



Market Report 1-2023

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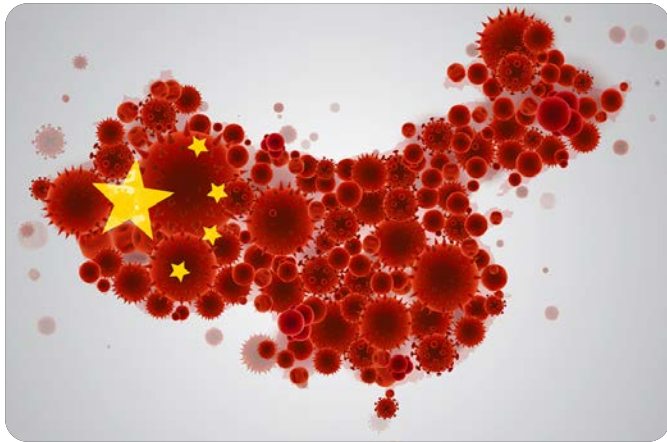
Disruption

General Disruption



CHINESE COVID INFECTIONS RISE, UNOFFICIALLY

Zhejiang province—bordering Shanghai—[said](#) that daily Covid infections in the region surpassed 1 million. Beijing continues to downplay the number of cases, but local reports [suggest](#) that figures are at record levels; for example, sources have [reported](#) that 90% of staff at China's major ports were ill with COVID-19 as of December 21, 2022.



Unfortunately, accurate data has become increasingly scarce throughout the country. China's National Health Commission said it would [no longer](#) publish daily COVID-19 data and that "from now on, the Chinese Center for Disease Control and Prevention will release relevant COVID information for reference and research." These data-sharing practices are [concealing](#) the full impact of the government's abrupt shift away from "zero covid".

Each city will likely take a different approach; for example, Shanghai (the world's biggest container port) is [isolating](#) international goods and keeping overseas vessels in a closed-loop zone to avoid delays and prevent export disruptions.

If the situation continues to deteriorate, expect manufacturing throughout the region to be impacted.



Disruption



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Acute Disruption

U.K. & FRENCH RAIL STRIKES

The Aslef Union—[representing](#) 96% of train drivers in England, Scotland and Wales—announced more strikes in January as part of a long-running dispute over pay. Additionally, France has [experienced](#) major travel disruption after the state-owned railway operator SNCF was forced to cancel one in three TGV high-speed trains because of strikes.



CHINESE MILITARY SHOWS STRENGTH IN TAIWAN STRAIT, AGAIN: China recently dispatched 71 aircraft and seven naval vessels to waters surrounding Taiwan, with nearly 50 planes crossing over the unofficial median line at the center of the Taiwan Strait. The show of strength was in response to the USA's fiscal year 2023 National Defense Authorization Act, which supported Taiwan's defense substantially.

RED SEA TRAFFIC

2022's cargo volumes in the Red Sea—the most important maritime trade route between the EU and China—weakens noticeably. The 18% gap between now and pre-COVID levels can be explained by a decline in European seaborne freight exports to Asia and an increased shift to rail transport.



Port Infrastructure



LIVERPOOL, UK: The Port of Liverpool will **expand** its car storage and transport parking as the facility's size is expected to grow from eight acres to ten.



WILHELMSHAVEN, GERMANY: Germany's first floating terminal for **importing** liquefied natural gas (LNG) has officially been commissioned for service in Wilhelmshaven.



SHENZHEN, CHINA: Yantian International Container Terminal (YICT) will **build** three new 200,000-ton automated container berths at its eastern operation area. The three large-size container berths will have an annual design capacity of 3 million TEU.



SAUDI ARABIA: Saudi officials want to **quadruple** the country's annual container throughput to 40 million TEU by 2030 through enhanced rail connectivity and inland logistics hubs.

- *King Abdullah Port is planning a twin basin complex that could eventually reach a capacity of 25 million TEU.*
- *The port of Dhiba (located in the northwestern city of Dubai) is planning expansion efforts that will bring annual capacity to 3.5-4 million TEU by 2030.*

Transport Technology

CHINA INVESTS IN COLD CHAIN: The State Council of China **approved** a five-year development plan for cold-chain logistics, and as part of that plan, they set a goal of having an effective cold-chain network in place by 2025 to serve both urban and rural areas.

