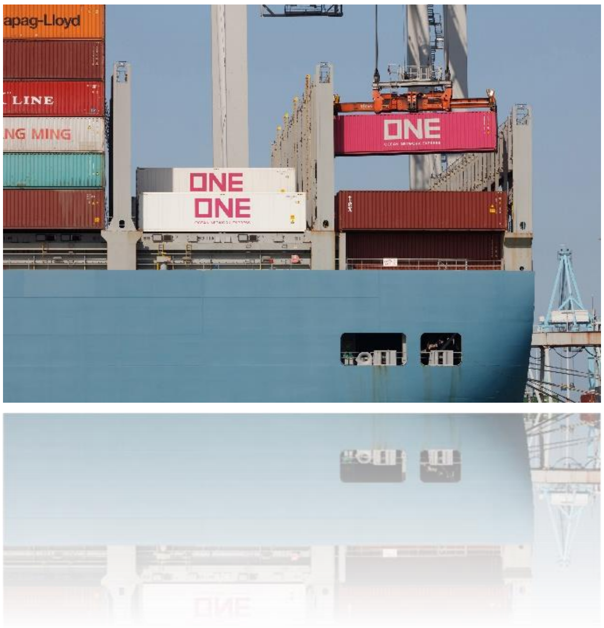

Dynamar (2020) Reefer Analysis

Market Structure, Conventional, Containers

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1 INTRODUCTION

A year like no other. That is how we can surely describe 2020. While at the end of 2019, we expected that IMO2020, the low-sulphur regulation, would set the tone for the year, with lots of fuel-hungry old conventional reefer ships going to the breakers and container operators losing even more money than they usually do, a simple virus changed all of this.

With IMO2020 entering force on 1 January, the spread between HFO had low-sulphur fuels had increased to approximately USD 300/ton. Some container operators had invested in scrubbers or were waiting for their scrubbers to be installed, but for the old conventional reefer ships that was no viable option.

By mid-January, when approaching Chinese New Year, the first alarming messages started to reach the world about a very deadly virus circulating in China. Tracing back its origins showed that the virus must have been around since November, but it took some time for the medics to realise it existed and for the Chinese authorities to admit it. Consequently, just around Chinese New Year (25 January), China started going into lockdown and its factories closed down. Whilst it is usual for China's exports come to a standstill for a period of around two weeks around that time of year and carriers subsequently reduce their capacity, this year this period extended much longer as there was no production and thus nothing to export.

The situation became worse when infections started appearing in other places in the world. Where the situation in China gradually started to improve, other parts of the world started going in lockdown as well. A lack of supply turned into a lack of demand, forcing carriers to take more sailings out and the idle fleet reached record highs. A financial disaster for the shipping industry seemed in the making.

However, then happened what probably few had counted on. The oil price collapsed and the spread between Heavy Fuel Oil (HFO) and Very Low Sulphur Fuel Oil (VLSFO) reduced to just USD 50/ton, taking the (short term) business case out of scrubber investments. For the conventional reefer sector, however, it was a blessing in disguise. Rather than becoming totally uncompetitive against the container ship, its overall costs actually went down. This would not have helped, if demand had disappeared and their income would have evaporated, but if there is one thing we learned from this crisis, it is people may forgo the latest cheap toy from China, but will continue to eat. Despite obviously affecting reefer logistics, demand keeping up and oil prices going down were a good mix for the conventional reefer operator. As a result, only a single ships was scrapped in the first half of 2020, a record low.

