

Sea Logistics Update: ATA

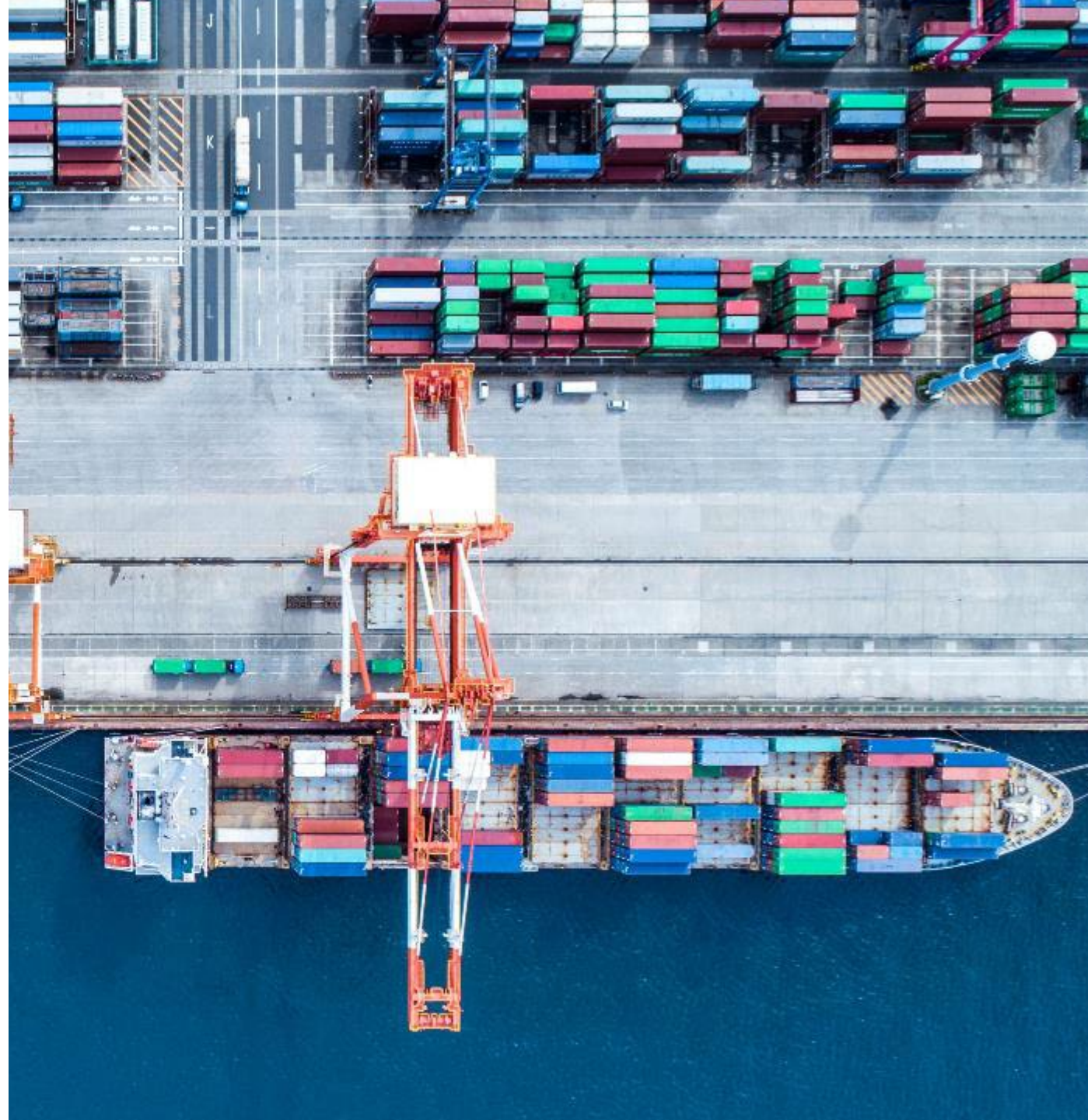
Bill Rooney

November 1st, 2023



Agenda: Current State of Sea Logistics

1. Headlines
2. Labor
3. Cargo Volume
4. Operations
5. Rates
6. Government
7. Industry Metrics
8. A Look Forward



Section 1

Headlines

Sea Logistics Industry Headlines

- **The EU eliminates the carrier/alliance block exemption**
- **The EU ETS starts Jan. 1, 2024**
- **Massive growth in global vessel capacity raises questions about rates, vessel operations & service levels**
- **Weak cargo demand forecast into 2024 and beyond combined with capacity additions point to possible rate pressure out to 2027 or 2028.**
- **Carrier use of blank sailings to control capacity could allow carriers to gain a greater ability to influence rates**
- **2023 Global cargo volume down significantly vs. 2022 and approx. at 2019 level**
- **Geopolitical developments (Ukraine war, Israel/Hamas war, China “assertiveness” all raise the level of uncertainty**
- **Impact of IMO 2023 will be felt more in 2024 than 2023**

Section 2

Labor

ILWU Files For Bankruptcy?

(What happened to the \$70 million?)

- West Coast Dockworkers Union Files for Bankruptcy to Weather Port Lawsuit
- How a fight over 2 jobs bankrupted union of 40,000 dockworkers

Source: WSJ 10.1.23; American Shipper 10.2.23



Developments: OCU (Office Clerical Unit)

ILWU Office Clerical Unit negotiations under way in LA-LB



Office clerical workers at Port of Los Angeles go on strike to stop outsourcing good jobs needed by working families in Harbor community

Nov 27, 2012 | Uncategorized

As of October 24th, 2023:

Mostly radio silence/crickets

Is this good news?

Probably. But there are issues

Wages, Pension, Tech & Term

Likely modeled after ILWU contract

The current OCU contract expires on June 30, 2023

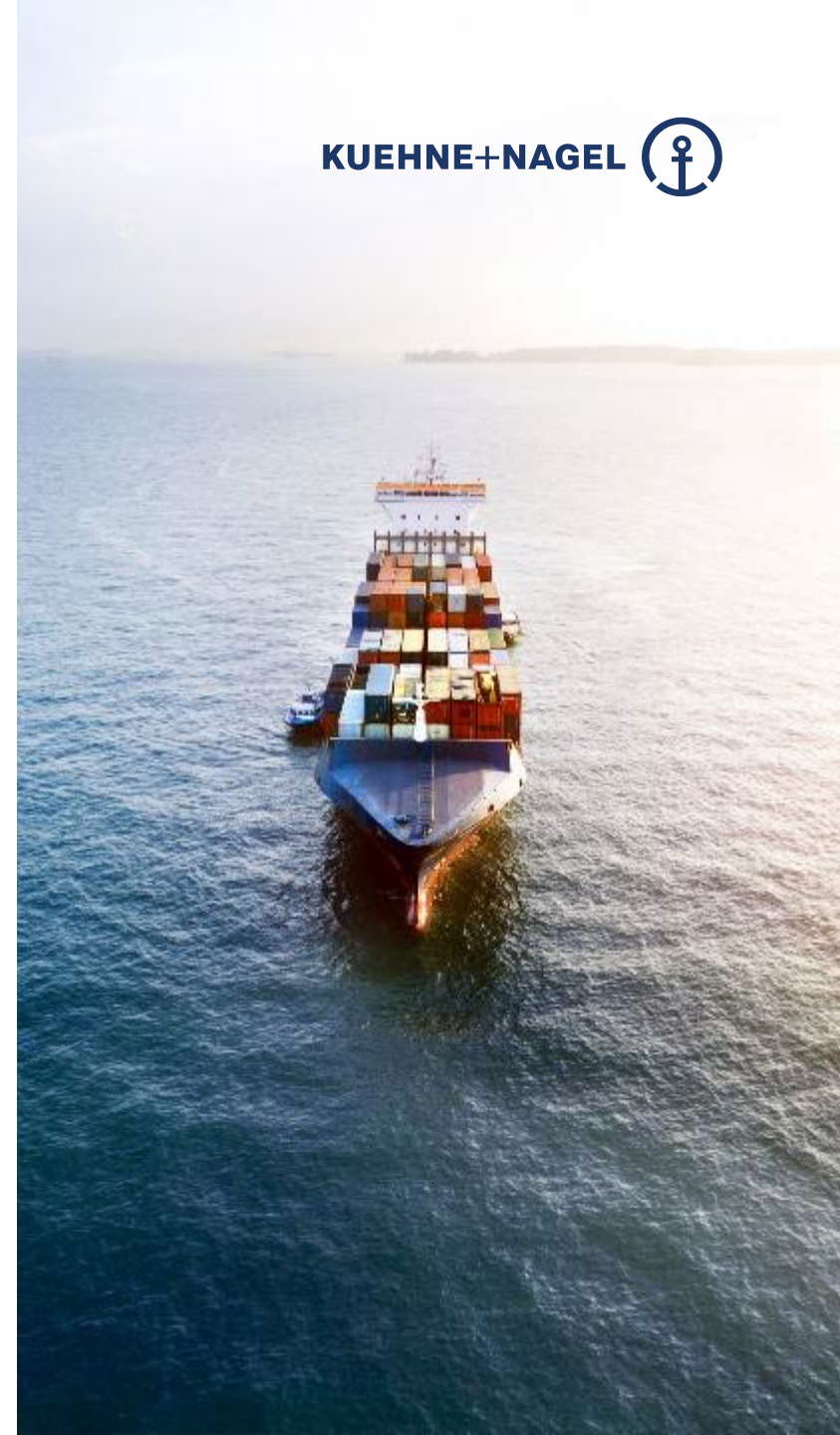
Note: The OCU (ILWU local 63-Office Clerical Unit) represents approx. 600 clerical workers in the LALB port area. The ILWU has honored OCU picket lines in the past

Source: ILWU; JOC 3.6.23

SC Ports vs. the ILA

→ **SC Ports asks US Supreme Court to overturn ruling on Hugh Leatherman Terminal**

