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Title: How External Factors Affect Ocean Freight Rates

Presenters: Paul Mullins (VP Sales, NVO) and Jocelyn Hansen (Director, Business Development) at Xeneta.

Jocelyn Hansen: Hello, everyone and welcome to the second webinar in our series, "A Complete Guide to Ocean Freight Procurement." Today we'd like to discuss with you how external factors can potentially affect your ocean freight rates.

To get started, I'd like to introduce myself. My name is Jocelyn Hansen. I am the Director of Business Development here at Xeneta taking care of NVOs and freight forwarders.

Paul Mullins: Thanks, Josie. Paul Mullins, I'm heading up the sales team for the forwarders here at Xeneta. Today we wanted to share with you two discussion points that we believe and feel are key factors that can affect ocean pricing.

Alliances, who are they? There have been changes over the last year. Josie's going to give us a little bit of a discussion around that. Also, general rate increases of GRIs as they are referred to.

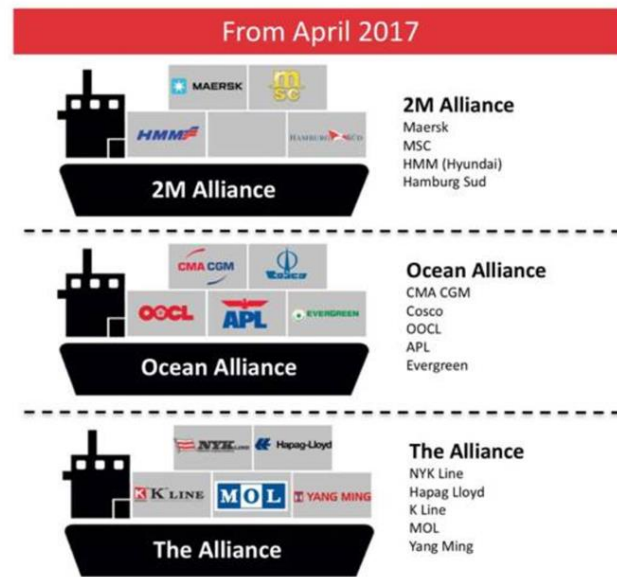
Then, we wanted to share some ideas of how we believe you can manage the impact of these two key areas in your business today.

Jocelyn: To get started, I thought it would be a good idea to first level set with everybody to make sure that we all understand the current alliance structure in the market. The shipping lines, many of the large ones that you can see here, they get together and form alliances.

It's to join forces on the ship operations. It has nothing to do with the equipment or the commercial agreements that each shipping line has with its customers. They join forces to increase the capacity and to join forces on the ship operations.

Alliance Overview

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The alliances that are currently in place have been in place since April of last year. Just to go through these briefly with you so that we're all aligned the first is the 2M Alliance. This is primarily Maersk and MSC. Hyundai is also part of this alliance but only on a slot basis. Then, of course, the acquisition of Hamburg Süd by Maersk, that has also included Hamburg Süd into the 2M Alliance.

The second alliance is the Ocean Alliance. This consists of CMA, Cosco, OOCL, APL, and Evergreen.

The third alliance, THE Alliance, that you see here at the bottom. This is primarily the Japanese players in the market and Hapag-Lloyd and Yang Ming.

