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THE FUTURE OF SHIPPING

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FROM THE EDITOR

Margherita Bruno,
Editor

Welcome to the 142nd edition of our e-journal, where we navigate the evolving landscape shaping the maritime industry of today and tomorrow!

In this edition, we delve into the intricate web of challenges and innovations defining modern shipping - from disruptive global trade patterns to the urgent call for sustainable practices in logistics.

At the forefront, the International Association of Ports and Harbors (IAPH) underscores the profound impacts of cargo rerouting around the Cape of Good Hope, revealing stark realities of congestion and operational strain across global ports.

Against this backdrop, Senior Analyst Simon Heaney of Drewry provides critical insights into the container shipping market's turbulence sparked by the Red Sea crisis. His analysis unveils the market's vulnerability to sudden disruptions, driving up spot rates and challenging industry stakeholders to chart a course towards recovery and stability.

Furthermore, recent tragedies like the Baltimore Bridge disaster underscore vulnerabilities within maritime operations, emphasizing the need for comprehensive risk management strategies. Insurance experts advocate for innovative solutions, including port blockage insurance, to fortify resilience against unforeseen disruptions.

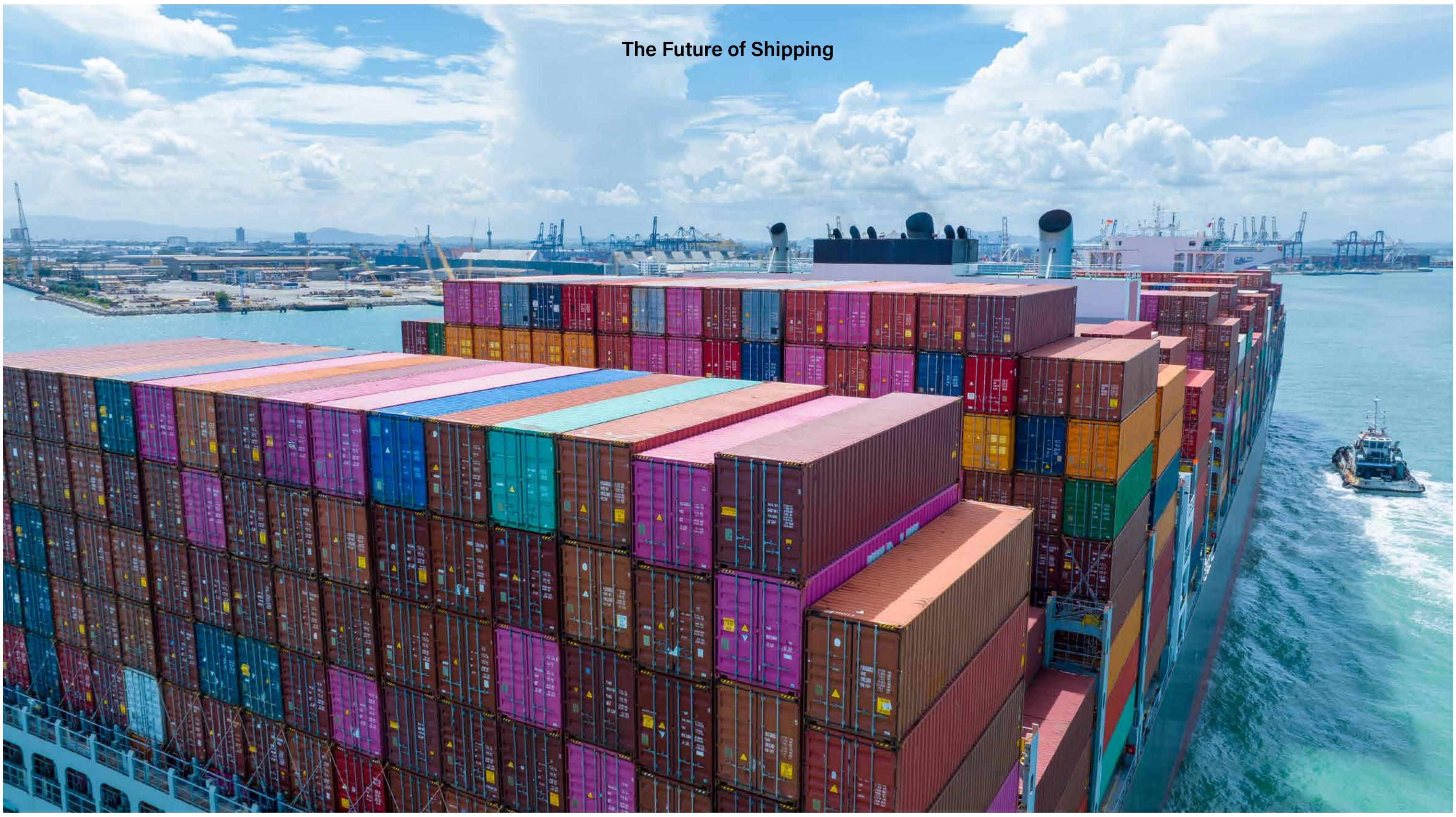
Innovations also take centre stage with the exploration of nuclear propulsion as a potential game-changer in decarbonising shipping. While presenting significant regulatory and financial hurdles, nuclear power offers a promising avenue towards achieving net-zero emissions and enhancing operational efficiency in the long term.