Source: WCSC

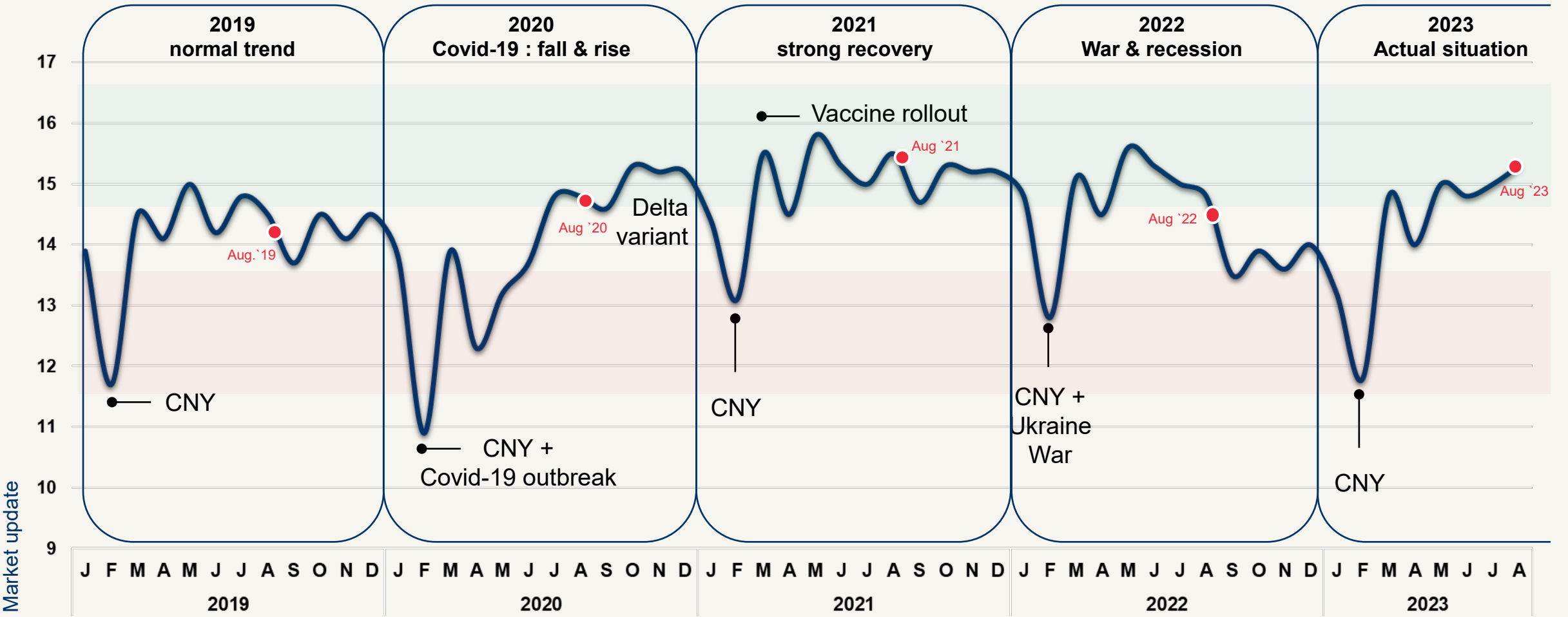


Section 3

Cargo Volume

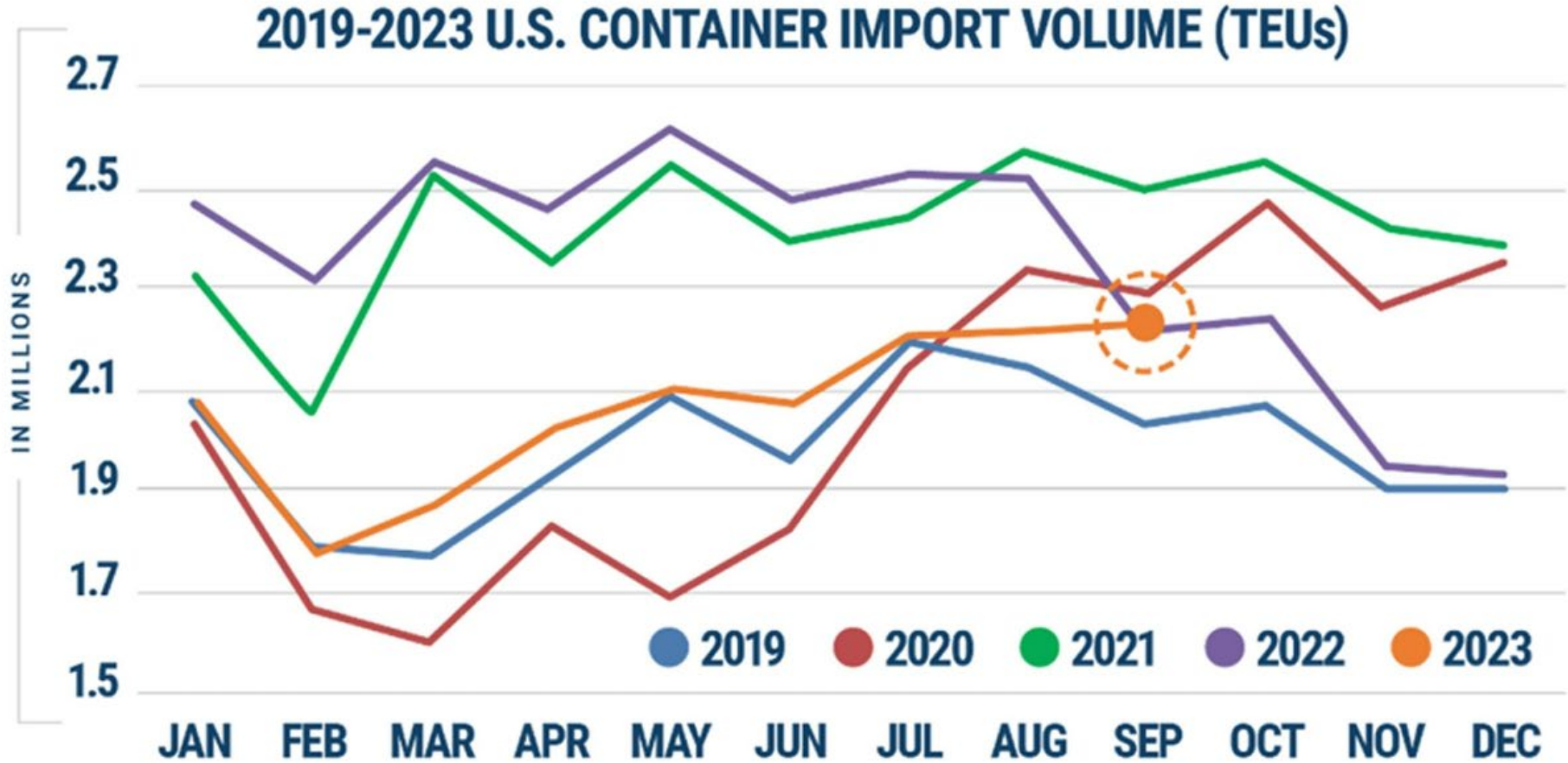
Global traded container volume 2019 – 2023

Million TEU per month



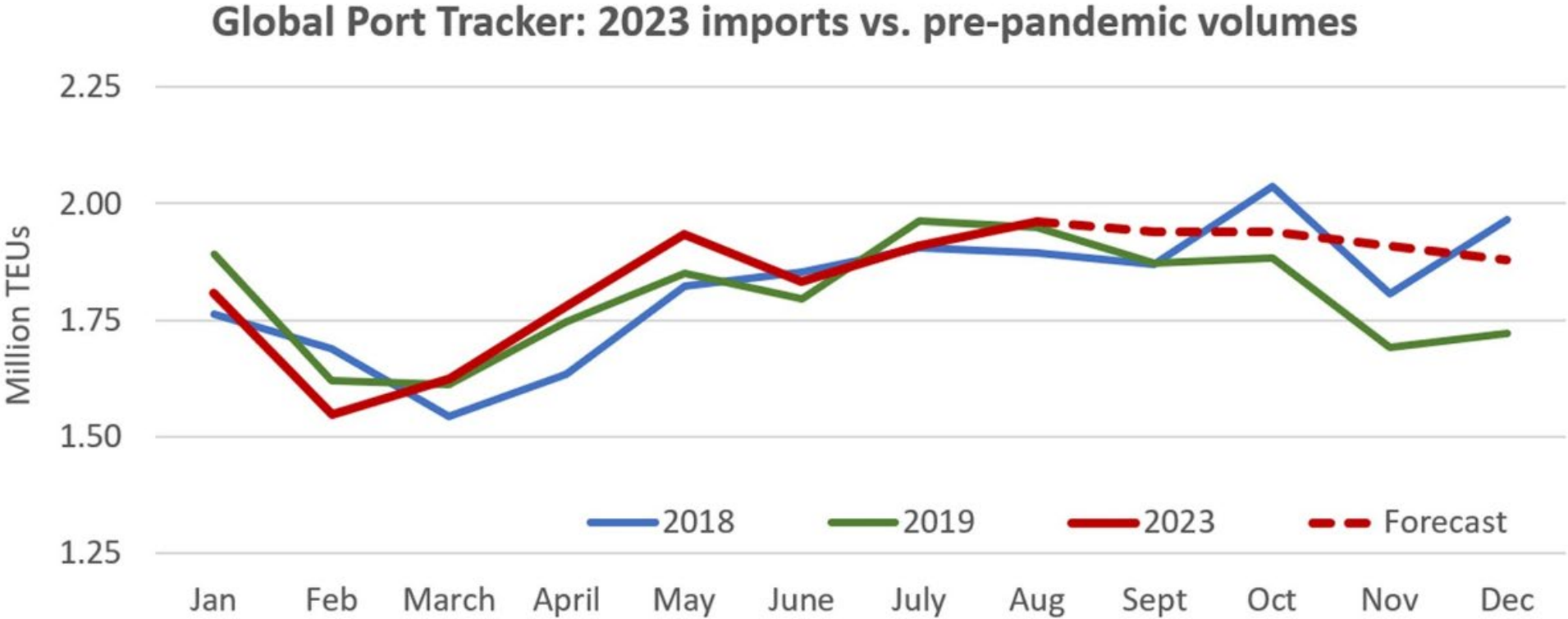
source: CTS and Kuehne + Nagel market intelligence

Cargo Volume: Total US Import Volume (September data)



Source: American Shipper 10.10.23

US Cargo Volume (September Data)

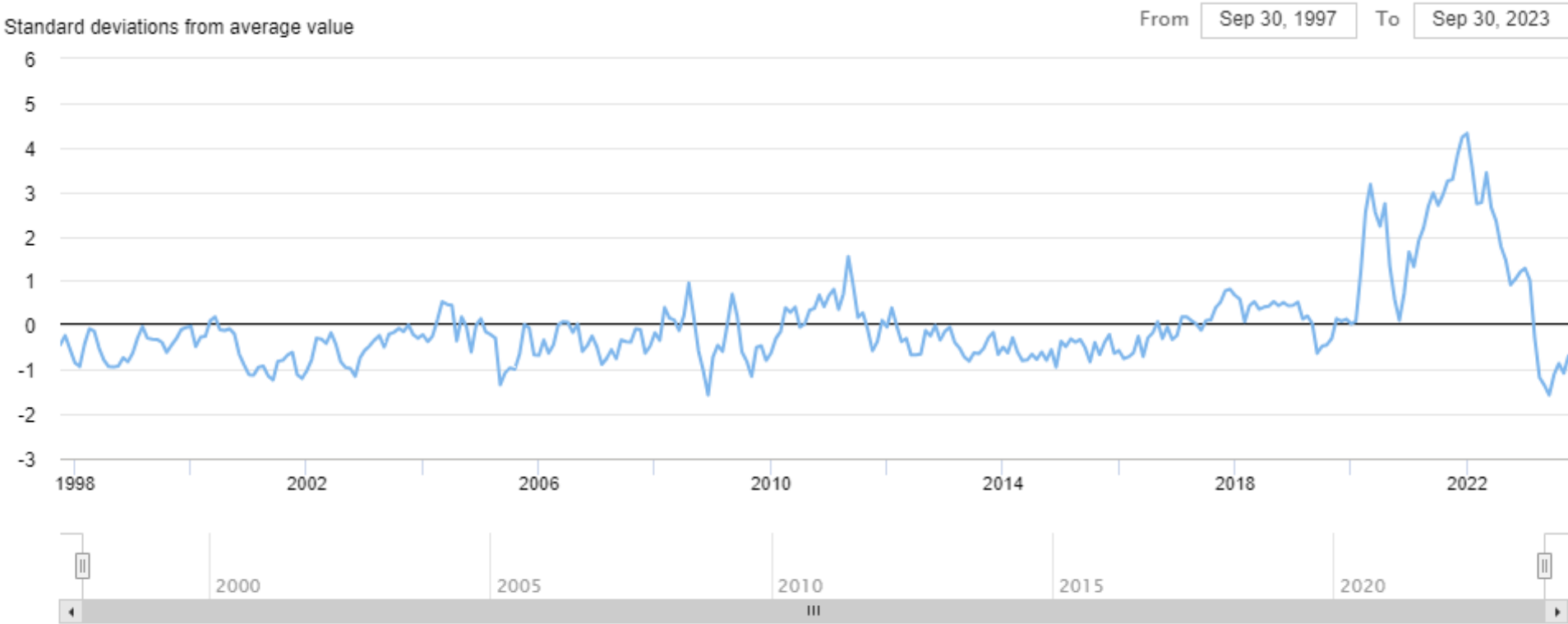


(Chart: FreightWaves based on data from NRF/Port Tracker)

Section 4

Operations

Global Supply Chain Pressure Index



Sources: Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv; authors' calculations.