When approaching mid-2020, the worst was (temporarily) over for North America and Europe, countries started to restock and demand for shipboard capacity started to rise. Not so, did the supply of ship capacity, as for the first time since 2020, carriers managed to control themselves and refrain from putting new box space into the market. Jackpot! Increasing demand, low capacity, low fuel costs and high prices. The money started pouring in. Going on, with demand actually rising to above pre-crisis levels, carriers started bringing their ships back into the market. However, due to the rush in demand, their came a shortage of everything, ships, boxes, port capacity, etc. With the end of the year approaching, shippers are still struggling to find boxes and when they have found one, it is a difficult task to get that box on board of a ship. US farmers cannot find boxes for their crops as during the time the container is inland to pick up stuff, the carrier can earn multiple speeding that same container back to China for its next high-payed journey. Idle ship capacity is at a low, ship charter rates are record high and (reefer) container plants are working overtime to build more equipment.

Looking into the crystal ball, this peak will not continue forever. With vaccines becoming available, the world will pick up its normal pace, albeit with a little less wealth. What we learned from this crisis is that people will continue to eat whatever happens, that box carriers can actually control themselves when the crisis is big enough and that life goes on. Most likely, they will also fall back into old habits, ordering too many ships and continue to compete on prices. Also for the conventional reefer operators life will go back to normal. The ships remain old and continue to use a lot of fuel. And when oil prices go up again, their competitiveness goes down. Regardless, time will tell what happens and 2021 is likely to be a bit more normal than 2020.

Dynamar is proud to present its eleventh consecutive, annual, extensive specialist report
Dynamar (2020) REEFER Analysis - Market Structure, Conventional, Containers

This publication builds upon the analysis of the previous years. The study comprises three parts: two separate sections on the different conventional and container reefer trades, based on an extensive write up and one section analysing the structure of the market.

Part I - Reefer market structure(s)

After a historical overview on the background and development of reefer shipping, this chapter provides extensive summaries, statistics and concise descriptions of:

- The world perishable trades: volumes by main produce and export regions;
- Transport modes and characteristics: transport conditions - modern techniques;
- The world's main import regions: United States, European Union, Russia, China and Japan;
- Trading patterns: conventional ships versus container vessels - main export areas - exports by product and individual country;
- Major reefer ports: perishable exports by country - description of relevant reefer handling facilities by mode of transportation - port throughput statistics.

Part 2 - Conventional reefer shipping

This section opens with a review of recent developments in the conventional reefer sector (including those affecting reefer container transports), covering three years (2018-2020), including statistics and graphs of relevant time charter equivalents, as well as:

- Extensive conventional reefer ship overviews and statistics (existing IMO-registered fleet, orderbook, age profile, demolition, future development);
- Structured profiles of the world's 15 largest conventional reefer ship operators, including markets/trade lanes served and their operated fleet (whether owned or chartered).

Part 3 - Container reefer shipping

This section provides insight into the main containerised reefer routes and services, invariably part of the South-North trade structure. Compared to previous versions of this publication, coverage has been expanded by even more trading areas. Furthermore, this section comprises:

- Extensive overviews and statistics on the composition and development of the container vessel fleet and orderbook, reefer TEU capacity, plugs/capacity ratios by size category;
- Refrigerated container box fleet, size categories, production data, capacity by carrier;
- Structured profiles of the world's 10 largest reefer container carriers.

This publication uses the most recent trade statistics (up to 2019) on reefer commodities by country and area, supplemented with up-to-date port, vessel, box and carrier fleet statistics and gives a profound insight into the background, characteristics, developments and present status of the worldwide shipping market of perishables and the relevant players.

All information for the report has been collected, researched and processed in the third and fourth quarters of 2020. As sources often differ on the same topics, we have endeavoured to provide the reader with the most accurate estimates. Analyses are based on the best available professional databases and media, complete with data originating from carriers, operators, port authorities and a great many other industry players.

This has all been complemented with data from Dynamar's own resources. This includes an unrivalled databank containing corporate, operational and financial information on some 16,000 different companies in the marine industry and DynaLiners, our daily, weekly and monthly digest, analysis and commentary on the industry's comings and goings, and of course the knowledge, experience and reports of our R&A, Constant Monitoring, Consultancy, Marine Intelligence and Shipping Publications teams.

Alkmaar/the Netherlands
December 2020
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