Our discussion then shifts to the EU ETS and its climate change goals. We'll examine the new regulation's impact on the shipping industry, the consequences of non-compliance, and the role of technology in ensuring adherence.

Amidst these transformations, technological advancements in maritime logistics, exemplified by multi-carrier delivery options and sophisticated Transportation Management Systems, promise to redefine efficiency and reliability in global supply chains. Such innovations not only streamline operations but also mitigate risks posed by port congestion and route disruptions.

Finally, our exploration of Latin American shipping logistics sheds light on regional challenges - from infrastructure gaps to regulatory complexities - impacting trade efficiency. Through insightful discussions with industry leaders, we uncover pivotal strategies for enhancing competitiveness and resilience in this evolving landscape.

A sincere thank you to all our contributors for this edition. As always, we hope this journal sparks stimulating debates and reflections on the maritime industry, propelling us forward into the future. Enjoy your read!



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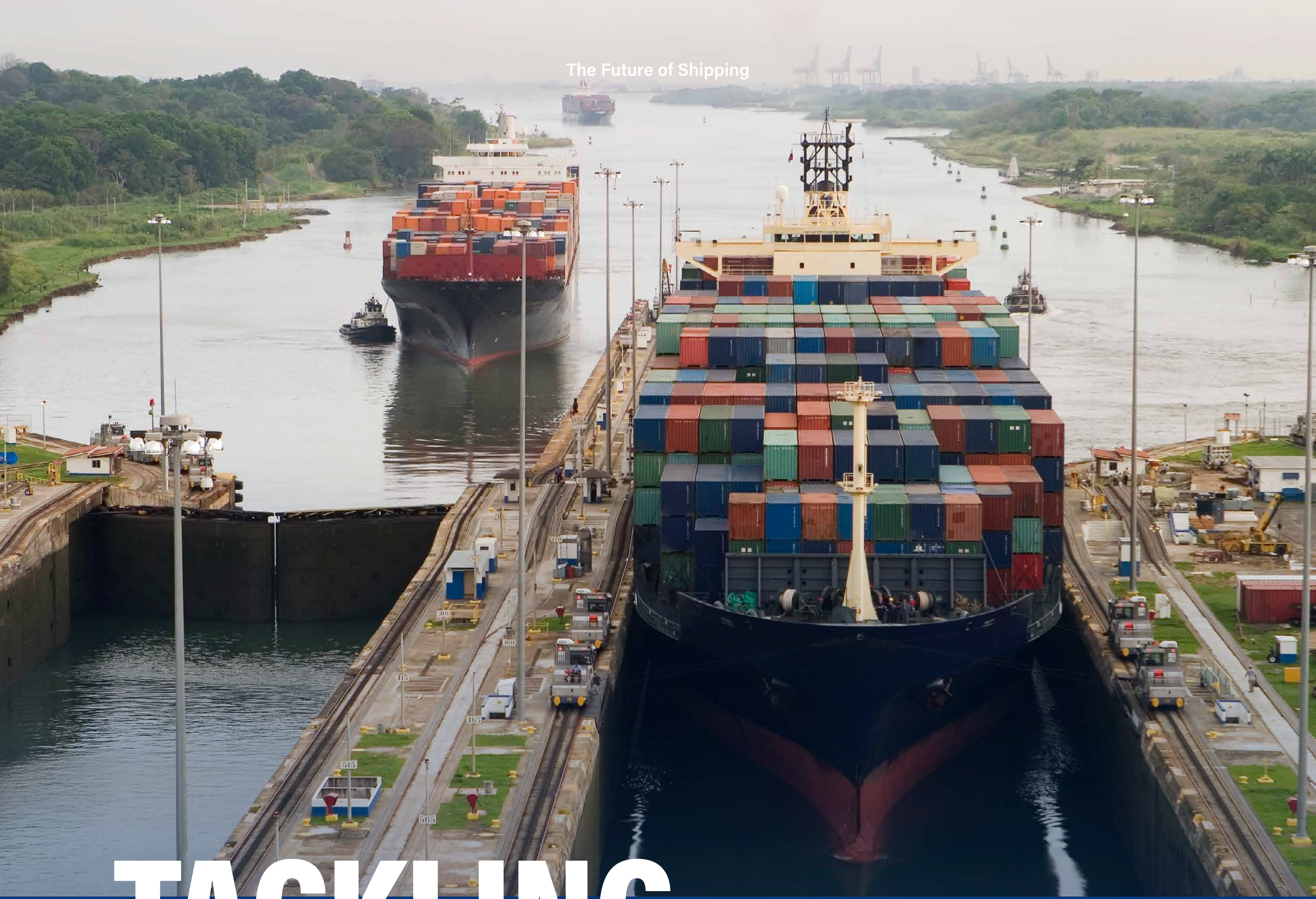


