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After a strong start to the year, reefer operators continued to mine a richly profitable vein in the second half of 2022 and with carriers still unable to match service levels offered by the specialised mode, demand is on course to stay strong well into 2023.

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Since the early days of the pandemic in 2020, the reefer mode has transformed itself. With so many reefer containers caught up so far from where they were needed, reefer operators have been able to both exploit the increase in demand for reefer capacity that this generated on the one hand, and showcase service and reliability levels that continue to be significantly superior than the carriers in some trade lanes, on the other. The mode has also been able to persuade some reefer cargo to 'defect' from the rival mode despite demanding a premium. It has also collected dry business that has never previously been transported in a reefer. Whether the mode will be able to retain this cargo in the face of aggressive price competition from the carriers remains to be seen.

One of the consequences of this structural change in how the reefer business operates is that there is much less tonnage left for spot trading, or tramping, vessels. Historically, the spot market has had an important role in defining the strength or weakness of the market. It has reflected the overall state of supply and demand and therefore been the key factor in establishing market sentiment: most significantly, it has set the temperature for seasonal and period charters. The absence of such a key objective barometer has handed greater control of the market to those stakeholders that control the capacity – the vessel operators.

The shift in mentality towards favouring the reefer, unwittingly forced on cargo by the carriers, highlights the dangers that charterers will face once the reefer is no longer a realistic competitor - and with the majority of the reefer fleet already past its 'use-by' date and no newbuildings commissioned, this may not be very long in coming. Any unexpected or unscheduled event that prevents reefer containers from delivering their primary purpose will be disastrous for cargo if there is no dedicated alternative to act as cover.

With some very notable exceptions, such as the 'Cherry Express' services from Chile to China, reefer plays second fiddle to dry cargo on carrier services, largely because on the majority of container ships, dry vans outnumber reefer containers by a factor of more than 5:1. In many reefer-heavy and all non-reefer-heavy trade lanes, dry cargo is prioritised by the container lines – unlike dry, for which there are global rate structure indices, reefer pricing on these services is a secondary consideration to the need for a contribution to voyage costs.

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Demand

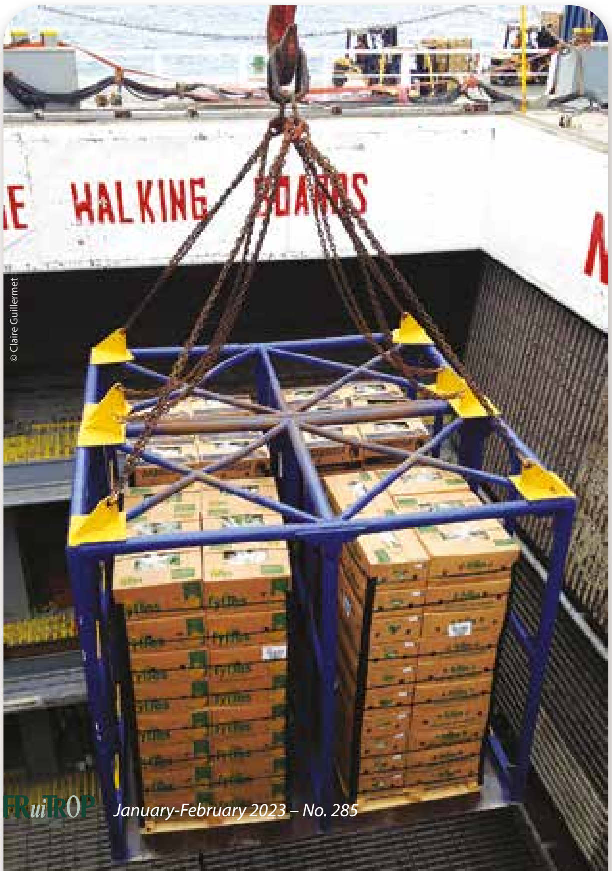
The reefer fleet was fully employed between July and December. However, the market was not as tight as in the second half of 2021 largely because a material number of reefer containers had cascaded back into service strings operated by the carriers, thereby reducing demand for specialised reefer capacity. Time Charter Equivalent yields were negatively affected but remained historically high.

The high price for Ecuadorian spot traded bananas since the end of August coupled with the absence of any surplus production in Colombia, Costa Rica and Guatemala resulted in just a single spot banana fixture in the period. And even this was shared! More importantly, it also complicated 2023 contract price negotiations between producers and exporters. From a position of oversupply and weak pricing in the domestic and international markets, the reduction in supply of all dollar bananas to international markets coupled with strong demand from the Russian market forced up the exit price in Ecuador to levels rarely seen at this time of the year.

The number of reefer vessels chartered to ship Chilean cherries to China between weeks 48 and 51 increased from 2 last year to 10 this season. Pallet rates were reported to be in the region of US$600-$650, which compares to the US$12,000-$14,000 per container on the Cherry and Shanghai Express services operated by the carriers. These container rates are approximately 50% higher than last year. Chile is forecast to ship a total of 89.4m boxes of fresh cherries this season, a figure equivalent to 447K MT and 25% up on 2021/22 - last year Chile exported 356K MT of which China received 313K MT. If China receives a pro rata increase in imports this season, the total to be shipped across the Pacific will be 393K MT – an 80K MT increase year-on-year. If this is accurate, the 10-or-so reefer vessels chartered in will be responsible for carrying a high percentage share of the increase.