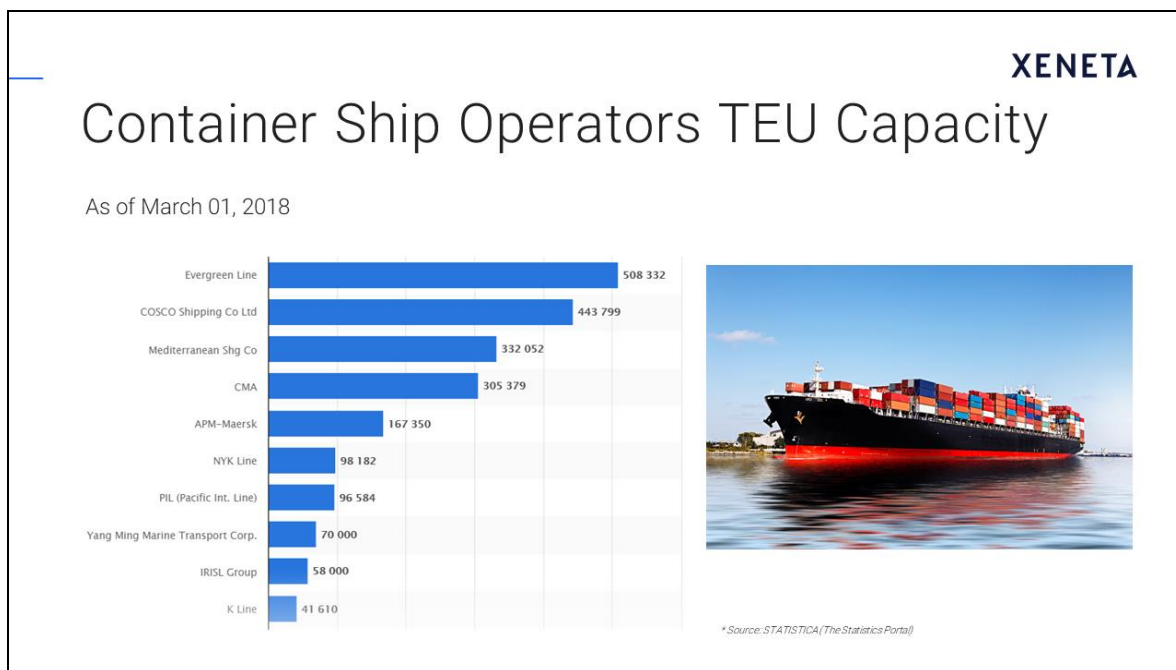
You can see the structure here. These are the major shipping lines that I'm sure that you're all aware of. They represent these three alliances, 87 percent of global container capacity. This is an interesting picture to see, that these three alliances really do represent 87 percent of global container volume.

There are, of course, other regional carriers and niche carriers that are not included here, but these are the three main ones that dominate the market today.

Paul: Perhaps, Josie, I can add just within the alliance you've got the Ocean Network Express, which is relatively new. It's referred in the market as ONE. It's a Japanese global transport company. It's a JV between NYK, at 38 percent, MOL, 31, and "K" Line at 31.

It will be the sixth largest player. As I mentioned, it's coming in effect the first of April. It will remain an integral part of the alliance with Hapag-Lloyd and Yang Ming.

If we look at the next screen, what is this showing us? It shows the additional capacity that's coming into the market in 2018. In fact, there are 108 ultra-large vessels and [inaudible 4:06]. Everything that's above 14,000 TUs in capacity will enter the market within the year. That means it's going to be doubling what's in operation today, so over 200 deployed by the end of 2018. That's according to Sea Intel.



Jocelyn: The interesting thing about that, Paul, actually is that if we look at this screen here Evergreen, Cosco, and CMA are all part of the Ocean Alliance. The amount of capacity that they have on order to be deployed this year will be interesting to monitor and to see how that may affect ocean freight rates.

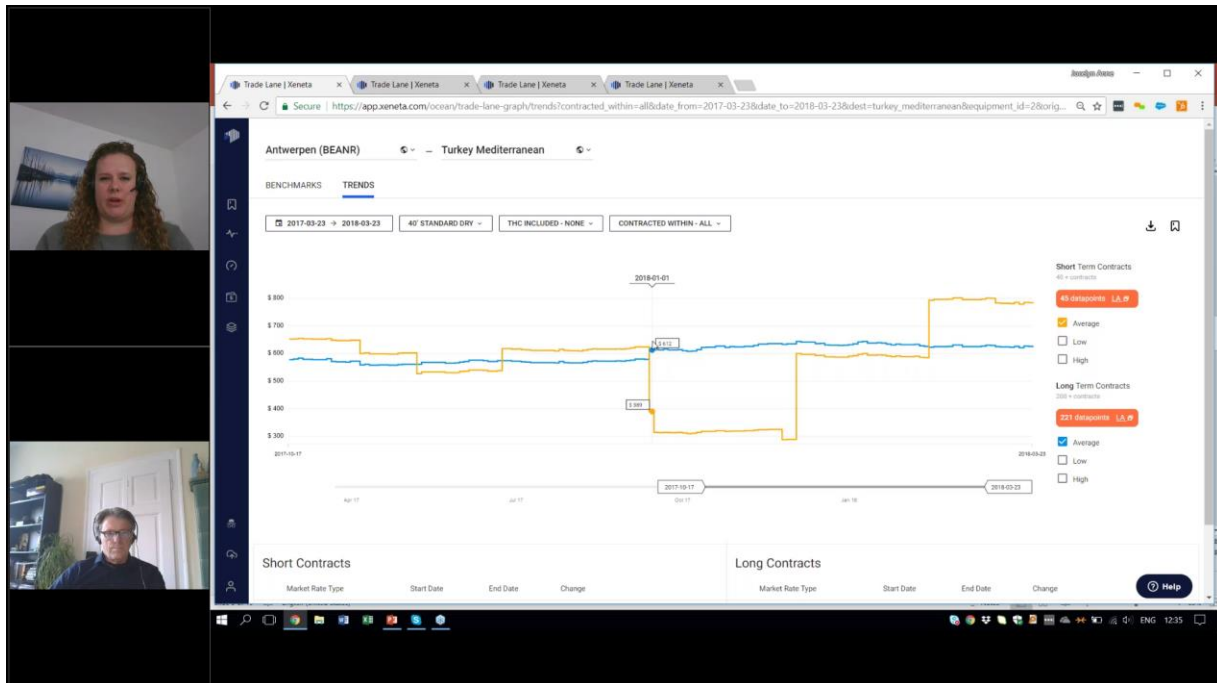
Paul: Actually, Ocean Alliance will increase the ultra-large vessels by 60 percent, which you can see, as you mentioned in that capacity with Evergreen and Cosco, are both members within that alliance.