USA INVESTS IN CLEAN HYDROGEN

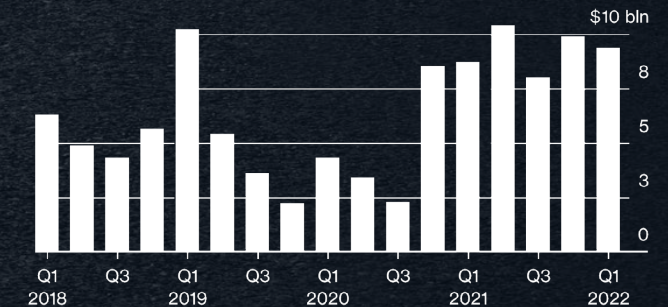
The U.S. Department of Energy (DOE) intends to **issue** \$750 million in funding to reduce the cost of clean hydrogen technologies. Clean hydrogen is considered essential for achieving the country's stated goals: 100% clean electrical grid by 2035 and net-zero carbon emissions by 2050.

ALLIANCE ADDS LARGER VESSELS TO ITS

NETWORK: The Alliance is working to **deploy** larger ships to the Asia and North Europe trade. A modern series of newly built, fuel-efficient 23,500+ TEU vessels will replace existing smaller ships, as well as 14,000/15,000 TEU vessels on the Asian, Mediterranean, and U.S. East Coast trade.

WALL STREET BETS ON SUPPLY CHAIN

TECHNOLOGY: Private investments in technology companies related to the supply chain industry have **surged** in recent years.



Source: CB Insights accessed via Bloomberg

Port Infrastructure



NEW ORLEANS, LA, USA: Louisiana [unveiled](#) a historic public-private partnership [between](#) the state government, the Port of New Orleans, and two leading maritime companies to [build](#) a \$1.8 billion container facility on the Lower Mississippi River in St. Bernard Parish.

■ *The new Louisiana International Terminal (LIT) will serve vessels of all sizes and dramatically increase the state's import and export capacity, making Louisiana capable of handling 2 million twenty-foot equivalent units (TEUs) annually.*



WILMINGTON, NC, USA: Wilmington is hoping to leverage its high berth productivity as many other East Coast ports struggle with congestion. The state of North Carolina and the Port of Wilmington are actively [encouraging](#) the type of near-port distribution center investment that has been critical to the expansion of Savannah and other mid-Atlantic ports.

Transport Technology

LNG SHIPBUILDING: Chinese shipyards [grew](#) their LNG order books from 21 to 66, giving them 21% of global orders worth around \$60 billion. Notably, just three Chinese shipyards won nearly 30% of the year's total orders. Clarksons Research [noted](#) a record total of 170 LNG carriers ordered in 2022, up 95% as compared to 2021.

INVESTMENTS IN U.S. EV MANUFACTURING

Redwood Materials, a leading battery recycling and components maker, has [plans](#) for a massive \$3.5 billion plant in South Carolina, which would create a major supply base of critical components for electric vehicle batteries. So far, it's the biggest announcement for this type of facility in the U.S., with construction starting in early 2023 and recycling operations beginning by year's end. The facility expects to produce 100-gigawatt hours of anodes and cathodes, or enough for a million electric vehicles per year.

COLD IRONING: CMA CGM and Shanghai International Port Group (SIPG) have [signed](#) a long-term strategic collaboration to develop the mass scale use of cold ironing technology, which is the use of onshore power supplies for containerships. Moving forward, all fully fitted CMA CGM containerships at the Port of Shanghai will systematically use the onshore power connection.

FUEL CELL STACKS: Norway's cleantech company TECO 2030 has produced the world's first fuel cell stack intentionally developed and designed for heavy-duty and marine applications. Each fuel cell stack consists of several individual stack cells, each [generating](#) electricity from electrochemical reactions based on fuels like hydrogen.

FELIXSTOWE AUTONOMOUS TRUCKS

Hutchinson Ports will [introduce](#) autonomous terminal tractor units to assist during mixed traffic container terminal operations at the Port of Felixstowe, one of the UK's busiest ports overall.

Sustainability



EU EMISSIONS TRADING SYSTEM: The European Union's Emissions Trading System (ETS) will be a carbon market based on a system of cap-and-trade of emission allowances for energy-intensive industries. The final agreement incorporates the maritime industry into the terms, raises the EU's overall targets, and introduces additional funding to support the transition.

The 'Fit for 55' package is aimed at enabling the European Union to reduce its net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels and to achieve climate neutrality in 2050.