Chile is also pioneering a 'Blueberry Express' charter service this season for the first time. The Cool Carriers' vessel Lady Rosebay loaded 1,200 pallets of blueberries in Puerto Coronel, close to the major production regions in the south of the country. The decision to switch away from the container lines was prompted by the heavy losses suffered by the industry last season when so many containers were caught in the congestion and bottlenecks in US east and west coast container ports.

Finally, approximately 4,000 tonnes of Italian grown Zespri Sungold kiwifruit were shipped on the Baltic Perfomer from Vado to the Chinese port of Shanghai. The voyage takes 21 days, half of the average container line equivalent, and fruit will arrive in time for Chinese New Year sales. This trial shipment, which the kiwifruit marketer says is the first of many in the years to come, will be the first one in the history of Italian kiwifruit. Zespri said that organizing a reefer vessel seemed to be the best option for the voyage, especially given the critical mass available thanks to the increasing volumes of European grown Sungold and the two decades of New Zealand expertise in charter exports. The Italian and Chinese authorities had confirmed an addendum to the original cold treatment phytosanitary protocol for containers in August 2020. However, the global pandemic and the inability of getting any on-the-ground support from New Zealand due to international travel restrictions forced Zespri to postpone the project. The decision to develop the Chinese market is interesting for two reasons. Firstly, because within a couple of years there will be more SunGold produced illegally in China than in New Zealand and Italy combined. Zespri is either banking on latent demand well over and above the domestic supply or believes that consumers will prefer the Zespri brand over the local imposters. And secondly because unless the carriers can match the transit time, Zespri will need to access reefers that would ordinarily be employed in the Chilean table grape, blueberry and stonefruit trade into the US.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Supply

In absolute terms, the supply of reefer containers is growing. By the start of 2023, there will be in the region of 1.8m FF high cube units worldwide. This is equivalent to approximately 5.4bn cbft of capacity. In contrast, the specialised reefer fleet is shrinking: there are 550 reefer and freezer vessels trading, this is equivalent to approximately 179m cbft in reefer capacity. In terms of market share of total reefer capacity, it's 96%:4% And yet the reefer has an approximate market share of 12% of the seaborne perishable trade, if the figure published by maritime consultancy Drewry in its 2021 annual is accurate.

For the carriers, this means there is a glut of reefer containers. For the following reasons, by the start of 2023 there should be more than enough equipment where it is needed. Firstly, 2021 was a record manufacturing year as cash rich carriers commissioned more equipment and 2022 will see similar numbers. Secondly, the market has been so strong that there has been only limited retirement of containers past their use-by date. A lot of old equipment is still trading. With the container trade normalising, the congestion and bottlenecks that caused the global shortage of reefer containers have disappeared. Fourthly, there should be a surplus created by the reduction of containerised trade into Russia. Of the carriers, only MSC is delivering reefer cargo into Russia, the world's second largest reefer market after China. Finally, and not insignificantly, in several trade lanes there has been a loss of market share to the reefer.

The other consideration that the past 24 months has thrown into sharp focus is the type of reefer business that the carriers will want to prioritise. The container line model for reefer is driven by a combination of price and efficiency. The carriers prefer trade loops, such as 12-month banana and pineapple exports from Latin America. These loops give the carriers optimal utilisation of equipment. However, they are less keen on seasonal business, as it absorbs a disproportionate amount of capacity – for example in Chile and New Zealand, where equipment needs to be accumulated often months in advance to service peak demand for capacity over a limited number of weeks. The exception is South African citrus, deciduous and exotics to Europe, but this is because it is almost 12 months and there is a trading loop. Indeed, for some months fruit is a backhaul cargo – headhaul is southbound.

Forecast

In the short term, the charter market is likely to remain tight. For the specialised reefer mode, the supply and demand for capacity will be in balance for the foreseeable future – certainly for next 6 months. Since the start of the pandemic, there has been an absolute increase in demand for specialised capacity – for use as reefer and/or dry. The reefer can deliver a fast, dedicated and direct service, which, unlike the carriers, is at least twice as likely to be on time.

However, critically there is also a new variable: the Russian market. For as long as Russia remains a pariah state, the price of oil remains high and therefore the Ruble strong on the one hand, and the container lines steer clear of Russian ports on the other, the specialised mode will be able to infill any reefer container capacity lost. This has been the case with Ecuadorian bananas and South African citrus where there has been no material loss of trade from either origin. With the carriers likely to boycott Russian port calls until well beyond Vladimir Putin calls an end to his 'special military operation', Russia will continue to absorb a lot of specialised reefer tonnage.

And finally, there has also been a shift in mentality where more cargo is prepared to pay a premium for service – specifically reliability. The reefer is more agile and less affected by the variables that bother the container lines.

Meanwhile for the carriers, economic theory would dictate that if supply is greater than demand, rates should be lower. However, in practice it is not that simple. The carriers will understandably want to preserve pricing levels that have generated record profits. But how will they protect rates now that the bedrock shortage of capacity on which historically high rates were built has all but disappeared? The container industry has few options, the most significant of which is blanking sailings and idling tonnage. While this is a necessary blunt instrument to better manage supply for dry cargo, reefer piggybacks on the same ships and services. Are the carriers prepared to sacrifice service levels for their reefer customers to protect the rate structure for dry cargo?

In the longer term, the carriers will continue to commission more slot capacity and reefer equipment. The greater the consolidation and forward integration of carrier services, the more power the carriers will have in determining the rate structure. In contrast, the reefer fleet is in decline. The average age of the specialised reefer fleet is close to 30 at the start of 2023. If the market for the specialised mode stays strong, operators will invest, although in a limited way. Of the major operators, only Cool Carriers is committed to building reefer ships. Seatrade's long-term vision is with container ships ■


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