Notes: GSCPI readings for the most recent months can be revised as realized data become available, replacing the imputed values generated through principal component analysis. Further, for some series, mainly the BLS airfreight cost indices, each new release comes with revisions to up to twelve months of previous data. Thus, revisions can have an impact up to a year back in time.

Source: Federal Reserve Bank of New York

North America Operations Status Week 41



Port	Yard	Gate	Rail	Waiting time
Montreal				
Halifax				
Baltimore				1 day
Newark PNCT				
Newark APMT				
Norfolk				0-1 day
Philadelphia				
Wilmington				
Jacksonville				
Port Everglades				
Charleston				
North Charleston				
Savannah				0-3 days
Miami - POMTOC				1 days
Freeport				1 day
Houston				0-5 days
New Orleans				1 day
Mobile				1 day
Tampa				
Long Beach				4-5 days
Los Angeles				
Oakland				
Seattle				0-1 day
Vancouver				3 days
Prince Rupert				1 day
Dutch Harbor				
Kodiak				

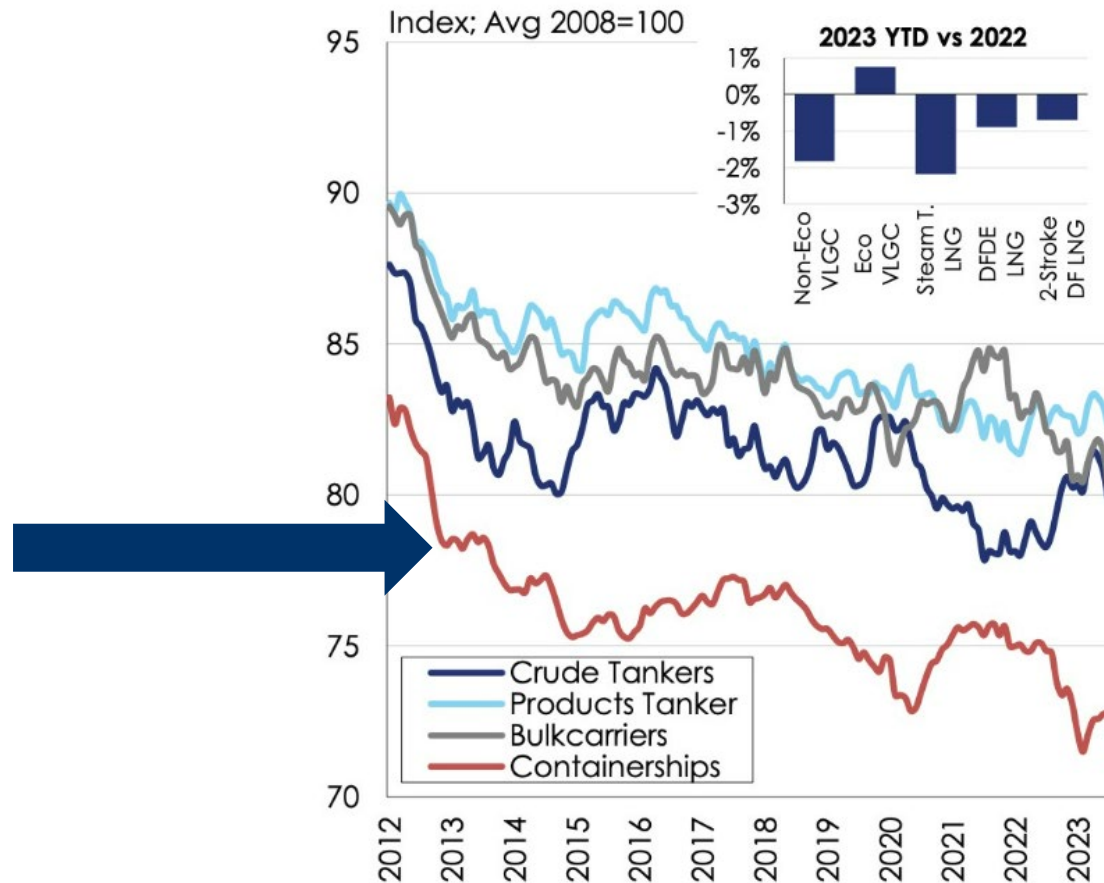


Vessel Speed

➔ **Bulk carriers and containerships moving at slowest speeds on record this year**

Vessel Speed: Going Down

Average containership speeds between January and August were down 3% on the 2022 average, reaching a record low of 13.7 knots in February and despite subsequently ticking up to 13.9 knots in Q3, remaining below the lowest level on record prior to this year.



Source : Clarksons Research

Train Fluidity (6 Class 1 RR)

IM Train speed 2023 wk 20-36 MPH	IM Train speed YonY Var.	Train speed & car dwell wk 25 to wk 41 2023 vs. 2022	Weekly vol. variance wks. 26 to wk 42 2023 vs. 2022
26.8	5.7%	5.8%	(7.0%)
26.7	5.5%	4.9%	(17.1%)
26.8	5.6%	5.3%	(13.9%)
26.8	5.3%	6.5%	(6.7%)
26.8	5.5%	4.6%	(8.3%)
26.5	5.7%	3.0%	(5.5%)
26.5	5.4%	4.6%	(6.8%)
27.3	5.4%	3.0%	(6.8%)
27.8	6.2%	3.3%	(8.9%)
26.7	6.3%	2.3%	(11.1%)
26.2	5.7%	1.4%	(7.4%)
26.1	5.1%	3.8%	(0.9%)
26.0	4.6%	2.7%	(1.1%)
26.1	3.9%	2.6%	(3.2%)
26.3	3.0%	0.6%	(2.8%)
26.0	2.3%	(1.9%)	(3.3%)
26.7	2.2%	(0.5%)	(1.0%)

Greater Network Fluidity

Lower Cargo Volume

- Trains were 20% slower in 2022 vs. 2015/16. 20.2 MPH vs. 25.5 MPH
- Intermodal volume in Q2 2021 was 25% to 30% higher in 2021 vs. 2020 & overwhelmed the network

Source: Wolfe Research

Panama Canal Water Level: January 2023



Panama Canal Water Level: July 2023



Panama Canal Status

- **Panama Canal Drought Conditions Seen Extending Into 2024**
- **Panama Canal Authority warns restrictions will stay in place for at least 10 months**
32 vessel transit per day vs. a max. of 38 to 40.
Max. draft is 50 ft. current limit is 44 ft.
- **Trans-Pac ships tapping Lázaro Cárdenas amid Panama draft limits**

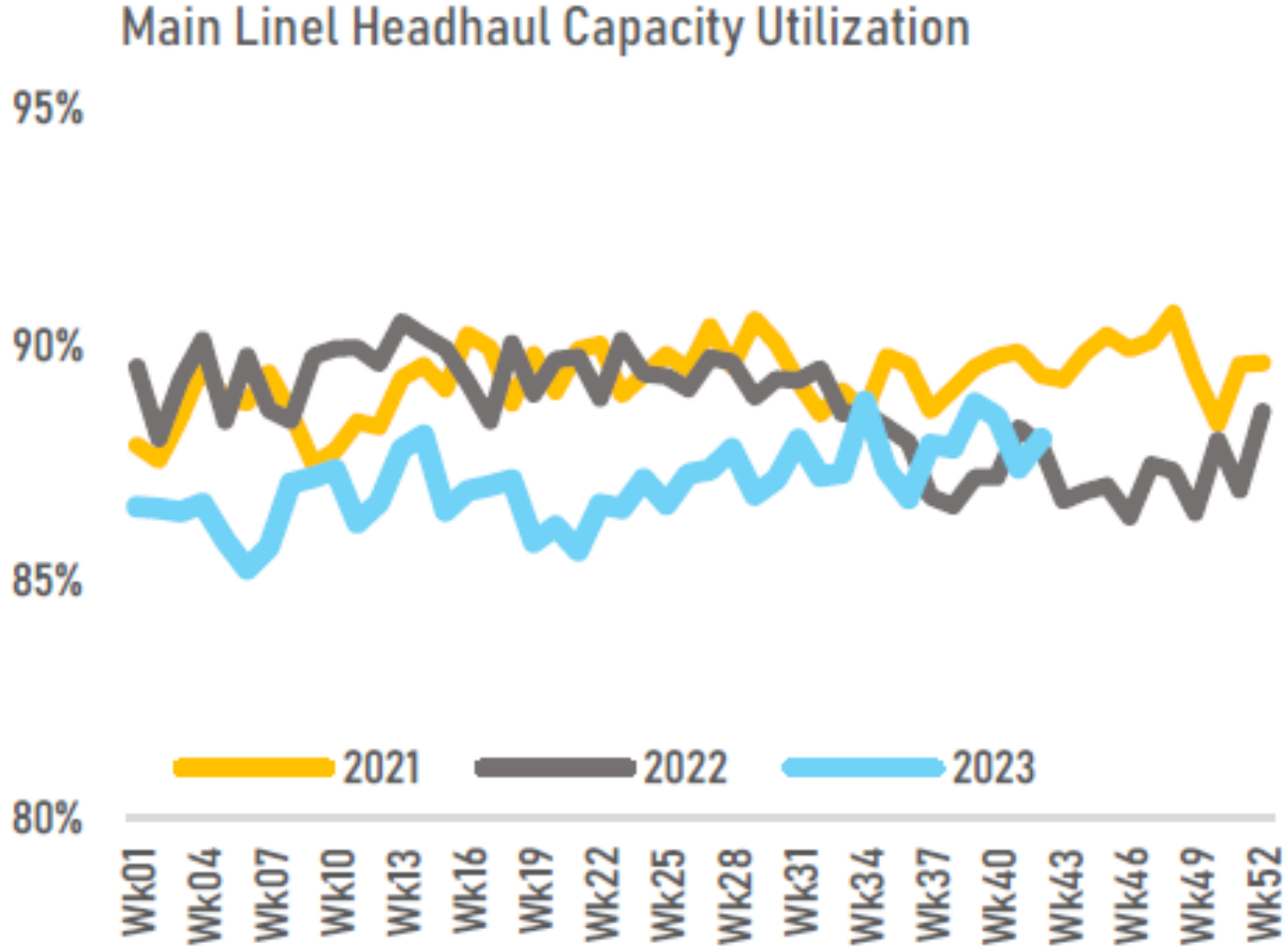
Source: WSJ 9.12.23 Splash 8.25.23; JOC 10.23.23