The ETS system will be phased in with 40% verified emissions in 2024, 70% in 2025, and 100% from 2026 onward. In response to the ETS, container carriers will most likely introduce an "ETS surcharge" to cover the cost of compliance; however, it's far more likely that individual carriers will introduce their own ETS surcharges and that the formulas will differ.

EU CAPS NATURAL GAS

European energy ministers have reached a political agreement that will cap the price of natural gas in the European Union if it reaches excessive levels that do not reflect world market prices. The initiative will begin on 15 February 2023 and will apply for one year.

IMO INTRODUCES EMISSIONS REPORTING

SYSTEMS: As part of the International Maritime Organization's (IMO) strategy to reduce GHG emissions, the organization will introduce two new reporting mandates: the Energy Efficiency Existing Ship Index (EEXI) and the Carbon Intensity Indicator (CII). The mandates are intended to catalyze ships to reduce their carbon intensity by 40% by 2030, as compared to 2008 levels. In this case, "carbon intensity" links ship's GHG emissions to the amount of cargo carried over distance travelled.



UAE RENEWABLES

Abu Dhabi National Oil Company (ADNOC) will allocate \$15 billion for low-carbon projects, including carbon capture and storage (CCS), electrification and CO² absorption.

ETIHAD PURCHASES SAF: Etihad Cargo announced that DSV Global Transport and Logistics has become the carrier's first partner to purchase sustainable aviation fuel (SAF) to offset the company's carbon emissions.

ARTIC REPORT CARD: The National Oceanic and Atmospheric Administration's annual Arctic Report Card has dire warnings about the impacts of climate change on northern latitudes. Notably, the Arctic's seven warmest years have all occurred in the last seven years.

Sustainability



CANADIAN MARINE RENEWABLES

Ocean Supercluster (OSC) and Marine Renewables Canada (MRC) have **formed** a collaborative partnership to support the advancement of marine renewable energy in Canada.



VANCOUVER RENEWABLE DIESEL

The Port of Vancouver is **testing** its first 100% renewable diesel vessel during daily operations as it works to become a net-zero emissions port by 2050.



PRINCE RUPERT ENHANCEMENTS

The Port of Prince Rupert, on Canada's Pacific coast north of Vancouver, has **expanded** the shore power capacity at DP World Prince Rupert's Fairview Container Terminal, achieving a significant milestone in its path to emissions reduction. New electrical infrastructure was **installed** at the terminal's north berth and upgrades were made to the south berth. The shore power system now allows ships at both berths to shut down their main generators and rely on specially equipped dockside power connections while cargo is transferred.

CALIFORNIA TARGETS COMBUSTION TRUCKS

California has a stated goal of **requiring** all drayage trucks to be zero-emission by 2035, and the state is actively working to phase out all combustion trucks from port operations. The state's last two budget cycles have allocated \$10 billion for zero-emission programs, with \$3 billion specifically for refueling infrastructure.

FORD & DHL PARTNERSHIP:

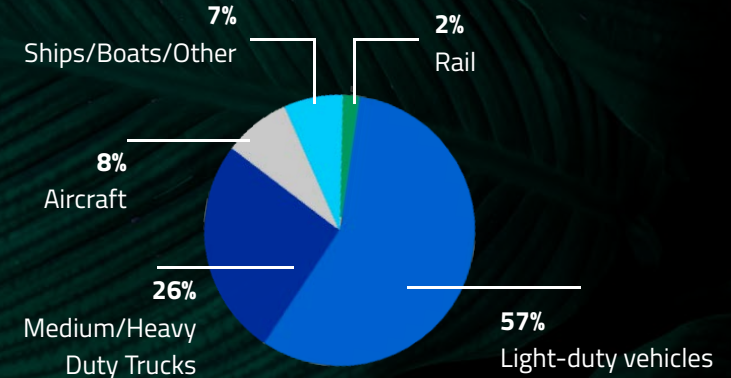
Ford Pro will **equip** Deutsche Post DHL Group with 2,000 electric delivery vans by the end of 2023, which will be used for last-mile deliveries worldwide. DHL Group is set to invest €7 billion during the next decade on its path to net-zero emissions logistics.

EPA TARGETS HEAVY TRUCKS: The U.S. Environmental Protection Agency (EPA) **announced** more stringent clear-air standards for heavy trucks that are 80% stronger than current limits. The new standards will start with model year 2027 trucks, and it is the first update to heavy-truck rules in more than two decades.