What that will result in is a rethink of the network. To accommodate that capacity they're going to need to make significant changes to accommodate the vessels. I understand that they're going to start to implement that into Q2 now Chinese New Year is completed.

The 2M and THE Alliance also are going to have additional capacity, as you can see the slide here. They will also have additional vessels coming in, but more of a phased in and stable approach than the other alliance.

Jocelyn: I think it will be interesting year to monitor how this additional capacity will affect ocean freight rates. Perhaps, actually, we can take a moment here to go over to the Xeneta system and the platform to show how we can actually monitor these types of events in our system.

I'm moving over to the Xeneta system here. The first example that I'd like to share with you all is the route of Antwerp to Turkey where there was a new carrier that actually introduced a new service from Antwerp to Turkey. It was earlier this year, actually, at the very beginning of this year. They introduced a new service.



That increased a huge amount of capacity for customers to be able to ship on that route. That increase in capacity that was there and available in the market had an impact on ocean freight rates. The new carrier came in with significantly lower rates than the other players in order to get the service going. It took quite some time. It took over a month, actually, to see any regulation back to the other levels.

Sometimes you can monitor these types of things to understand how much they're going to make a difference, how much of an impact, and how long it takes, as well, before any regulation is made.

It also happened on the opposite way around. Whether it's capacity coming into the market or capacity leaving the market, we can also monitor this in the Xeneta system.

Here you can see on the Northern Europe to China Main route. This is actually back in April of last year. When the new alliances formed and there were changes in capacity there was one particular carrier going out of business at the time, as well.

That decrease in capacity saw, also, a huge amount of ocean freight rates going up. As you can clearly see here, it also took a while for the rates to come back down again. I


think the interesting thing about the Xeneta system is this is a dynamic system that you can start to track these types of changes on a daily basis, understanding how much they're going to impact you and for how long.

It will be very interesting, I think, to see what happens because, of course, earlier this week the 2M announced that they were reducing port calls by 17 on their Asia to Mediterranean route. It could be very interesting for us to monitor how that may impact the ocean freight rates on that particular route going forward.

Paul: That actually raises a question. What do we think the landscape's going to look like going forward? Before the first wave of mergers and acquisitions, the top seven carriers controlled 37 percent of the market. By 2021, this looks to be above 75 percent. It appears like carriers seem to see safety in numbers either through bigger alliances or mergers and acquisitions.

Jocelyn: I think that's a really good point, actually, Paul. If we look at a recent "Financial Times" article, Søren Skou, who is the CEO of Maersk Line, he did make a comment that he doesn't actually believe that the consolidation is complete.

The Future



Maersk Line has played a role in the consolidation of the container shipping industry through its acquisition of Hamburg Süd.

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Søren Skou told the Financial Times that the consolidation trend in the past 24 months that has seen eight of the top 20 container shipping groups be acquired or go bankrupt would continue.