TACKLING SHIPPING DISRUPTIONS

IAPH STATEMENT ON DISRUPTIONS IN THE RED SEA REGION

The biggest challenge facing ports right now has been the build-up of cargo on either side of the Cape of Good Hope. The knock-on impact of changed schedules re-routed around the Cape on the main East-West trades, subsequent congestion build-up at key hubs and reduced vessel space and cargo equipment availability has meant a lot of work for some of our member ports. This should be emphasized – it is impacting some, but not all of our member ports. This was confirmed in our initial survey from our World Ports Tracker at the beginning of the year. Despite this challenge and others (such as Panama Canal restrictions and hostilities in Ukraine), the global ports network remains resilient.

During our own IAPH Harbor Cafés at the end of February ports such as Djibouti confirmed a significant spike in cargo traffic and space occupancy at their terminals to the point where they were obliged to move long-standing cargo off the terminal and inland in order to ensure continuity of their operations, with shippers using the port for storage as they speculated on whether carriers would continue to transit Suez.

Despite declarations from the IMO and the recent resolution passed at the UN endorsing a cease-fire plan aimed at ending the eight-month war between Israel and Hamas in Gaza, there are no guarantees that the security issues in the Red Sea will be resolved in the short term.

What has worked well in the past and even eliminated the scourge of piracy in the region has been a long-term military presence at sea involving coordinated actions to protect shipping as well as effectively defending vessels when they are attacked, backed up with a legislative process in neighbouring countries that can deal with the culprits involved.

The EU Navfor Operation Atalanta is one important example of a best practice, which now has seen the emergence of a similar initiative which is Operation EUNavfor Aspides, which is specifically focused on a "purely defensive" mission to increase maritime surveillance in the region, provide escort to merchant vessels, and defend against strikes.

Similarly, the EMASoH - European Maritime Awareness in the Strait of Hormuz, which is a maritime security initiative led by nine European countries, is a coordinated approach focused on protecting merchant vessels.

ABOUT THE ORGANISATION:

IAPH is a non-governmental organisation (NGO) headquartered in Tokyo, Japan. In November 1955, some 100 world port leaders gathered in Los Angeles to announce the creation of IAPH. Over the past six decades, IAPH has developed into a global alliance of ports, representing today some 177 ports and 147 port-related businesses in 84 countries as of 31 August 2023. The member ports together handle well over 60 per cent of the world's sea-borne trade and over 60 per cent of the world's container traffic.

IAPH aims to be the global trade association of choice for port authorities and operators, representing their interests at a regulatory level at the International Maritime Organization, the World Customs Organization, the International Standards Organization and other global alliances such as the Global Maritime Forum and the World Economic Forum.

IAPH has consultative status and works on behalf of ports with additional United Nations bodies such as the UN Conference on Trade and Development, the UN Environment Program and the UN Global Compact.