U.S. EMISSIONS CULPRITS

Data shows that railroads **produce** just a fraction of greenhouse gases as compared to trucks. Trucks will continue to **account** for a significant share of emissions at least until electrified or hydrogen-based fleets become more widespread.



Source: U.S. EPA Fast Facts on Greenhouse Gas Emissions, 2022. 'Other' includes buses, motorcycles, pipelines & lubricants

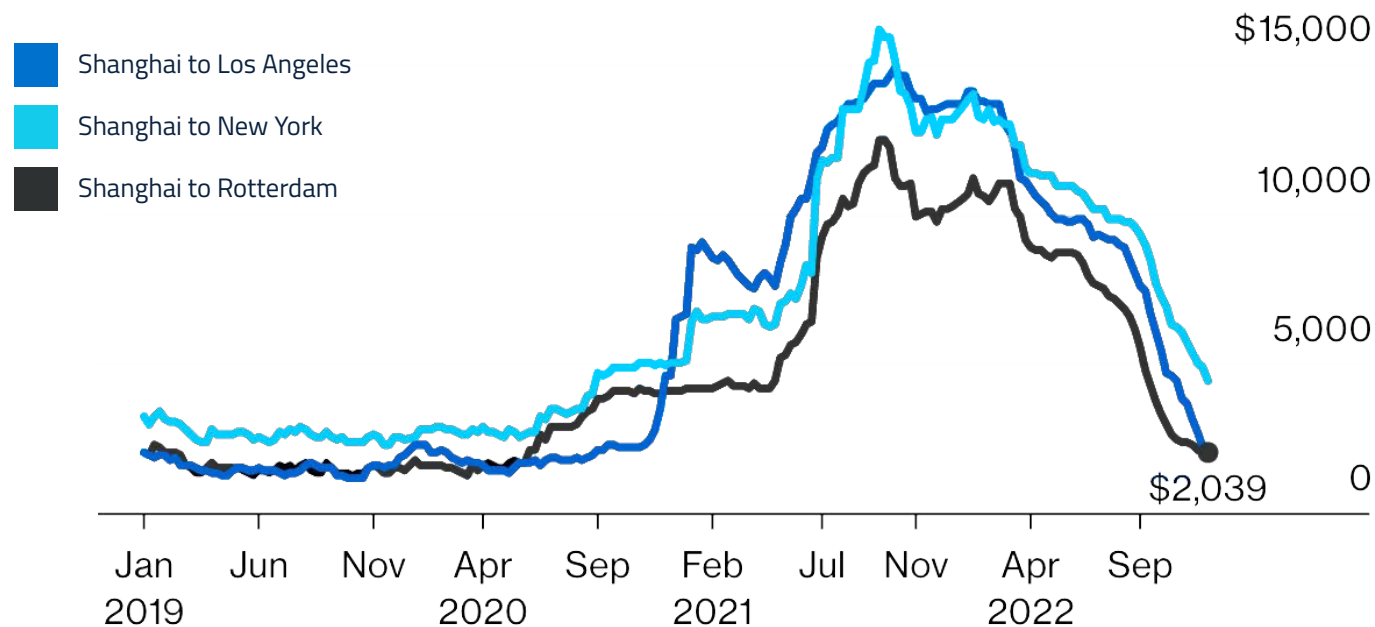
Market Trends



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China's exports and imports both [contracted](#) at steeper paces in November, with external demand continuing to weaken. The general cost to ship goods from China has plummeted over time. In dollar terms, November's exports fell almost 9% from a year ago, the biggest contraction since February 2020 during the first Covid lockdown.

Weakening exports from China have been a [key driver](#) of lower U.S. port volumes. U.S. import numbers are back to pre-pandemic levels, a [trend](#) that has continued across different sources and datasets, and is also supported by U.S. rail traffic [dropping](#) 3.3% in November 2022. The Wall Street Journal [published](#) a comprehensive article detailing how and why congestion has shifted to the U.S. East Coast.



TRANSATLANTIC: Transatlantic rates have [remained](#) steady, but that resilience will be tested as carriers shift surplus capacity from collapsing trade lanes onto other lanes. Recent rate indices show that mid-December's average spot rates on the Transatlantic increased 14% year over year, far out of line with Asia-U.S. West Coast rates (down 80%) and Asia-North Europe rates (down 88%). High inventory levels are proving difficult to reduce as consumer spending wanes, [indicating](#) a drop in European import volumes through Q1 2023.

