill of the charterer is a lifeline for FCC and Cool – a paradigm of symbiosis. Five years is coincidentally the duration of the deal the UK Port of Portsmouth terminal handler Portico struck with Geest in order to lure the charterer away from rival Dover.

Compared to the sparkling second half of last year, H2 2019 has felt a little disappointing for operators in the small segment. But while the market has been less dynamic, the TCE return is on course to average somewhere between USD0.05c-0.08c higher for the period. On closer analysis, this is less about the number of vessels fixed and more because bunker costs have been lower in 2019. The second six months of last year was characterised by congestion in West African ports, which kept vessels off market thereby artificially inflating demand. This congestion coincided with a concertina in demand for potato cargoes, which also kept the open list short. This year, the list has never been tight enough to underpin a rate increase.

Owner Laskaridis has spent the year investing in tonnage, buying up vessels in the MPC portfolio for a song, partly as a fleet replenishment exercise and partly in preparation for what should be two successively successful squid seasons. With the market price of squid sky high in Shanghai, the value of the frozen cargo under-deck on arrival in April could conceivably be several times the value of the vessel itself!

Forecast

Despite the significant cost increase of shipping on the specialised reefer as a result of switch to low sulphur bunkers, at the start of 2020 the mode appears to have retained the support of enough cargo to maintain existing schedules. This however could change quickly if the container carriers fail to push through the fuel cost increases on to their customers. The majority of the remaining reefer fleet was built for speed when the cost of fuel was much lower in the 1990s. The most modern container vessels are both more fuel-efficient and can leverage scale economies over the much smaller specialised reefer.

Then again, cost may not even be an issue in 2020. If the impact of pig-killing African Swine Fever (ASF) is as accurate as the forecasts, all reefer capacity will be at a premium by the end of the first quarter of the year. By December 2019, commentators were predicting that the disease will wipe out the equivalent of 20% of worldwide meat protein! It was described as the largest animal disease outbreak the world has ever seen. The official line from the Chinese government was that by October, the disease had accounted for 38.7% of hogs in China, the world's largest pork producer. However, such is the speed at which the disease continues to spread, that number was on target to reach 70% by the end of December. China is forecast to have a pork deficit of 10m MT in 2019, which is 2m MT more than the 8m tonnes of pork annually traded globally!

The disease has spread across South-East Asia, through parts of Europe, and has been found in Africa. The status of the disease has broadened from endemic to pandemic, with South Korea, VietNam and the Philippines also confirming the presence of ASF. There has been a collateral effect on other commodities: there has been an upward impact on the pricing of all protein, as well as a negative impact on traded commodity crops such as soy and barley, which are used for animal feed.

In early December, the Chinese government made its first official forecast on the effects of African Swine Fever on the national hog herd. China would need to import more than twice as much pork as last year, the commerce ministry said, as a result of the outbreak. Chinese authorities have had to take measures to control prices - even having to tap the country's pork reserve - as the crisis may yet become a political and economic liability for the state.

To minimise pork price volatility, China would "encourage the increase of imports and continue to encourage the expansion of import enterprises," said commerce ministry spokesman Gao Feng. The total amount of pork imports this year is estimated to exceed 3m MT, he told reporters at a press briefing. Last year, imports only reached about 1.2m MT, according to China's customs authority. For perspective, the additional 1.8m MT is equivalent to 90,000 FFEs. Rabobank estimates that next year China will need to import a total of 4.5m MT of pork, as well as other protein to supplement the ongoing losses.

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UK reefer ports

2019 was a rollercoaster year for the UK's two principal reefer ports, Portsmouth and Dover, and 2020 might be equally unsettling. After having won back the Geest/Caribanex service from the Port of Dover, the Port of Portsmouth in November first lost its seasonal Moroccan citrus business to the London Gateway container port only to then discover that Maersk had switched the UK port call on its Fyffes banana service to the Port of Southampton, which has a longer quay and can therefore accommodate longer and larger vessels.

Fyffes said that: "Beginning January 2020 Fyffes will be switching its Portsmouth discharge to Southampton. Despite very welcome efforts by the port to adapt the facility at Portsmouth, it has not been possible to accommodate the newer, larger Maersk vessels now carrying our fruit from the tropics to UK and Europe. The drive to increase operating efficiency and reduce environmental impact has meant that the vessels used for the 15,000 km round trip have become larger over time. Portsmouth has been a key transport hub for Fyffes bananas for many years and we are very grateful to the Port of Portsmouth and Portico for their support and assistance." Fyffes also says it is hoping for a saving of 40 miles or so on truck movements to the ripening centres, improved access to a rail head and at the other end, for developments at Turbo to be helpful going forward.

At the end of September, DP World London Gateway announced that Compagnie Fruitière UK (CFUK) was to open a new ripening centre at its Logistics Park on the north bank of the Thames. The brand-new ripening centre, which will be operational by 2021, is to replace the existing CFUK facility in Dartford, on the south bank and further west. DP World said that the new port side location would "help deliver the optimum supply chain, driving efficiency within the ripening process and using technology to help future-proof the business". The build of the new site will get underway through 2020, with the goal of being fully operational by 2021.

This is a big deal for a number of reasons. London Gateway is a container port – unlike CFUK's existing Dartford ripening facility, which is currently served from Portsmouth, the new port side facility will be served direct, eliminating an inland transport leg. Compagnie Fruitière has been considering a move away from reefer vessels to containers for several years to the point that it has previously chartered in container vessels to supplement its West Africa to UK/N Cont service. The location of the new ripening centre in the immediate vicinity of a container port gives credence to the speculation that CFUK is about to switch modes. CFUK chartering arm Africa Express Line is due to redeliver the four specially modified '98 'blt C Star units at the end of 2020, which will coincide with the inauguration of the new ripening facility. Given the customised nature of their design, Star may struggle to charter out the vessels if or once they have been redelivered.

If AEL moves lock, stock and barrel to London Gateway, there will also be consequences for one or possibly both of the two ports that have hitherto vied for its business, Dover and Portsmouth. There are currently four specialised reefer banana services discharging in the UK: of these, Dover is left with Seatrade's Rayo service after the Geest decision to move back to Portsmouth, taking terminal handler Portico's total to 3. Assuming that Portico has the capacity to successfully handle its 3 services, should AEL indeed 'defect' to Gateway, Dover could face a battle to retain the Rayo only 12 months on from the inauguration of the GBP£250m Dover Western Docks Revival (DWDR) scheme, the centrepiece of which is the temperature controlled Dover Cargo Terminal! ■

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