



Capital Link Shipping Weekly Markets Report



Monday, January 12, 2015(Week 2)

IN THE NEWS

Balmy breezes and smooth flows of people and cargo

Last week was a Florida week- truth be told, the trip was arranged before I knew about the dire forecasts for chilly New York. But, originally- the trip was only supposed to be a three day affair, when I had to extend- the decision took one millisecond, which is even faster than it takes for frostbite to form on a 9 degree day.

Usually, I don't write about cruise ships or participate in the business aspects of passenger shipping. However, in addition to my usual spotting (and tweeting pictures of) Jones Act and Greek owned tankers anchored near Miami, or transiting along the coast, this trip included an invitation to the re-opening of a newly renovated cruise terminal at Port Everglades- which is very near the Fort Lauderdale airport. The ceremony was attended by various maritime types along with the obligatory travel agent crowd, but it seemed to be dominated by members of government at all levels. When the Port Director, Mr. Steve Cernak, made some brief remarks- he confirmed what I had been thinking to myself, which was something along the lines of "Hey, these folks are really working together." Having been schooled in efficient markets, where everything takes care of itself without intervention from anybody- in theory, such smooth flowing arrangements always bring both puzzlement and amazement at the same time.

The bulk shipping in the port is largely invisible- more on that later, but the container part of the business is alive and growing. During the prepared remarks, speakers from the port described one aspect of its mantra (at least with respect to the cruise side) as communicating with the lines, listening to their plans, and then adjusting the land-side of things accordingly. In talking briefly to the Port Director about container cargo (another mainstay of the port) after the formal ceremony, he explained the machinations that will soon enable truckers to drive from the docks at the port, where more than 1 million TEUs move annually, directly to the interstate highway system without encountering traffic lights. I noted that a similar "can-do" attitude exists about thirty miles south, at the Port of Miami- where red lights and truck traffic will soon be avoided courtesy of new a tunnel being built under Biscayne Bay.

All of this got me thinking about the relationship of the vessel design business and the ports business, and how they fit together (or don't fit- throughout much of the U.S.). They are on separate and very divergent paths that would be parallel in a perfect world. Investors who look at shares of containership owners will need delve into such matters at a micro level, but they need to be aware of the dynamics of ships fitting into ports (or not).

Naval architects are contemplating vessels that can take 20,000 TEUs (in fact, I read that one of the Asian carriers has recently placed an order for such a vessel), and the luddite in me says "remember those 500,000 dwt ULCC tankers." But the bigger U.S. ports- notably LA and LB on the West Coast, which have "modernized", are struggling to handle multiple calls of 12,000 TEU vessels that were state of the art only a few years ago. Meantime, the carriers soak up the big vessels because of lower per unit costs. Unfortunately, modernizing ports is not modular- like buy some movable gantries and your troubles disappear. Rather, modernization and infrastructure requires a long term view- kind of like that exhibited by my friends in Florida. Several months ago, I noted that Oaktree Capital, the gift that keeps on giving, had absorbed an outfit called HighStar Capital (at one time a part of AIG- the "gift" that kept on taking, for awhile)- which runs a \$7 billion infrastructure fund, and counting, of infrastructure funds. So, as I was contemplating all these weighty matters in the Florida sun, I wondered whether such considerations cross the minds of the deal-makers at HighStar, or at similar outfits.

Contributed by

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Dredging for deep vessels is only part of the solution, unfortunately, the landside issues, including intractability of labor- which hit the point of raw nerves this past year on the U.S. West Coast, are far more vexing. A JOC conference, held late last year, exposed some of these nerves- it was suggested by multiple speakers that, even at the biggest ports (which exceed the throughput of New York), terminal layouts and equipment configurations simply cannot support what the carriers have in mind. New York (and perhaps other East Coast rivals) is about a year away from facing down such issues, but the experience of the West Coast, chassis shortages and labor intransigence galore, should be sobering to port planners on all coasts. I have a sense that marketers at the ports may need to speak up more- if infrastructure will form legitimate constraints, then value added aimed at certain cargo categories may be a way forward. Engineering constraints, of the type identified at the JOC event, need not be deal-breakers. Rather, they can be overcome (less likely), or, may inform on a strategy of optimizing what does move through a port. Again, investors don't see such issues up close, but they are worth pointing out because of their impact on the fortunes of the carriers, some of whom are listed in their own right, and otherwise, form the backbone of demand for owners of container vessels then put out on charter to the carriers.

Economic forecasts for the States are not great, but they are decent- the stronger dollar likely will be bring about increased imports- though not to ports where truck chassis are not available, the time for such experimentation is now. Just hint to my fellow luddites, who are reading this- lower fuel prices will reduce the advantage of bigger modern ships- everything else being equal. Maybe, a movement away from the bleeding edge, ie port calls of smaller vessels (think 8,000 TEU- 10,000 TEU) is not such a bad thing. Ports don't always have a say in the plans of carriers, but the "marketplace"- shippers of toys and clothing who are tired of delays and congestion, indeed does, and the marketplace will route their shipments accordingly. This week, we will almost certainly get some local color on such things- on Thursday, NYMAR (New York Maritime) will be hosting a Navigating the Port of New York/ New Jersey at the midtown offices of lawyers Blank Rome. Meantime, back in Florida, I suppose there will be a race among the ports to see who can send the most boxes to Cuba- a high class problem for sure.

One further note on bulk cargoes...at the Port Everglades event, I did manage to find a Business Development specialist in the crowd, and we talked at length about the tanker trades. Some of the vessels calling at the port are indeed Jones Act ships coming in from refineries in the U.S. Gulf, while others are international flag MR and LR category ships, roughly 50,000 – 70,000 dwt. Jet fuel moving through the port is supplied, via pipelines, to three airports- the huge MIA (Miami), FLL (Fort Lauderdale Hollywood) and PBI (Palm Beach). Gasoline filling tanks in the humongous south Florida market (where everyone is heavily dependent on automobiles) all moves through the port. And, of course, project cargo (in the form of super-yachts transported as deck cargo) looms large. As the snow turns to rain, I am already planning the next trip.