BLANK SAILINGS: Amidst extremely weak demand forecasts, ocean carriers are [preparing to blank](#) around half their advertised sailings from Asia-North Europe and Asia-US after Chinese New Year. About 29% of transpacific capacity was [blanked](#) in October (807,471 TEU), followed by 24% in November. Transpacific rates bottomed out in December, and carrier and shipper sources [expect](#) rates to move within a narrow range for the next few months.

'DIRTY' SPOT RATES: Sanctions on Russian have [created](#) less intra-regional trade and thus more long-haul trips to Asia. Very Large Crude Container (VLCC) deals increased by 23% in 2022, but this was offset by a 15% drop in Suezmax fixtures and a 22% drop in Aframax deals.

Market Trends



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Drewry [predicts](#) that hefty profit margins are unlikely to continue into 2023 and they expect shipping volume and port congestion to decline in 2023. Many of these market trends will cut into the new revenue that terminal operators have reaped from excess storage fees.

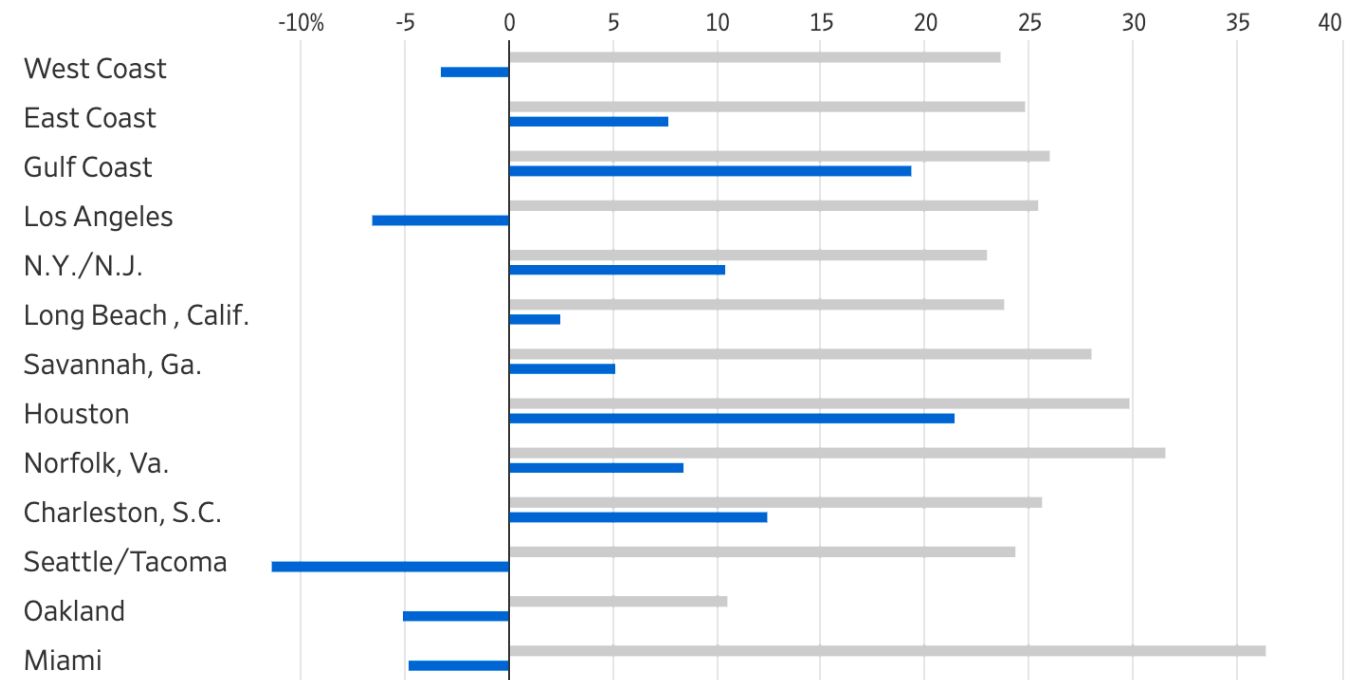
In 2023, ship owners and operators will [intake](#) new vessels with a combined capacity of approximately 2.6 million TEU, an 11.3% increase from the current global capacity, while demand is expected to grow just 1.9%, according to S&P Global.