RED SEA DISRUPTIONS AND THE FUTURE OF CONTAINER SHIPPING

Dom Magli, Staff Reporter, Port Technology International, interviewing **Simon Heaney**, Senior Manager, Container Research, Drewry

*In this interview, **Simon Heaney**, a senior analyst at Drewry, delves into the profound impact of the Red Sea crisis on the container shipping market. He discusses how the crisis has surpassed initial expectations, leading to significant spikes in spot rates since mid-January. Simon attributes these increases to heightened demand, disrupted scheduling, and a shortage of container ships. His insights provide a nuanced view of the challenges facing industry stakeholders as they navigate towards stabilisation and recovery in the container shipping sector.*

In your 'Container Market Outlook' webinar in January, you touched on the impact on the Red Sea and its likeness to continue through the second quarter. How bad has the Red Sea crisis affected the container shipping market?

The severity of it has exceeded our expectations. We did some very quick analysis in terms of what the response might be. If you're diverting via the Cape of Good Hope, you've got to include extra time, distance, and cost. We knew those things were coming, but we also had the sort of knowledge that the shipping market was heavily oversupplied with ships.

For a long while, that sort of prognosis seemed to be fair. We saw a spike in rates from mid-January onwards, and then it really peaked out. Initially, the impact seemed to be minimal, and then everything blew up really from the beginning of May. Spot rates spiked and they have really been going up very steeply week on week ever since.

It has thrown our sort of expectation awry, and we have put the severity worsening down to a few factors. There's been an increase in demand, a catch-up in terms of the impact of scheduling being like clockwork as possible with chips arriving on the same day of the week as they're scheduled to.

But we know that there's been lots of gaps in the markets as liner services have been pocked marked with blank sailings. This is because they're not able to access the ships that they need, especially on the Asia-Europe service trade where they tend to be of the bigger size, you know, upwards of 20,000 TEU, plus those ships aren't readily available on the market in the charter market. You've had a real patchwork of liner of services and that seems to have caught up with ports and terminals.

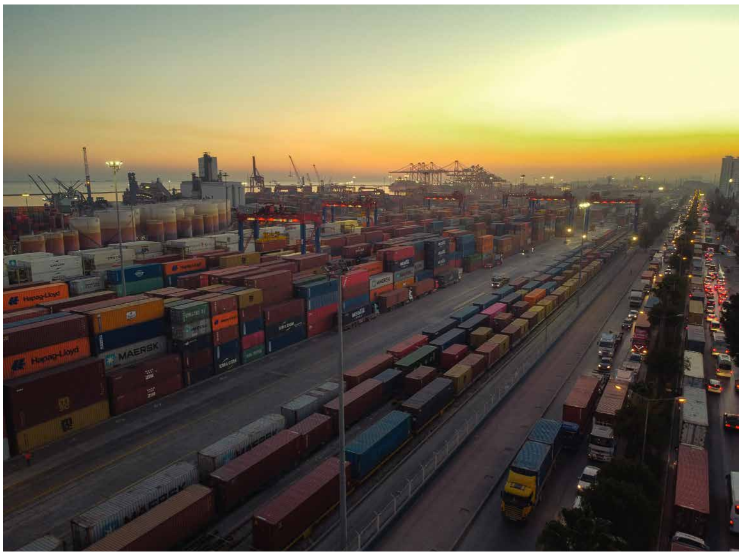
It's been multiple factors that have sort of colluded to cause this situation where we're getting a sort of light version of the pandemic where the circulation of container equipment is just taking that much longer. Therefore there are shortages of empty containers in Asia to be reloaded for export, causing those export prices out of Asia to spike.

In your opinion, when do you believe the intensity of the crisis will begin to slow down?

I think we are nearing the peak, but again, this is a bit of a sort of guesstimate on my part, I think we saw last week.

Drewry releases the World Container Index every Thursday. Last week we saw the composite index went up $84 per 40-foot container. The previous week they'd gone up roughly $490 per 40 foot. The magnitude has come down a bit. As of 13 June, the composite index was at $4,800; that's the highest since September 2022. The reason I think we're possibly at the peak is because there's a huge tidal wave of new ship capacity coming. Now, what's been delivered so far this year has largely gone into just plugging

"IT'S BEEN MULTIPLE FACTORS THAT HAVE SORT OF COLLUDED TO CAUSE THIS SITUATION WHERE WE'RE GETTING A SORT OF LIGHT VERSION OF THE PANDEMIC WHERE THE CIRCULATION OF CONTAINER EQUIPMENT IS JUST TAKING THAT MUCH LONGER."



"WE SURVEYED OUR CUSTOMER BASE ABOUT WHEN THEY EXPECT THE RED SEA DIVERSIONS TO END: ABOUT 17 PER CENT SAID BEFORE THE END OF THIS YEAR, AND ABOUT 60 PER CENT SAID THE FIRST HALF OF 2025."

those gaps in the network caused by the Red Sea diversions.