Section 5

Rates

Vessel Utilization: Main Linehaul Trades

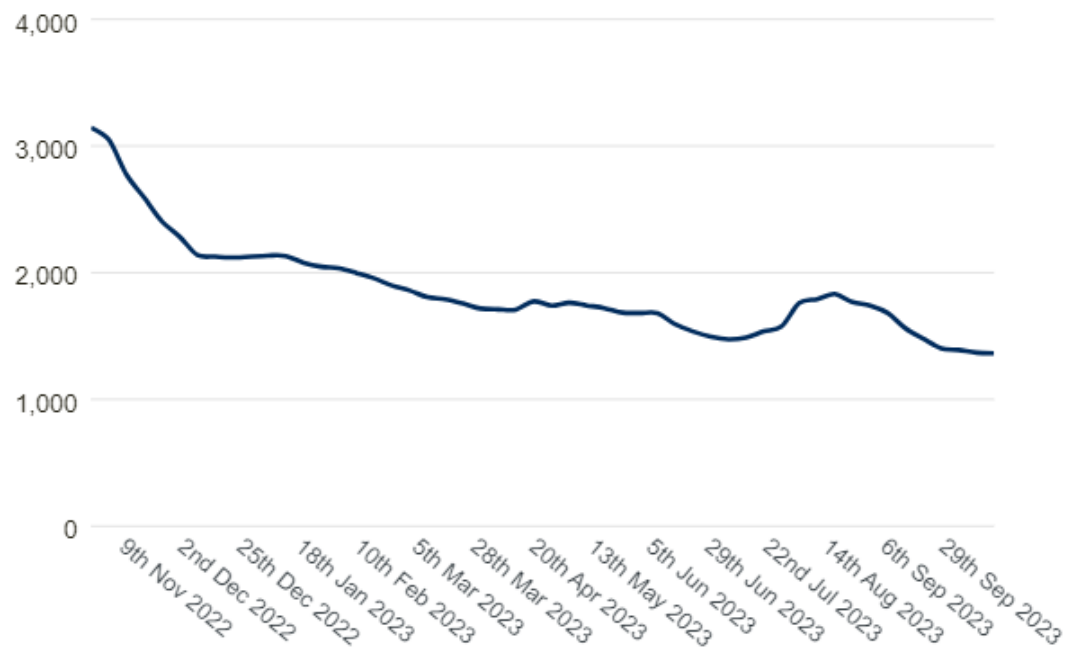


Drewry World Container Index

(Index as of October 19th, 2023 for 8 large trades)

Drewry's World Container Index remained stable at \$1,364 per 40ft container this week.

Drewry World Container Index (WCI) - 19 Oct 23 (US\$/40ft)

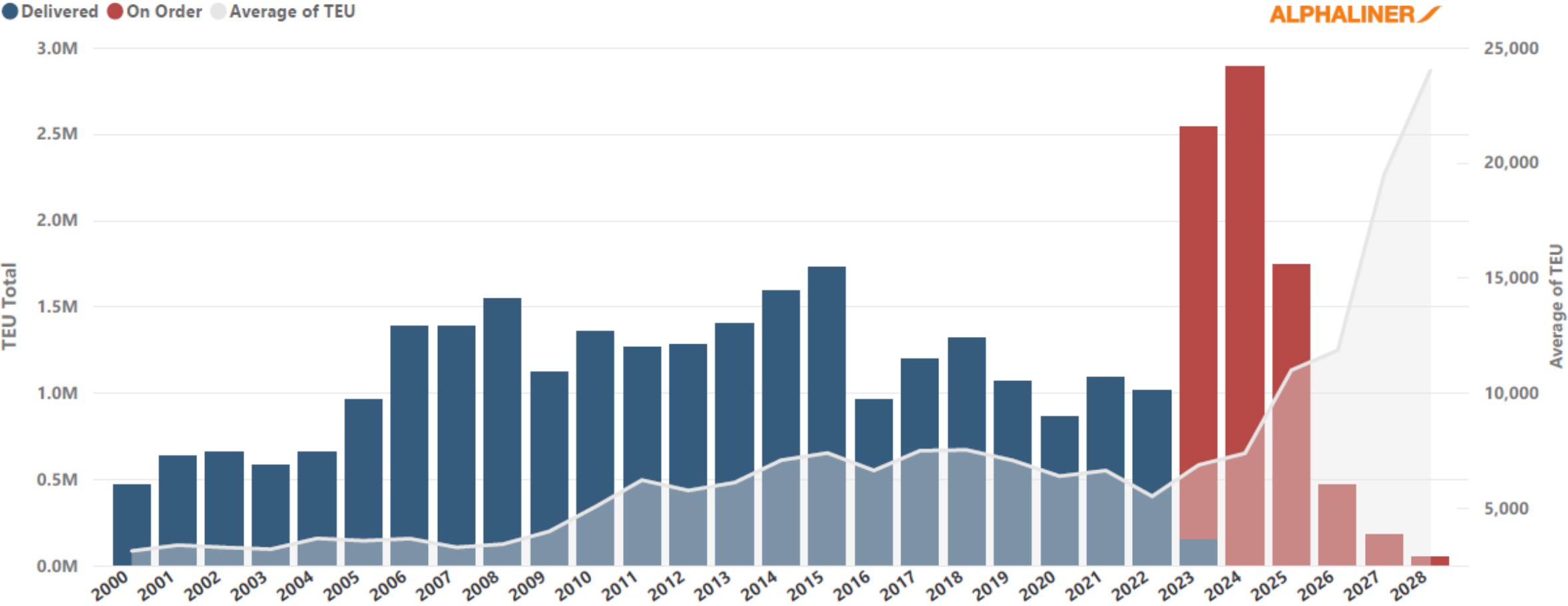


Facts:

- Supply/Demand balance fundamentally drives rates up or down
- Blank sailings are a more important tool today for carriers to control capacity and potentially rates
- The vessel order book reached approx. 30% of the existing fleet. One of the highest ratios on record. Over the next 2 yrs. the carriers will have to absorb approx. 7 to 8 million new TEUs of vessel space
- It is expected that vessel owners will scrap twice as much vessel capacity in the next 10 yrs. as they did in the past 10 yrs.
- It is expected that slower steaming and compliance with IMO 2023 will absorb some but not all of the new vessel capacity

Vessel Orders/Deliveries

Cellular Containerships Deliveries by TEU



Source: AlphaLiner

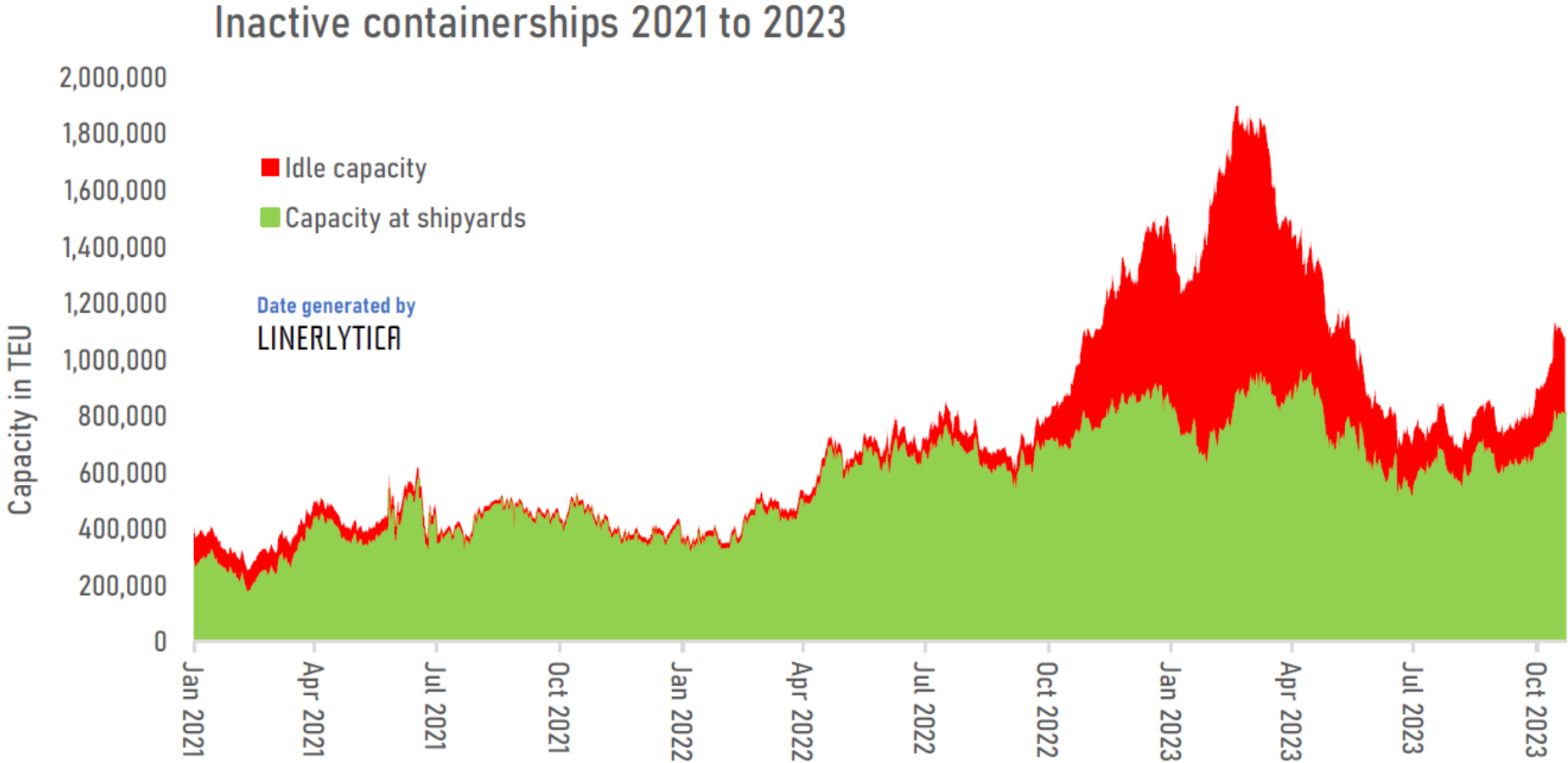
Capacity, Blank Sailings & Rates

- ➔ **Blanked sailings fail to halt plummeting spot indices**
- ➔ **Carriers Pull Capacity to Boost Floundering Spot Rates**
- ➔ **More trans-Pac service cuts on tap for October as carriers seek to buoy rates**
- ➔ **Asia-North Europe blank sailings to soar in October amid capacity overhang**