OUTDATED SHIPS: Feeder containerships are increasingly being [viewed](#) as potential scrap metal as carriers cut capacity and work to reduce emission-abatement costs. The vessels most likely to be reduced or discontinued will be the smallest ones, especially older feeder ships that produce disproportionately high carbon emissions. Many conventional reefer ships, which played a critical role in transporting perishables during the pandemic, could be [forced](#) into retirement by new International Maritime Organization (IMO) pollution regulations. In general, older ships will quickly lose their feasibility within the EU's impending Emissions Trading System (ETS).



Change in container import volumes from the year before*, by region and for the 10 U.S. ports with the most traffic†

■ 2021 ■ 2022



Source: Pacific Merchant Shipping Association.

Note: includes first 9 months of each year based on volumes for the first nine months of 2022; excludes Baltimore, which was not included in the available data.

SERVICES



CMA AIR FREIGHT SUSPENDED: CMA CGM Air Cargo abruptly [stopped](#) selling its own service in the U.S. so it could lease the aircraft to other cargo airlines in an apparent effort to achieve profitability faster amid weakening market conditions. With six total aircraft, CMA is a relatively small freighter operator that's still trying to gain traction within a market it entered just 20 months ago.



NAMSUNG LAUNCHES NEW KOREA-INDONESIA SERVICE: Namsung Shipping is [increasing](#) Korea's connections with Indonesia's emerging container market via the recently launched Asian New Express, Namsung's first South Korea-Indonesia service linking Busan with Jakarta.



UPS EXPANDS IN JAPAN: UPS will be the first global logistics service provider to [introduce](#) weekly flights between Kitakyushu and Osaka in February 2023. The carrier also added an Osaka-Kansai route in 2021.

SERVICES

CMA RESTRICTS OCEAN BOOKINGS IN SOUTH CHINA: CMA CGM will [restrict](#) bookings for shipments arriving at ports in southern China during early 2023. CMA CGM (India) noted in an advisory that several key feeder operators announced temporary service suspensions "due to Covid-19 quarantine requirements for ship crews" prior

Pricing

OIL PRICES REMAIN HIGH: Qatar National Bank (QNB) said that global crude oil prices will [remain](#) elevated. In response to the G7 price cap on Russian exports, Moscow said it could cut crude output which subsequently caused oil prices to rise by more than \$2 per barrel. Additionally, Russia is now [sending](#) more Arctic crude oil to China and India, and at steeper discounts.

Mergers & Acquisitions

SALE OF DB SCHENKER: Deutsche Bahn is preparing for [the sale](#) of its freight forwarding subsidiary DB Schenker as it hopes to focus more on its core rail business. The company's management board will [examine](#) and prepare the case for a potential sale of up to 100% of its shares in DB Schenker, the world's fourth-largest airfreight forwarder. Several buyers are already in [consideration](#).

CMA ACQUIRES TWO NORTHEAST TERMINALS

CMA CGM Group will [buy](#) the terminal [assets](#) of Global Container Terminals (GCT) in Staten Island, New York, and Bayonne, New Jersey. The [two key terminals](#) have a combined capacity of 2 million TEUs per year, with room for growth. CMA CGM now [owns](#) or has investments in seven U.S. port terminals and 52 terminals worldwide across 28 countries.

ONE ACQUIRES LOS ANGELES TERMINALS

Ocean Network Express (ONE) will [acquire](#) a 51% stake in each of TraPac and Yusens' terminals. Both companies are key container terminal operators and vessel stevedores providing service in Los Angeles and Oakland.



Laws/Legislation

FUNDING BILL BOOSTS CLEAN ENERGY

The U.S. House of Representatives' latest bipartisan spending bill **appropriates** \$46.5 billion to the Department of Energy (DOE) for the next fiscal year, a 4% year-over-year increase.

The DOE's Office of Energy Efficiency and Renewable Energy will receive a record-high \$3.46B for the research and development of clean vehicle technologies, renewable energy grid integration, and clean hydrogen production.

- Billions in funding for advanced nuclear power
- \$30 million for oil and gas well cleanup activities
- \$60 million to develop methane mitigation technologies
- \$65 million for the Clean Cities alternative fuels deployment program, which will fund the deployment of vehicles powered by alternative fuel sources.
- Biofuel research and development funding (feedstock technologies research, sustainable aviation fuels, low-carbon fuels like ethanol and biodiesel, etc.)