But from now on, there is still another 2 million TEU worth of capacity coming. As those ships arrive, they will come in and help to improve the quality, reliability and integrity of the services. This should start to take the pressure and ease some of the pressure off the ports and the terminals, relaxing the congestion, and therefore improving the circulation of equipment and sea rates start to suffer. I don't think we're anywhere near seeing the end of the Red Sea diversion.

During the pandemic, the competent index went up to about $10,377 per 40-foot container. Even at 4,800 currently you can see they're less than half that way there, and I don't think they'll get that high. That's my prediction, but as I've already made clear, I got it wrong before. Take it with a pinch of salt.

How long do you predict it will take for the container market to recover from the crisis?

It depends on whose perspective you're looking at it from. From an ocean carrier point of view, this is great news. They were losing money in the fourth quarter of last year and we were expecting them to lose money quite heavily this year.

As a result of the diversions, carriers are making money. Carriers probably want this situation to go on for as long as they can, and they don't really necessarily want ships to go back through sewers immediately because it would expose the fact that the market is oversupplied.

If you're talking about from a cargo owner's perspective when they might expect to see freight rates go back to sort of the same level they were before they started spiking, it depends on many factors.

We have surveyed our customer base, again, and we asked them a bold question: "When do you think the Red Sea diversions will end?".

About 17 per cent said before the end of this year, and about 60 per cent said the first half of 2025. We are looking at that period and even then, you've probably got a three-to-four-month period after that, even when the Suez Canal is reopened for operations to normalise because it takes a while for ships to manoeuvre back into the right positions and where they need to be.

That's a bit of a long-winded way of saying we don't know. But it could be that you're looking at next year potentially for this. Keep in mind that events happen very quickly, and I wouldn't rule out something happening before that.

When the 'Gemini Cooperation' goes into effect in early 2025, how will other shipping lines be affected?

The new cooperation states that they are doing a different model. They're going for this sort of hub and spoke with very few mainline calls and a lot of shuttle calls. That would throw down a challenge to the other carriers in terms of losing customers who are desperate for reliable services that they can predict.

I think that's the gauntlet that they'll be throwing down there hoping to sort of create a marketing edge for themselves in Gemini. The other challenge is the startup of any new alliance, which historically has created a bit of a bun fight for customers.

I think it could potentially be disruptive now. The Gemini preliminary network is predicated on the Suez Canal being reopened. They may have to change all that up if that's not the case looking increasingly likely it won't be. I think people have over-egged it. Yes, there'll be a bit of disruption, but alliances tend to evolve.

"THE PRIMARY OBJECTIVE OF OUR CONTAINER CAPACITY INSIGHT IS TO GIVE OUR CLIENTS A HOLISTIC VIEW OF THE CONTAINER SHIPPING OPERATIONAL METRICS WITH THE AIM TO EMPOWER CLIENTS TO MAKE DATA-DRIVEN DECISIONS THAT ENHANCE THEIR OPERATIONAL EFFICIENCY AND ALIGN WITH THEIR SUSTAINABLE SUSTAINABILITY GOALS."

In February 2024, Drewry launched the online version of the Container Capacity Insight. Can you explain its purpose?

The primary objective of our Container Capacity Insight is to give our clients a holistic view of the container shipping operational metrics with the aim to empower clients to make data-driven decisions that enhance their operational efficiency and align with their sustainable sustainability goals.

Each week, we conduct a detailed assessment of blank sailings and effective capacity deployed on major East-West routes. This is broken down by trade lane and by Alliance, covering the upcoming five weeks.

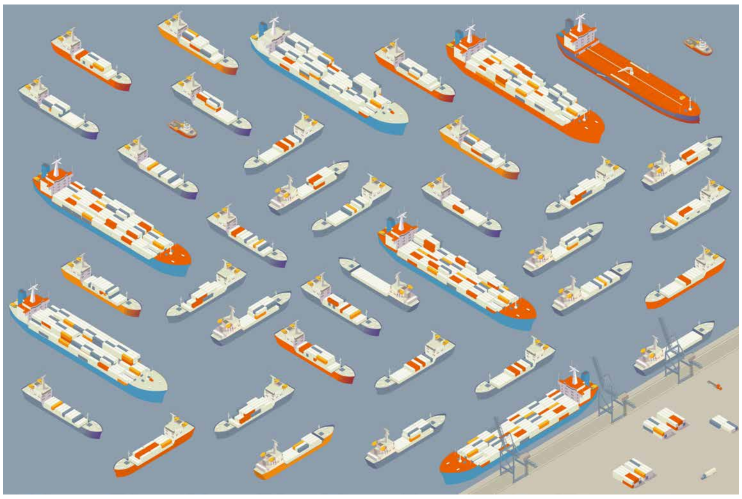
Additionally, we analyse the past trends year-over-year (YoY) and month-over-month (MoM) to give our clients a historical perspective, supported by a view on the utilisation by trade lane. This helps in understanding the market dynamics and to plan accordingly.