Source: Loadstar 9.15.23; JOC 9.21.23; Splash 9.22.23



Inactive Vessel Capacity

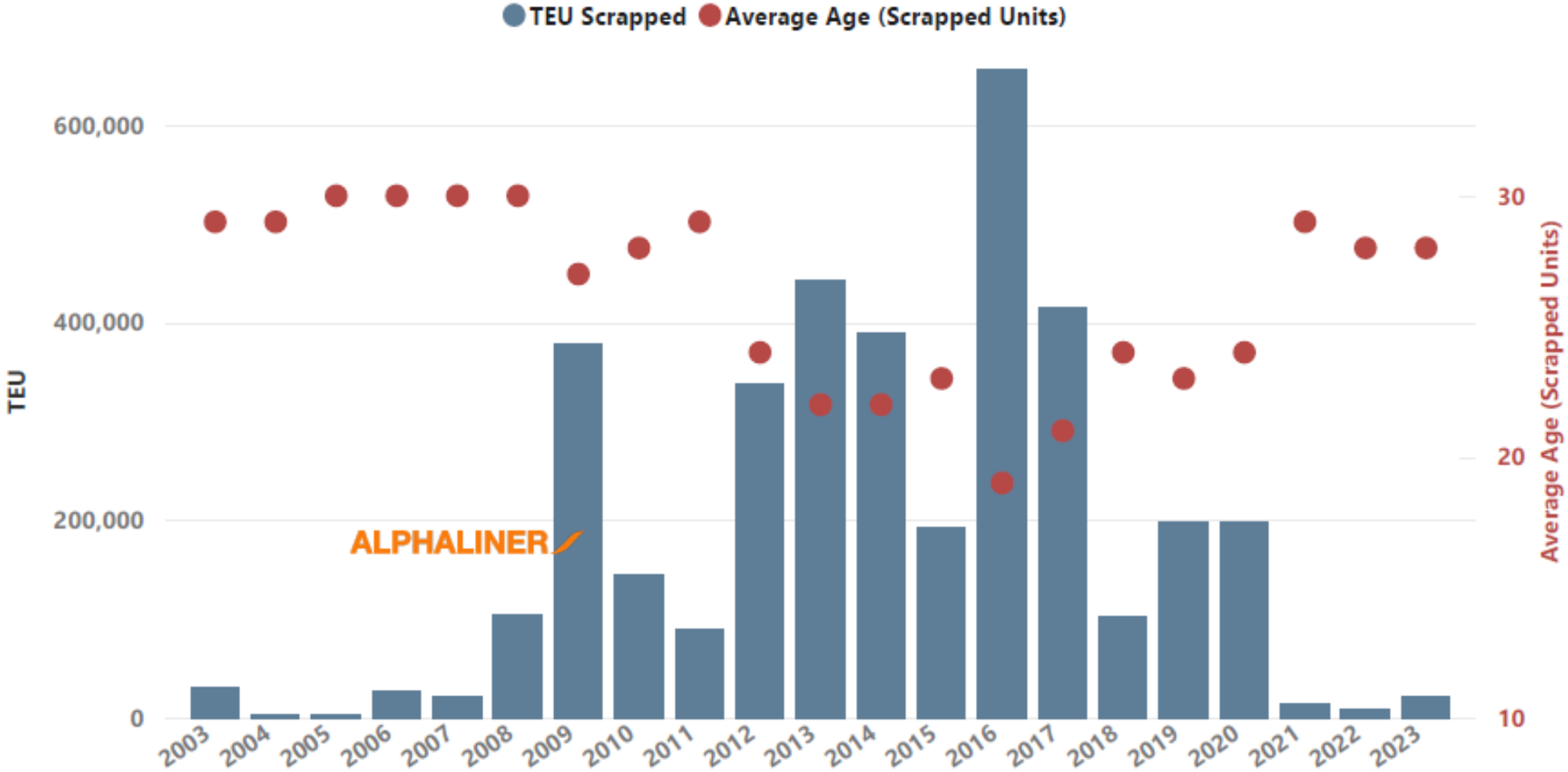


Source: LinerLytica wk. 43 2023

Vessel Scrapping



Vessel Scrapings



ALPHALINER 

Source: AlphaLiner

Trans-Atlantic Rates

→ **Trans-Atlantic shipping suffers 'meltdown' as rates hit new low**

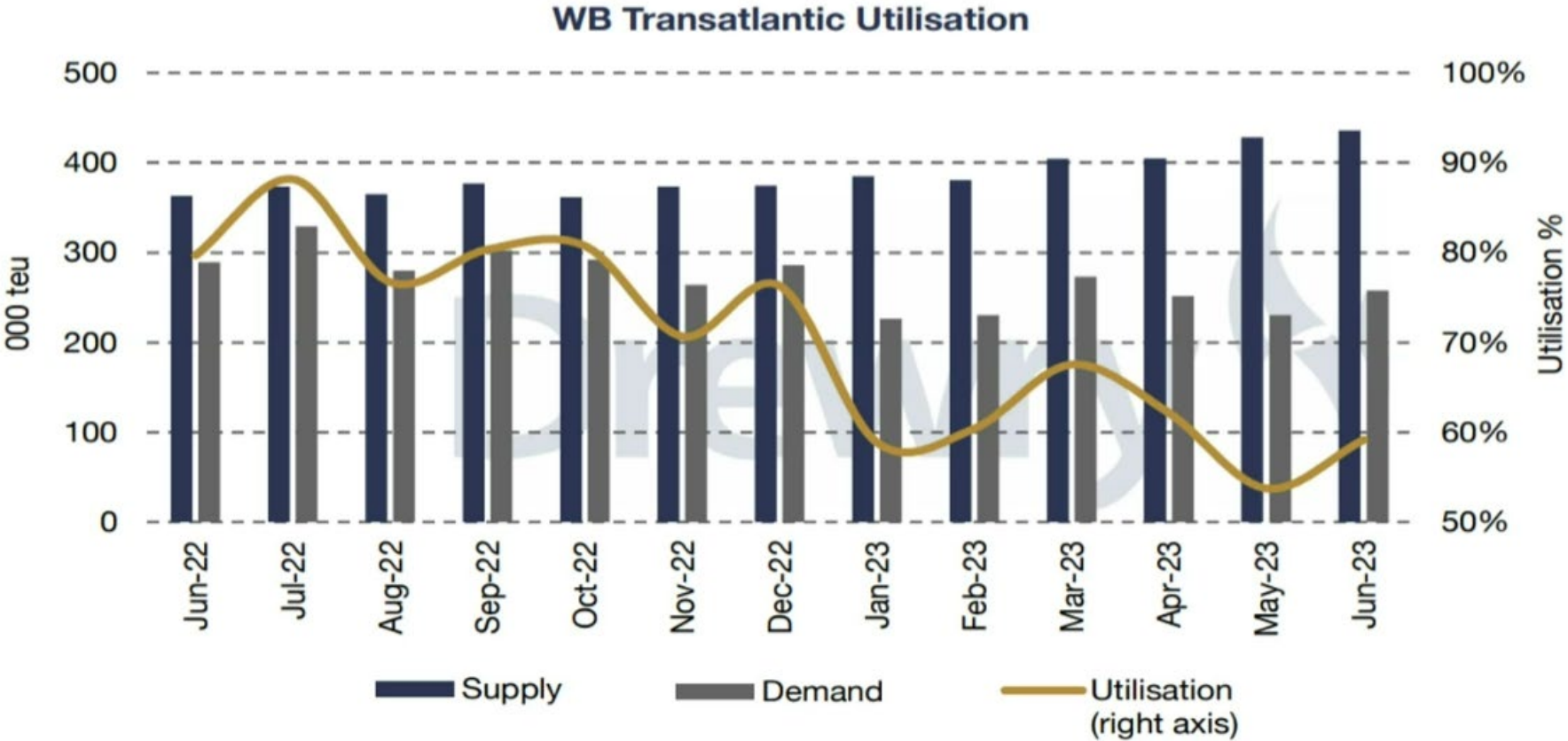
Drewry's trans-Atlantic spot index at lowest level in over a decade

→ **Full-on rate collapse in the Atlantic**

Source: American Shipper 8.17.23; SeaIntelligence 9.3.23



TAWB Vessel Utilization



Drewry

Trans-Atlantic WB Rates

Fig.A3: Annualized growth versus same month 2019



Fig.A4: 4-week avg capacity

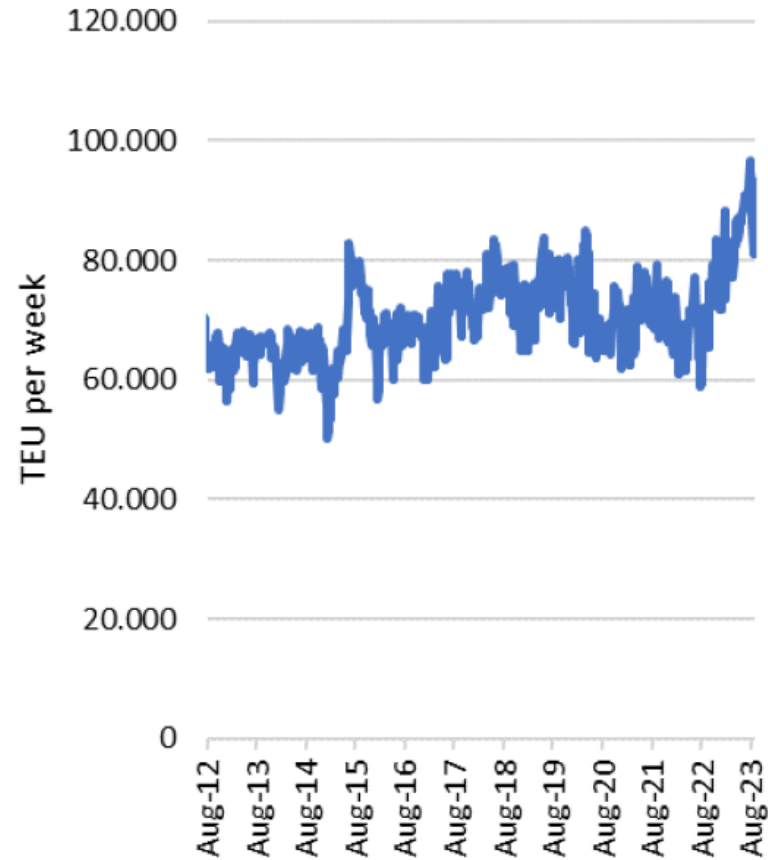
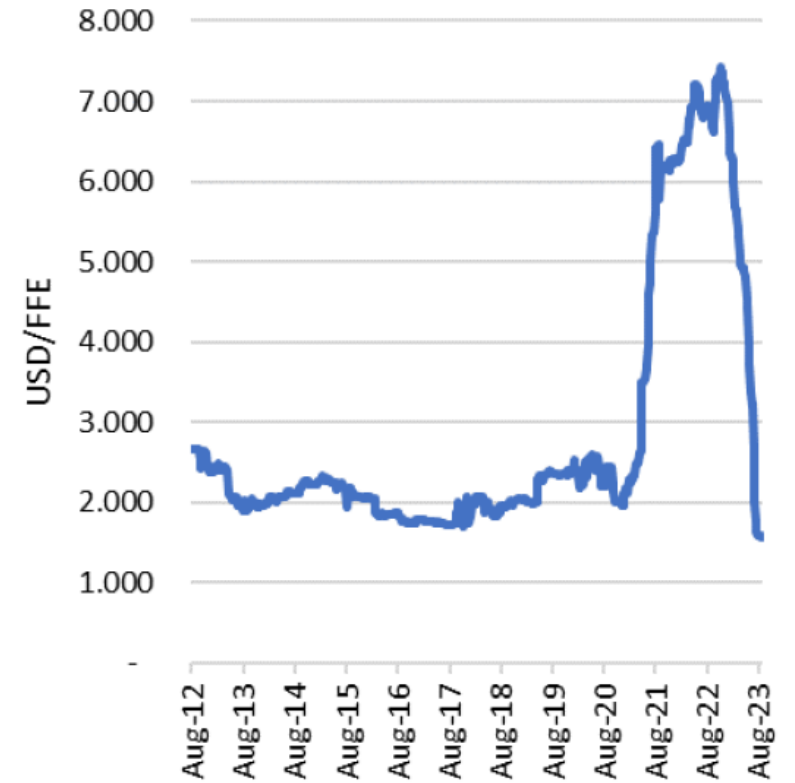