"My prediction would be that the industry would consolidate further. A decade from now, we would be more in the five to six range," he said.

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Although there has been 8 of the top 20 container shipping lines being acquired or going bankrupt in the last two years, he actually sees that that trend will continue. He believes that in a decade from now there may only be five to six big shipping lines out there.

Of course, those shipping lines, that may make an impact to the alliance structure. Of course, alliances will definitely take advantage of that situation. It could be very interesting to monitor and see how that will impact ocean-freight pricing.

Paul: Why don't we pause there with the alliance topic and, perhaps, move on to our other subject we wanted to discuss today. If I look at the carriers, the carriers apply two major rate adjustments. Peak season surcharge and general rate increase. As we discussed, we want to focus on GRIs today.

GRI can vary from month to month and from carrier to carrier. It normally appears on the volatile market lanes or corridors. In fact, in some geographies there can be plus 12 GRIs per year. It does impact both FCL and LCL.

GRIs are unexpected operational costs to the business. I guess the carriers' motivation to implement those surcharges is to maintain service levels on specific trade lanes and corridors.

If I look at the two most recent, March 1st and March 15th were expected GRIs coming into the market based on the Chinese New Year being February 16th this year. I want to have a look at four key lanes.

There is Asia to Latin America. We didn't see anything on that because of the new capacity coming in with Cosco. There was Asia to Middle East Africa. I believe some GRIs have been affected, but two key lanes, Asia and North America and Asia Europe, both of these expected GRIs in those two dates, the 1st and the 15th.

Josie, why don't we take a look at the Xeneta data to see if we see if they were actually effective?

Jocelyn: Sure. If I go back to the system here we're looking at China Main to North America West Coast, as you mentioned. Although you can see some new GRIs throughout last year, you mentioned it was the 1st of March this year where there was meant to be one.

We didn't see an impact of that GRI. We didn't see any changes to ocean freight rates. In fact, the actual opposite, we actually saw a decrease on the 1st of March. Then again, a little bit later on, you can see that the spot rates are still dropping, even though the middle of March where there was announced to be a second GRI.

The Xeneta data is really valuable in terms of being able to monitor GRIs, monitor their impact, and seeing whether they're effective.

There was also one other example that you mentioned, Paul. If I move over to that, that was China Main to Northern Europe. The March 1st notice that was put out there saw the same type of trend as we saw in the other example in terms of the fact that we actually didn't see the GRI going into effect. Our customers did not appear to be impacted by those GRIs that have happened earlier this month.

It will be interesting to understand whether anybody was affected by those GRIs.

Paul: The question is, are all customers impacted equally? That would be perfect for the carriers. That would be ideal for them but it seems only a few may be affected. The reason being is that larger shippers with big volumes don't accept GRIs. Approximately 30 to 40 percent of customers are normally effective based on data that's in the market.

I guess the question is, what's the best time to negotiate? Certainly during your negotiation period with the contract having a GRI included or excluded. If you have flexible shipping dates, considering those to avoid the GRI, set a collection date before the GRI. Certainly shop around. In some cases, some forwarders actually include GRIs into their quotations.

Interestingly enough, there was a blog posted on our Xeneta website this week by Patrik Berglund covering FAK developments suggests further value from long-term contracts. Refer to blog post here - <https://www.xeneta.com/blog/fak-developments> It's certainly worth a read because if you visit xeneta.com, within the blog selection you'll see a bit more detail about GRIs. Subscribe to [Xeneta blog](#) to get regular updates.

For me, I think GRI concept is clear. We understand what a GRI is. It's actually the implementation of it that's unclear. It impacts all players. It impacts carriers. It impacts BCOs, freight forwarders, both import and export. It doesn't seem to be a thing that's going to go away in the foreseeable future.

The question is how you can manage the impact on your business.

Jocelyn: Just to summarize this webinar and to understand how external factors can impact ocean freight rates, we believe that it is vital to monitor not just the historical market trends, which are available to see in the Xeneta system, but also to monitor them on a daily basis and have up-to-date information on how these things may affect your ocean pricing.

There's some really good examples that we showed today of how you can monitor this and how you can use the Xeneta system to monitor this. I think we'll take this opportunity now to thank you for your time. We hope this webinar has been informational for you. We look forward to seeing you at the next one. Thank you.

Paul: Thanks, everybody.