Furthermore, the DOE's Water Power Technologies Office (WPTO) has **launched** a \$10.5 million call for new marine energy projects. This follows an October 2022 plan to **provide** \$35 million in funding to advance river current and tidal energy systems, the largest U.S. investment ever made for these renewable energy technologies.

JONES ACT REFORM: Congressman John Garamendi (D-Calif) introduced a **new bill** that would make it tougher for foreign vessels and their crews to work in the U.S. offshore energy sector. The legislation would **terminate** U.S. Customs and Border Protection's issued "letter rulings", which effectively functions as short-term Jones Act waivers for foreign ship owners. Garamendi argues that CBP has not properly used its authority to penalize carriers that take advantage of these rulings, subsequently pushing aside American maritime jobs in favor of foreign workers.

NEW DANGEROUS GOODS REGULATIONS: Dangerous goods **regulations** operate on a two-year cycle and the latest rules took effect on January 1, 2023.

USTR EXTENDS CHINESE TARIFF EXEMPTIONS

The U.S. Trade Representative's office (USTR) will **extend** China "Section 301" tariff exclusions on 352 Chinese import product categories that were set to expire at the end of 2022. The tariffs were originally enacted through a "Section 301 Investigation" by the Trump Administration and the latest extension adds another nine months.

RAIL FREIGHT VOLUNTARY ARBITRATION PROGRAM

U.S Federal regulators on the Surface Transportation Board **adopted** two new rules that establish a voluntary arbitration program and a new procedure to challenge rates called the "Final Offer Rate Review". This streamlines the process for determining unreasonable freight rail rates and gives shippers with smaller disputes an easier pathway to challenge carriers. The two separate pathways are also supposed to incentivize rail carriers to resolve disputes through mediation rather than intervention.

EV TAX CREDITS: U.S officials are **offering** a new \$4,000 tax credit for the purchase of a previously owned EV, which directly targets car buyers who are priced out of the new EV market but still hoping to switch.

Trade & Compliance



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Laws/Legislation



UK'S NEW CUSTOMS SYSTEM DELAYED AGAIN

The Customs Declaration Service (CDS) was supposed to replace the outdated Customs Handling Import and Export Freight (CHIEF) system as the UK's primary customs platform in 2022, but Majesty's Revenue & Customs (HMRC) has delayed CDS for exports following a series of outages for imports that left traders furious. Exports were originally expected to come online on January 31, 2023, but this has been delayed to November 30th, with many believing the system will not be fully ready until 2024.



CANADA MANDATES EV SALES

New regulations will require 1/5 of all passenger cars, SUVs, and trucks sold in Canada to run on electricity in 2026. The mandate will impact 60% of all sales by 2030, and every passenger vehicle sold in Canada will need to be electric by 2035.

WTO ANGERS U.S. TRADE REPRESENTATIVES

U.S. Trade Representative Katherine Tai said that the World Trade Organization (WTO) "is getting itself on very, very thin ice" by ruling that the U.S. violated trade rules with Trump-era steel and aluminum tariffs. She also added: "it really challenges the integrity of the system," because it "gets deep into creating requirements and parameters for what is or is not a legitimate national-security decision."

INDO-PACIFIC FRAMEWORK FOR PROSPERITY

U.S. officials recently visited Brisbane, Australia in hopes of building Indo-Pacific trade links and countering China's influence in the region through a new trade agreement called the Indo-Pacific Economic Framework for Prosperity (IPEF). The U.S. is seeking progress in critical areas such as agriculture and semiconductor technology.

Tariffs/Surcharges

SAN PEDRO BAY ENDS THREATENED DWELL FEE

The United States' largest port complex said it will end a program that threatened to fine ocean carriers for long-dwelling cargo. The Ports of Los Angeles and Long Beach will phase out the option to collect a terminal dwell fee on January 24, 2023.

HOUSTON WILL ADD SUSTAINED DWELL FEE

After software issues caused a delay, Port Houston will finally implement its sustained dwell fees starting February 1, 2023. Containers left at the Bayport and Barbours Cut Terminals accrue fees beginning on the eighth day after the expiration of free time. Shippers will be liable for \$45 per container per day, port officials said in a release.

UPS DEMAND SURCHARGES: According to a UPS customer update, certain 'demand surcharges' that began on October 30, 2022, will remain active beyond the traditional peak season.