Fig.A1: Spot Rate (WCI) Rotterdam-New York

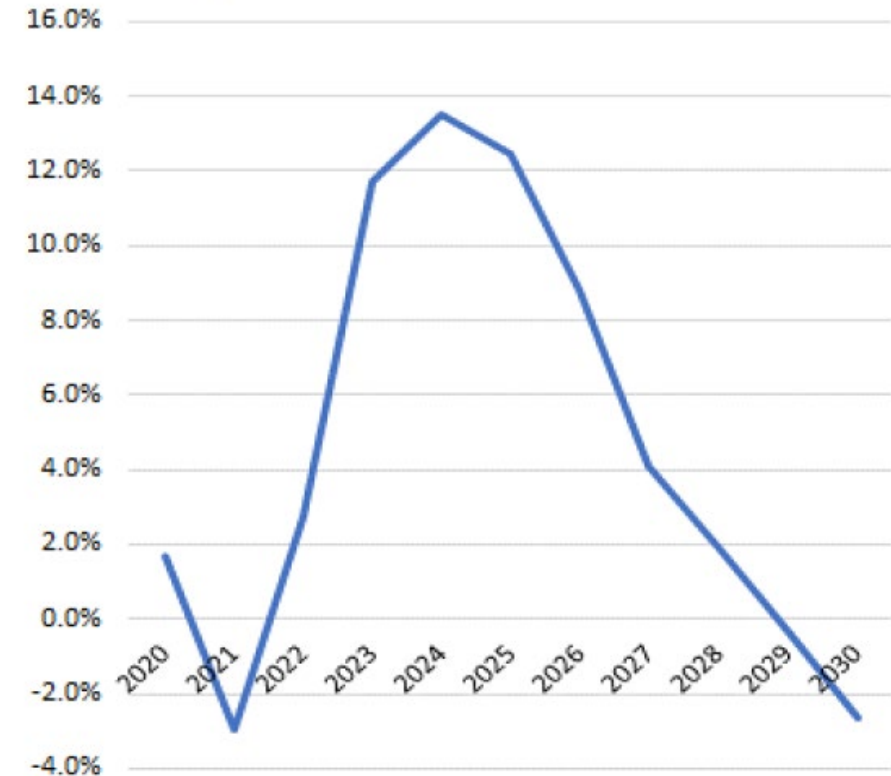


Vessel Capacity & Rates

2028 is earliest for overcapacity absorption

The influx of new vessels is worsening market conditions for carriers. Looking at the most positive, reasonable expectations for global demand growth in the coming years, the current overcapacity will only be absorbed by 2028.

Fig.A8: Cumulative excess supply growth less structural factor



Section 6

Government

EU Competition Law: The Block Exemption

- Europe to end ocean carrier exemption from EU competition law
- Liners wait anxiously on Washington's reaction as EU drops antitrust exemption
- Customers could end up paying the price for new competitive landscape

Source: Splash 10.11.23; N. Krigslund



EU Emissions Trading System (ETS)

1. Approved by European Parliament in April 2023
2. Covers all GHG (CO₂ to start. Others in 2026)
3. Carriers (others?) will be required to pay for allowances covering GHG
 - 40% in 2024
 - 70% in 2025
 - 100% in 2026
4. First legal compliance point is Sept. 2025
5. Cost per ton of GHG = \$110
6. Approx. total cost/yr. = \$10 billion for 100% of GHG

EU Emissions Trading System

➔ Doubts growing over shipping's readiness for Europe's ETS carbon tax

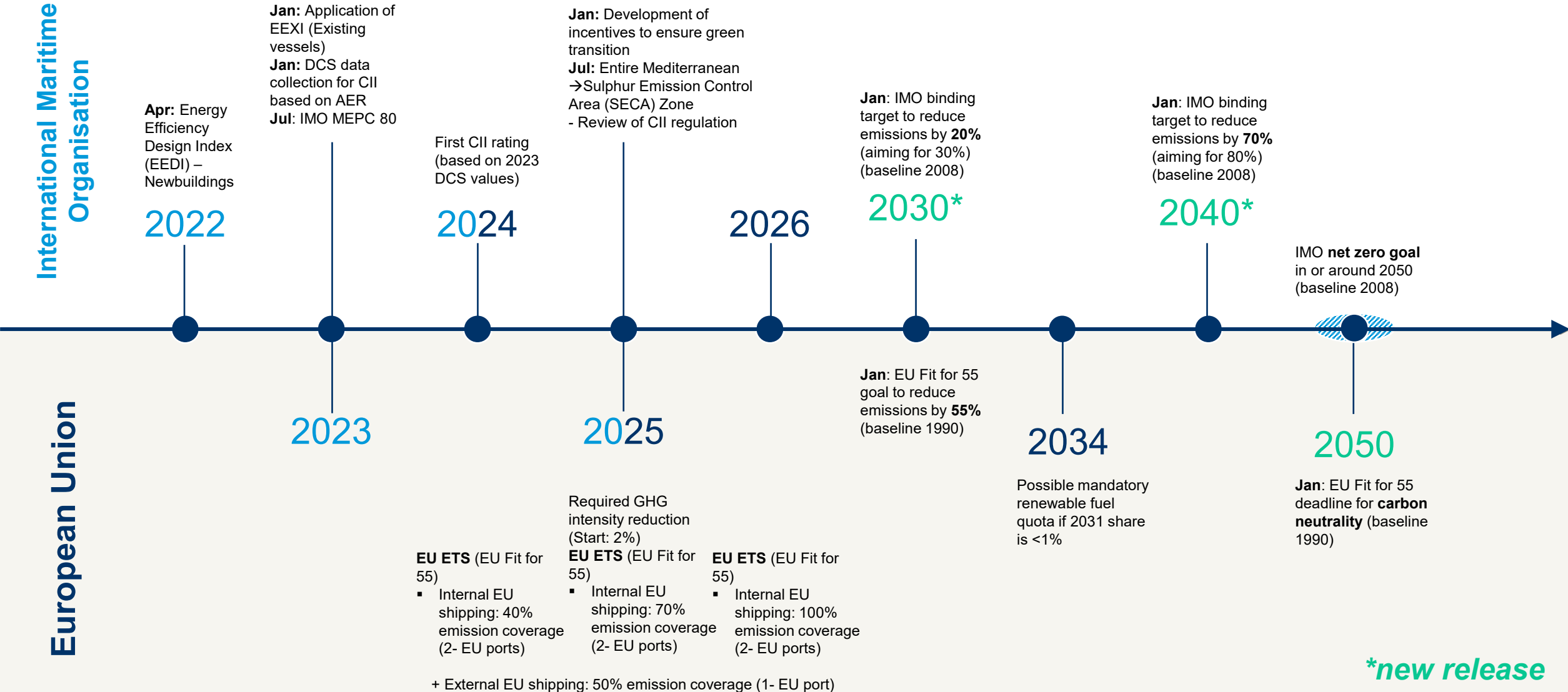
Fig.A1: ETS surcharge (EUR/FFE)

	Dry Maersk	Dry Hapag	Reefer Maersk	Reefer Hapag
Asia - N.Eur	70	24	105	62
Asia - Med	20	14	30	32
N.Eur - Asia	46	24	69	62
Med - Asia	11	14	17	32
Asia-N.Eur R/T	116	48	174	124
Asia-Med R/T	31	28	47	64

Environmental regulatory timeline

International Maritime Organisation

European Union



*new release

California Environmental Regulations

→ California poised to ban new diesel trucks

The earliest requirements would be for drayage trucks, which carry cargo to and from the ports of Los Angeles, Long Beach and Oakland and cause severe air pollution in nearby communities. All of them must be converted to electric models by 2035, and new sales beginning in 2024 must be zero emissions.

→ California's Zero-Emissions Rule Triggers a Run on Diesel Rigs

Source: Nadia Lopez 4.26.23; WSJ 9.20.23



California Dray Regulation



California's Assault on Trucks

An accelerated ban on diesel fleets will wreak havoc on the industry.

- 272 EV registered in CA now. 510,000 needed by 2035
- EV trucks cost 2 to 3 times the cost of a Diesel truck
- EV trucks weigh 8 tons more than Diesel trucks reducing load and driving more trips
- Range runs 150 to 330 miles and charging takes 5 to 8 hrs.
- Currently 700 charging depots. 157,000 needed by 2030. 450/week need to be added starting now.
- 1 charging station will use approx. the same electricity as 1,000 (or a small town)
- Required grid upgrades will require 5 to 10 years

Source: WSJ 8.31.23



- Proposed emissions rule would cap LA-LB port volumes
- SCAQMD Indirect Source Rule (with port & terminal max. box volume)

Source: PMSA



Environmental Regulations Important For Ocean Transportation

1. IMO (International Maritime Organization)
2. UN 30x30 (United Nations)
3. EU Fit for 55 (European Union)
4. EU emissions trading system (carbon tax)
5. Possible industry-wide carbon tax
6. US vehicle regulations (e.g. heavy duty trucks)
7. California CARB dray and truck regulations
8. California SCAQMD Indirect Source Rule
9. EU efforts to move to rail from truck
10. US efforts to eliminate fossil fuels



War In The Middle East

→ **War in Israel: The new geopolitical flashpoint for ocean shipping**

Source: American Shipper 10.11.23



Geopolitics: Getting Tense?