We also provide weekly insights on port congestion and transit times, using data extracted from Drewry's AIS. This real-time data is used to monitor and identify any significant changes in port operations and transit times.

Recognising the growing importance of sustainability in the shipping industry, we have recently included metrics on average CO_2 emissions on major East-West trade lanes (head haul). This assists our clients not only track operational efficiency but also make environmentally conscious decisions.

Overall, our clients benefit in several ways. The weekly updates ensure they are always informed about the latest market shipping operational conditions and trends, enabling them to adjust their operations and strategies promptly.

The detailed breakdown of metrics helps them understand the nuances of different trade lanes and Alliances, while the sustainability data supports their efforts to minimise environmental impact.



What are some of the main highlights from this month's World Container Index?

We've had two readings in June 2024, one on 6 June and one on 13 June. On 6 June, it went up to 90, and then on 13 June it went up to 85. There's just a continuation of that. Rates are increasing pretty much everywhere, but they're going up most steeply on the Asia-Europe route and the Asia-North America route, which is the trade that's growing strongest now.

How does Drewry predict the state of the container shipping market to be in 2025?

If our customers are all-knowing and their prediction for the first half of 2025 end to Red Sea diversions is correct, then we add in a three-month taper for things to normalise. I think the market will be a bit softer in terms of freight rates. I think we've got this situation to last for a little while, but the congestion issues should get easier because of the arrival of the new ships. It takes time for ports and terminals to get used to the new routine. I feel that demand won't be so strong. I think it will be a slightly less painful version of what we're currently seeing now that could last through to the third quarter of next year. But frankly, the market has currently never been any more unpredictable. You get a change in the geopolitical situation and things will flip overnight.

Predicting even a month ahead is difficult, let alone a year. But we must try to stick to the fundamentals. We know there are lots of ships coming. We know that there is demand growth, but it's not stellar. You're going to exceed probably 2 to 3 per cent volume growth next year. Fleet growth will be bigger, poor congestion should ease, and the trigger points for why freight rates stay high will start to lessen.

ABOUT THE AUTHOR:

Simon has nearly two decades of experience covering the container shipping market and works within Drewry's Container Research division as lead analyst for Drewry's flagship Container Forecaster service.