- ➔ China Says It 'Lawfully' Blocked Philippine Ships
- ➔ Philippines Blames Chinese Coastguard of Intentional Collision in South China Sea



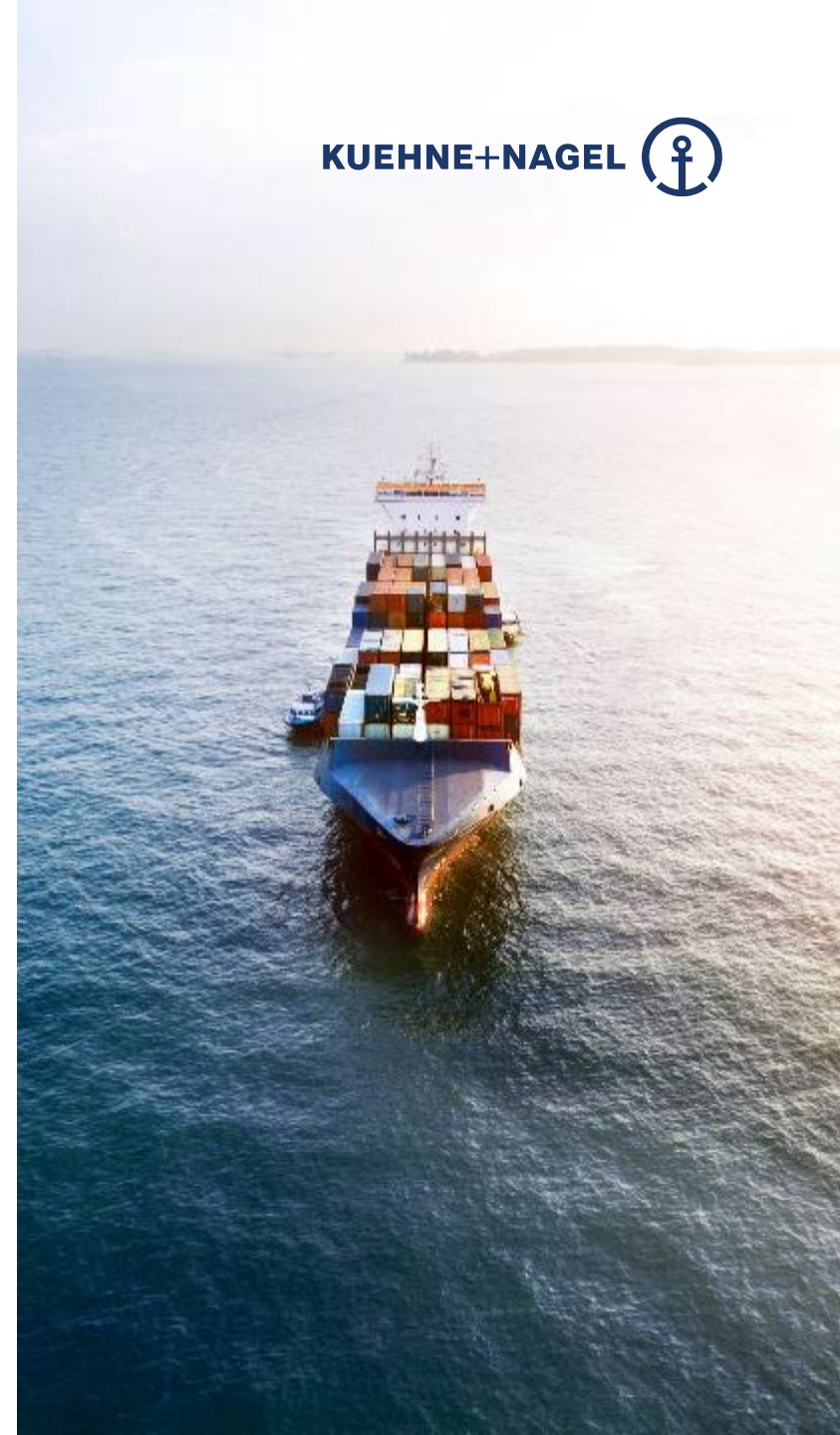
Source: gCaptain 10.23.23



US - China Relations

- **China's Fighter Jets Aren't Just Flying Around Taiwan. They're Practicing.**
- **Apple Risks Getting Caught in Taiwan Tensions With iPhone Supplier Probes**

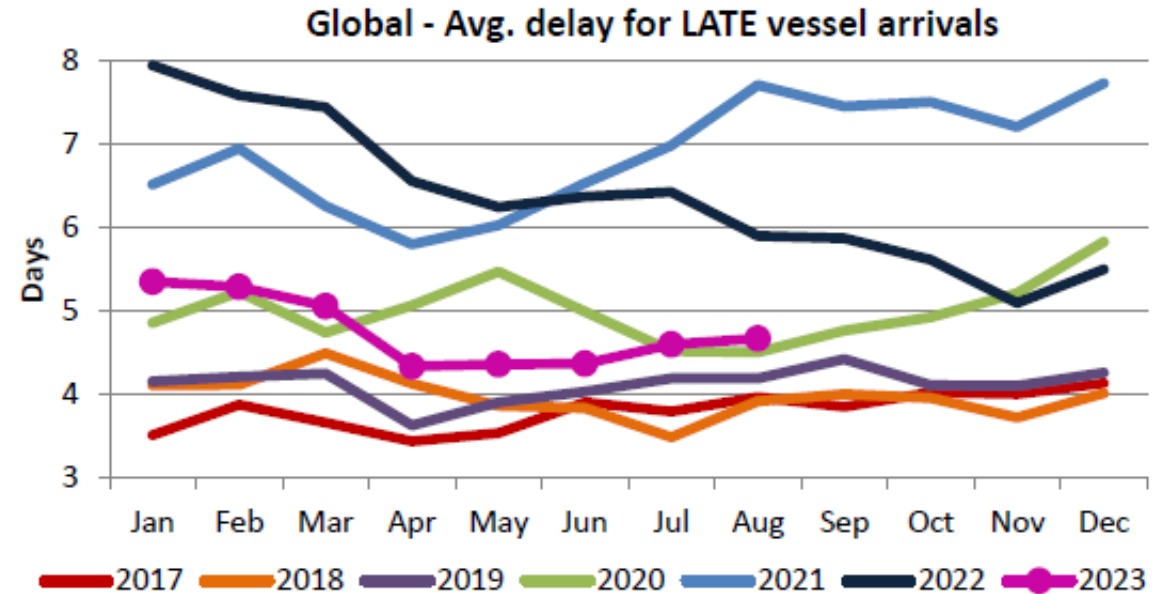
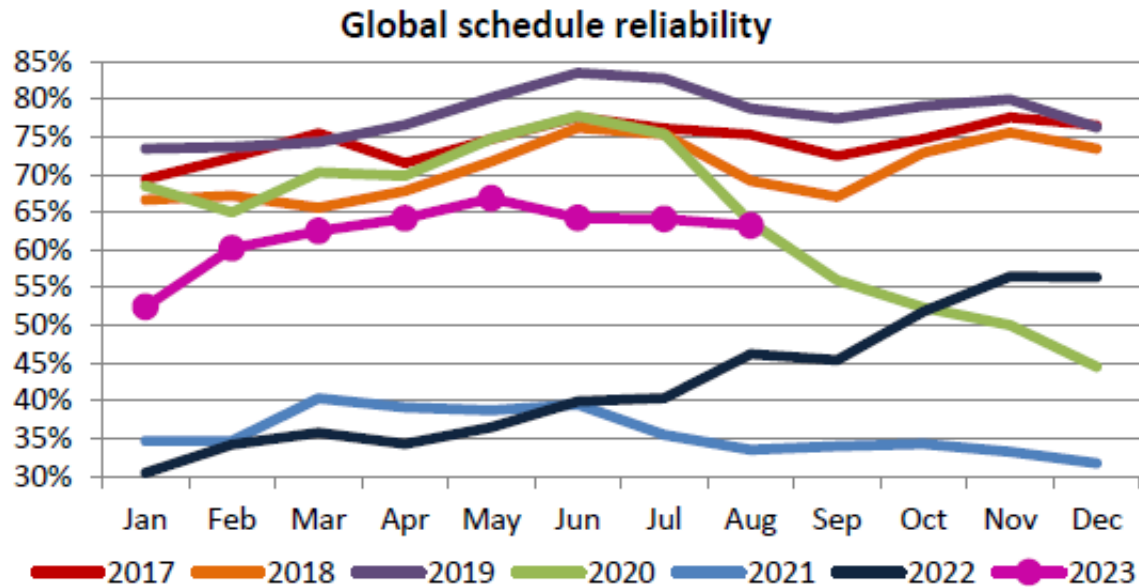
Source: WSJ 9.21 & 10.24.23



Section 7

Industry Metrics

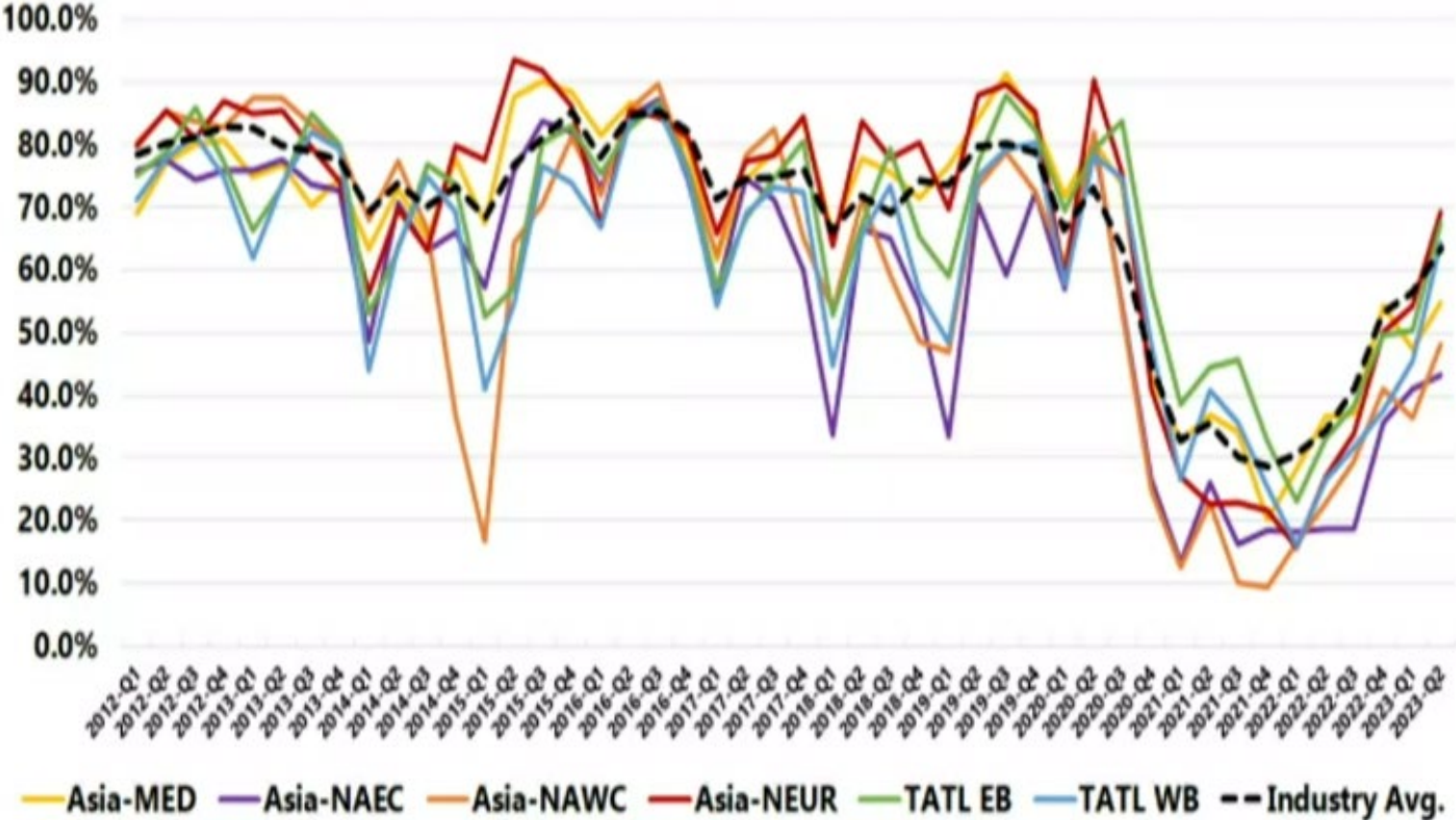
Carrier Schedule Reliability (August 2023 Data)



Source: sea intelligence Maritime Analysis / Global Liner Performance Report – September 2023

Schedule Reliability

Fig. B7: Trade Lane Quarterly Performance



Source: SeaIntelligence

Section 8

A Look Forward

Sourcing Patterns

- US Nearshoring, Reshoring And Onshoring Is Booming
- **US retailers downgrade import forecast through January amid sufficient inventories**

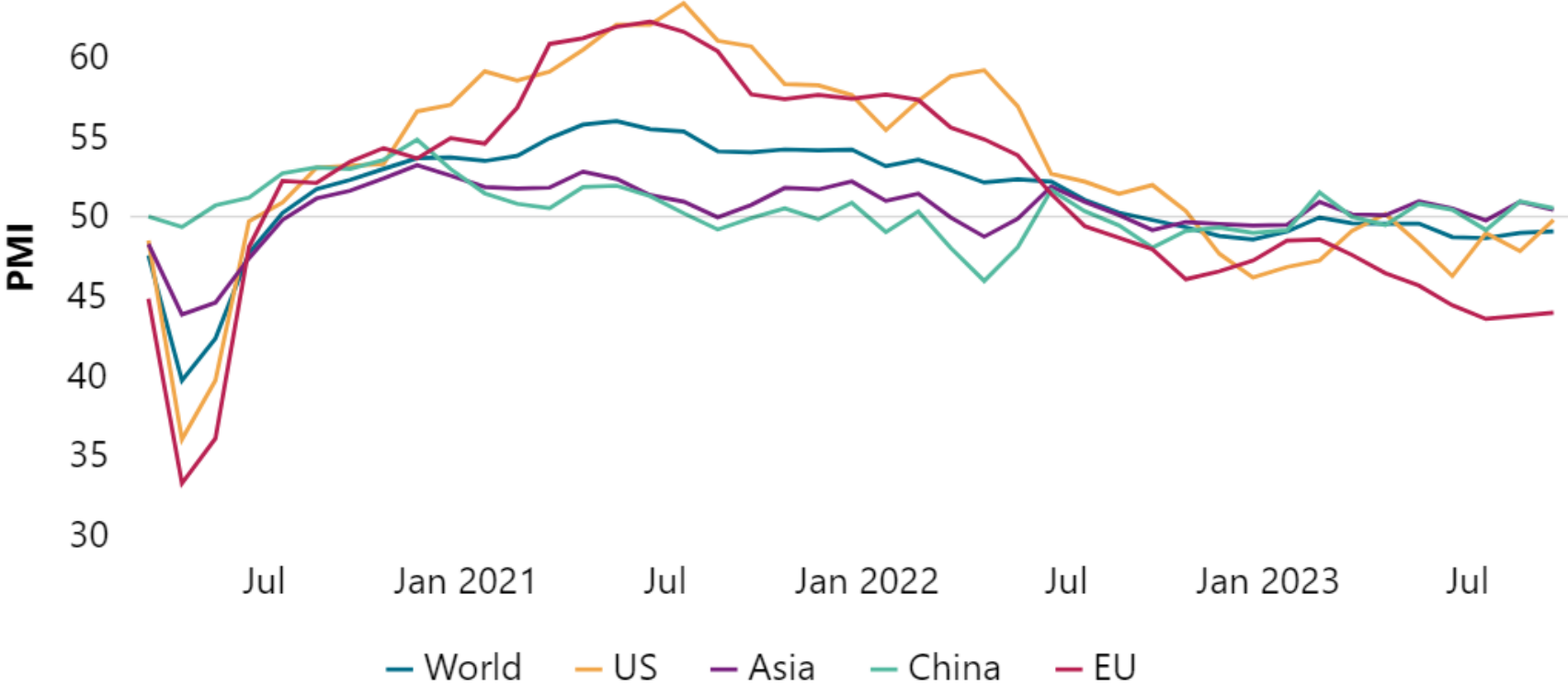
Source: Bloomberg 10.7.23; JOC 10.10.23



Manufacturers PMI

Global manufacturing growth sputtering

Manufacturing purchasing managers' index, seasonally adjusted; index more than 50 indicates growth since the previous month



Source: S&P Global

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US Economic Forecast

- **Inventories still high**
- **Modest sales growth in 2023 (3%)**
- **Slowdown in US credit card spending**
- **Avg. credit card interest rate at 23%!**
- **Holiday spending level in doubt**

Source: JOC 7.24.23; gCaptain 8.5.23

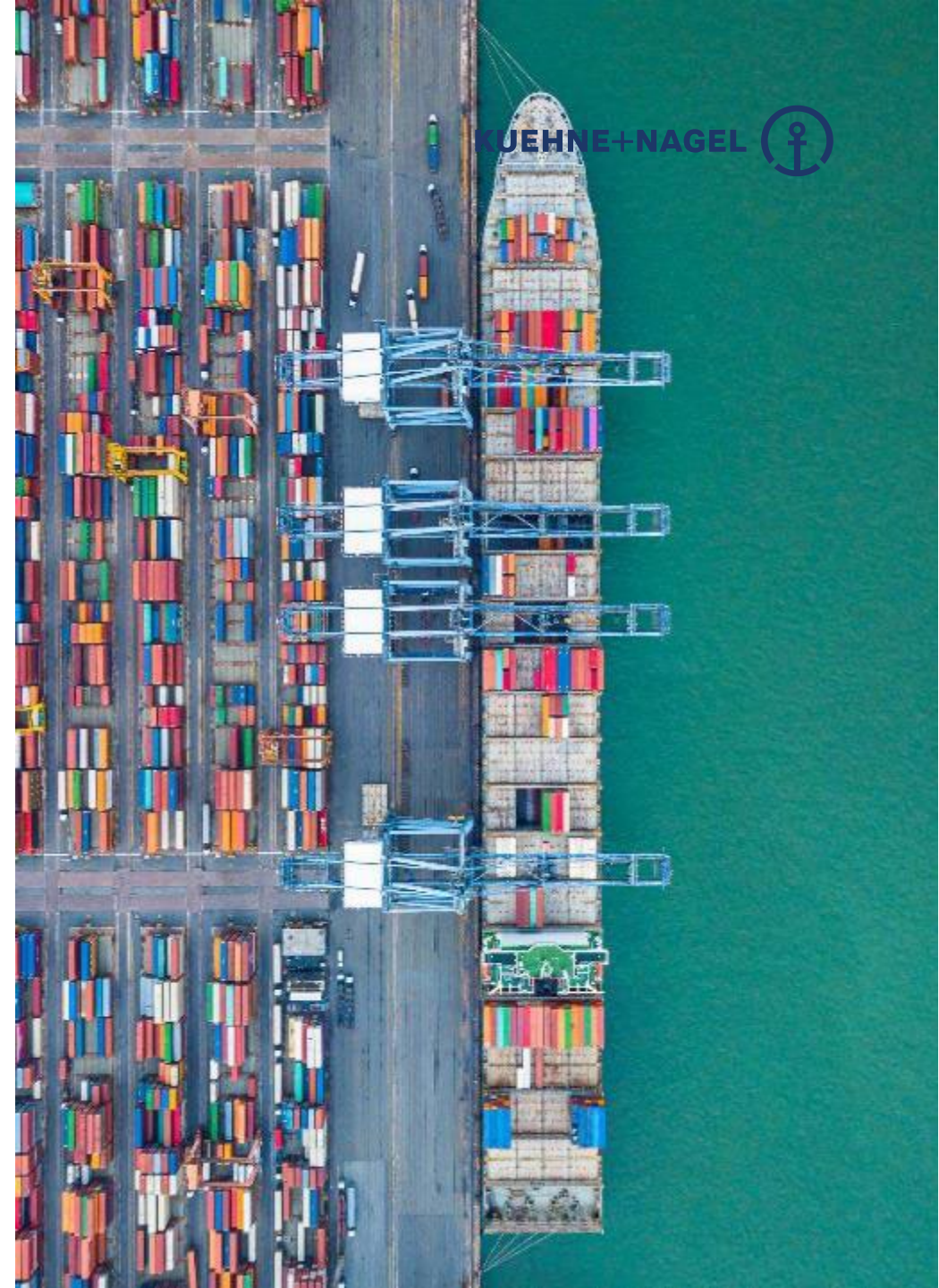


Fig. A1: Global Economic Outlook

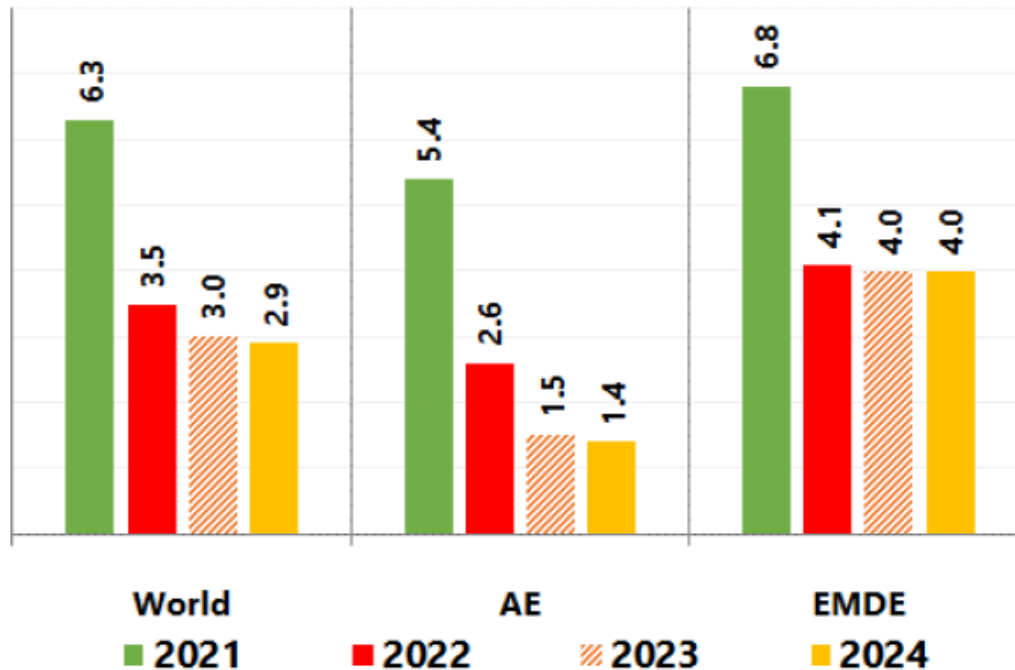


Table. A2: Revisions in World Trade Projections

		2020	2021	2022	2023	2024	Diff. From July 2023 report	
							2023	2024
World Trade Volume		-8.2	10.1	5.1	0.9	3.5	-1.1	-0.2
Advanced Economies	Import	-9.0	9.5	6.7	0.1	3.0	-1.8	-0.1
	Export	-9.4	8.7	5.3	1.8	3.1	-1.0	-0.1
Emerging Economies	Import	-8.0	11.8	3.2	1.7	4.4	-0.2	-0.5
	Export	-5.2	11.8	4.1	-0.1	4.2	-1.3	0.1

US West Coast Strategic Issues

West Coast Ports Face Hurdles Winning Back Importers

- A union with monopoly power
- Local population & political attitudes toward the transportation industry
- California regulation (business & environmental)
- No apparent acceptable way to increase terminal capacity

Source: WSJ 9.4.23



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