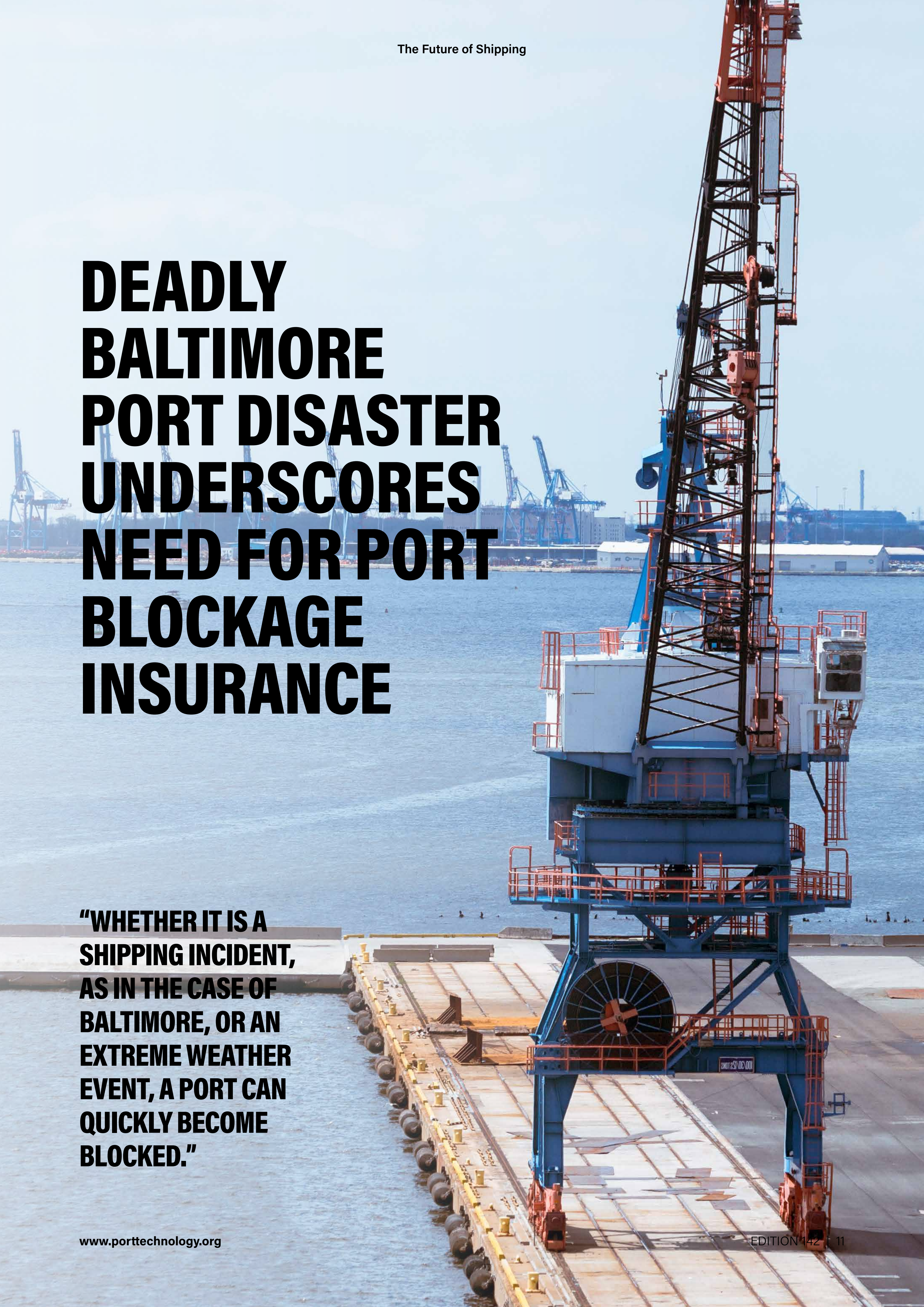
After graduating in the mid-1990s Simon had a brief career in banking before joining liner shipping database ComPairData as a researcher. He then progressed to become a reporter and finally associate editor of sister-company American Shipper. He won The Seahorse Club Journalist of the Year in 2006.

Since joining Drewry in 2008, Simon has worked on a number of shipper-oriented reports and has been an active contributor to consultancy projects in the sector. Simon is also Editor of Drewry's long-standing Container Insight publication, regularly commenting on box market developments and trends.

ABOUT THE COMPANY:

Drewry is a leading international provider of research and consulting services to the maritime and shipping industry. From its origins in 1970 London to a 21st-century maritime and shipping consultancy, Drewry has established itself as one of the most widely used and respected sources of impartial market insight, industry analysis and advice.

"FRANKLY, THE MARKET HAS CURRENTLY NEVER BEEN ANY MORE UNPREDICTABLE."



DEADLY BALTIMORE PORT DISASTER UNDERSCORES NEED FOR PORT BLOCKAGE INSURANCE

"WHETHER IT IS A SHIPPING INCIDENT, AS IN THE CASE OF BALTIMORE, OR AN EXTREME WEATHER EVENT, A PORT CAN QUICKLY BECOME BLOCKED."

Ed McNamara, CEO, Armada Risk Partners

The Baltimore bridge disaster has sent shockwaves through the maritime industry, laying bare the vulnerabilities inherent in everyday operations, and underscoring the value of proactive risk management measures.

It took two months for the Port of Baltimore to reopen as specialist crews and authorities focused on operations to remove the Singaporean-flagged containership Dali that slammed into the Francis Scott Key Bridge killing six workers. The men - all construction workers fixing potholes on the bridge - died when they were plunged into the water after the Dali hit the bridge, causing its collapse on 26 March.

Total damages and costs continue to rise and are likely to run to several billions of dollars. While it is reported that Chubb is preparing to pay out $350 million in the near future as insurers of the bridge, it will cover only a fraction of the total costs associated with the bridge collapse.

The ensuing disruption has not only impacted maritime commerce but unleashed a cascade of consequences, which disrupted trade routes, stranded vessels, and put at risk global supply chains creating significant economic losses.

Ports find themselves at the forefront of risk. Whether it is a shipping incident, as in the case of Baltimore, or an extreme weather event, a port can quickly become blocked, exposing operations, assets and people to severe disruption, damage, and third-party claims.

As a port insurance specialist broker, we believe that port blockage insurance offers a critical and pragmatic solution to this pressing issue. By providing coverage for losses resulting from port closures or blockages, insurers can help ports mitigate financial risks and expedite recovery efforts.

"PORT BLOCKAGE INSURANCE SHOULD NOT BE SEEN AS A LUXURY; IT IS MORE OF A STRATEGIC IMPERATIVE."

Yet we continue to see a number of port operators who are considering cutting their coverage as a short-sighted route to saving money in the face of rising rates and premiums.

While some operators are of the opinion that federal authorities will unblock their port in times of crisis given the urgency of moving essential supplies, Baltimore has clearly shown this to be a high-risk strategy. Not only might it not even be physically possible to unblock a port immediately, but the authorities can also be already occupied with other emergencies or, indeed, be struggling with the challenges of bureaucracy.

In situations like this which paralyse or seriously curtail port operations, the net result is the likelihood of extensive delays, stranded vessels, disrupted global supply chains, and a massive economic hit.

Port blockage insurance should not be seen as a luxury; it is more of a strategic imperative. Just as we all insure our homes against natural disasters, ports should take the necessary steps to safeguard their operations from the significant risks of maritime transportation.

This specialised insurance provides financial protection in the event of port closures or blockages, ensuring that ports can mitigate losses, expedite recovery efforts, and swiftly resume operations. It also incentivises investments in infrastructure resilience and emergency preparedness. Insurers can collaborate with port authorities and businesses to identify vulnerabilities, implement mitigation measures, and enhance response capabilities.

By fostering a culture of risk awareness and proactive risk management, we can reduce the likelihood and severity of future disruptions. This investment in resilience and preparedness will allow us to fortify global supply chains, promote economic stability, and ensure the uninterrupted flow of goods and commerce.

SEVEN TOP PORT INSURANCE TIPS

Against this backdrop how can port operators ensure they get the best insurance available and are fully covered?

1. Business Interruption/ blockage insurance:
Port operations need to secure business interruption insurance that covers income losses resulting from disruptions caused by strikes, protests, or other events like blockage caused by an accident like the Baltimore bridge collapse. This can include coverage for lost revenue, extra expenses, and ongoing operating costs during the interruption period.

2. Property Insurance:
It is vital to ensure that the port's physical assets, including terminals, warehouses, and equipment, are adequately covered by property insurance. This should include coverage for damages caused by ship collisions, natural disasters, or other physical perils.

3. Marine Insurance:
Marine insurance policies should cover damages to vessels, including collisions in the port area. This can include hull and machinery insurance, protection and indemnity (P&I) insurance, and cargo insurance for goods in transit.

4. Liability Insurance:
Liability insurance is needed to protect the port against legal claims arising from accidents, collisions, or injuries that occur on the premises. This can include third-party liability coverage for damage to other vessels, infrastructure, or injuries to individuals.

5. Political Risk Insurance:
Consider political risk insurance to protect against losses occurring as a result of strikes, protests, or other political events that may disrupt business operations. Think of Russia's war with Ukraine or tensions between the US and China or conflict in the Middle East. These kinds of dynamics can have a big impact on ports that for example have investors from countries that could be affected by sanctions.

6. Contingent Business Interruption Insurance:
Contingent business interruption insurance is used to cover losses resulting from disruptions to key suppliers or customers. This can be crucial if a port relies on specific suppliers for its operations.

7. Cyber Insurance:
Cyber insurance is essential to protect against cyber threats and attacks that could disrupt port operations, leading to business interruption. Hosting large numbers of vessels operated by companies employing a range of IT systems provides a perfect environment for cyberattacks.

ABOUT THE AUTHOR:
Ed McNamara is the CEO of Armada Risk Partners, a Cleveland US-based global port insurance broker that was a winner of the 2022 Fast Brokerage Award.

Ed has worked in the insurance industry for more than 15 years. Previously, he ran his own technology company and he has a lifelong interest in digital communication and is well-versed in cyberattack planning.

ABOUT THE COMPANY:
Armada Risk Partners is a Cleveland-based commercial insurance broker that shields companies and their employees from catastrophes by providing insurance solutions. The company is a global ports insurance specialist and further offers property and casualty, health and benefits, private risk, and life insurance expertise.

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