

The background is a solid blue field with a complex, organic pattern of wavy, flowing lines in various shades of blue. Scattered throughout this pattern are numerous small, semi-transparent blue circles of varying sizes, resembling bubbles or droplets. The overall effect is a dynamic, textured blue background.

# **2020 Hurdles to Getting Your Product to Market**

# Discus Inaugural Conference Operations Track

## 2020 Hurdles to Getting Your Product to Market

Wednesday, February 19<sup>th</sup> | 2:30pm – 3:30pm | The Barrel Room

# Panel

Priscilla Royster - John S. Connor, Inc.

Caroline Dewhirst – Hillebrand

Max Moran – Remy Cointreau Americas

# Import Challenges 2020

Strikes

Tariffs

Ocean Carrier Capacity

Domestic Port Constraints



301 EU Tariff

Hierarchy - Assessment

HTUSA - Classification

Description

Country of Origin



301 EU Tariff

Mitigating EU TARIFF

FTZ -

First Sale -



301 EU Tariff

Post Entry

DIS

Review Entry Package



## CBMA - 2020 Procedures and Requirements

CSMS MESSAGE #41471557



# UNCERTAINTY AHEAD

## ➤ Ocean Trade Challenges

- Carrier Alliances
- Tariff Impact
- Geopolitical Tensions
- Epidemic and Pandemic
- Weather

## ➤ IMO 2020

## ➤ Ports and Drayage Challenges



# OCEAN CAPACITY MANAGEMENT

## MERGERS, ACQUISITIONS AND ALLIANCES

### M E R G E R S   A N D   A Q U I S I T I O N S

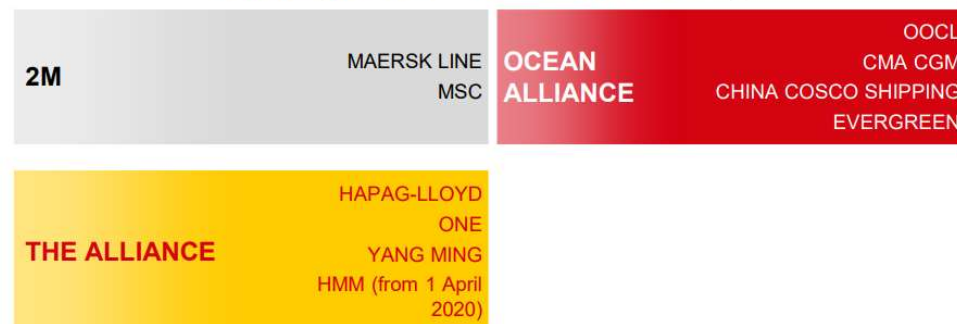


### A L L I A N C E S

#### F O R M E R   A L L I A N C E S



#### P R E S E N T   A L L I A N C E S



# OCEAN TRADE IMPACT

## Consolidation Impact on Carriers

### Advantages

- Less competition, but greater control of vessels
- Better management of ship capacity
- More effective coordination of future ship orders with forecasted demand
- Reduction in operating costs by more effective collaboration with service providers, such as ports, terminal operators, stevedores, tugboat providers and container leasing companies
- Allows greater geographic reach to service new ports and maximize the potential of new routes

### Concerns

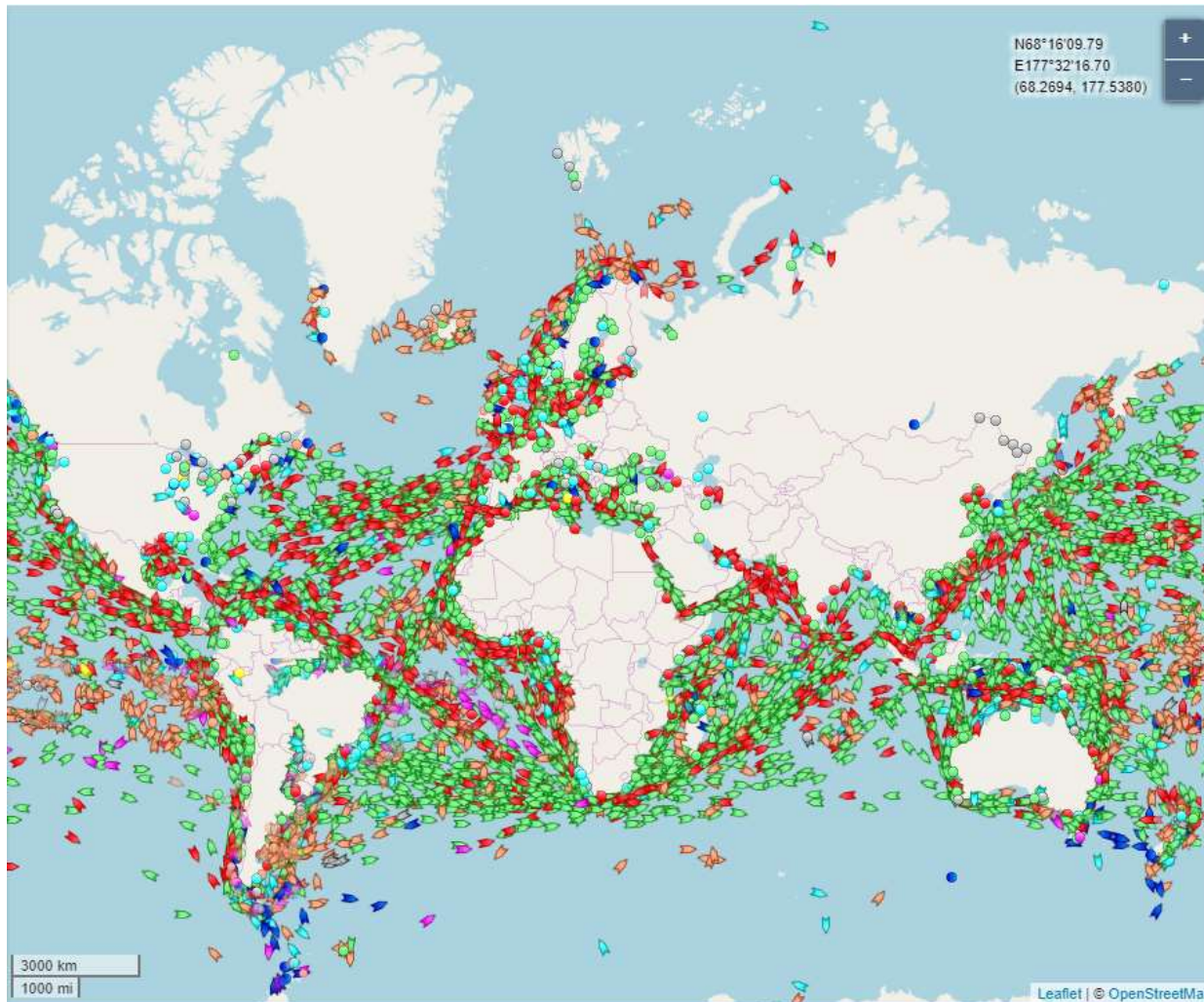
- Terminal congestion
- Chassis disruption: raises concerns that the customer bears the brunt and pays for the impact
- Delays in intermodal trains due to increased congestion and bunching



MSC Gulsun - Currently the World's Largest Container 23,756 teus



AT ANY GIVEN MOMENT IN ANY GIVEN DAY



# OCEAN TRADE IMPACT

## Tariff Impact on Carriers

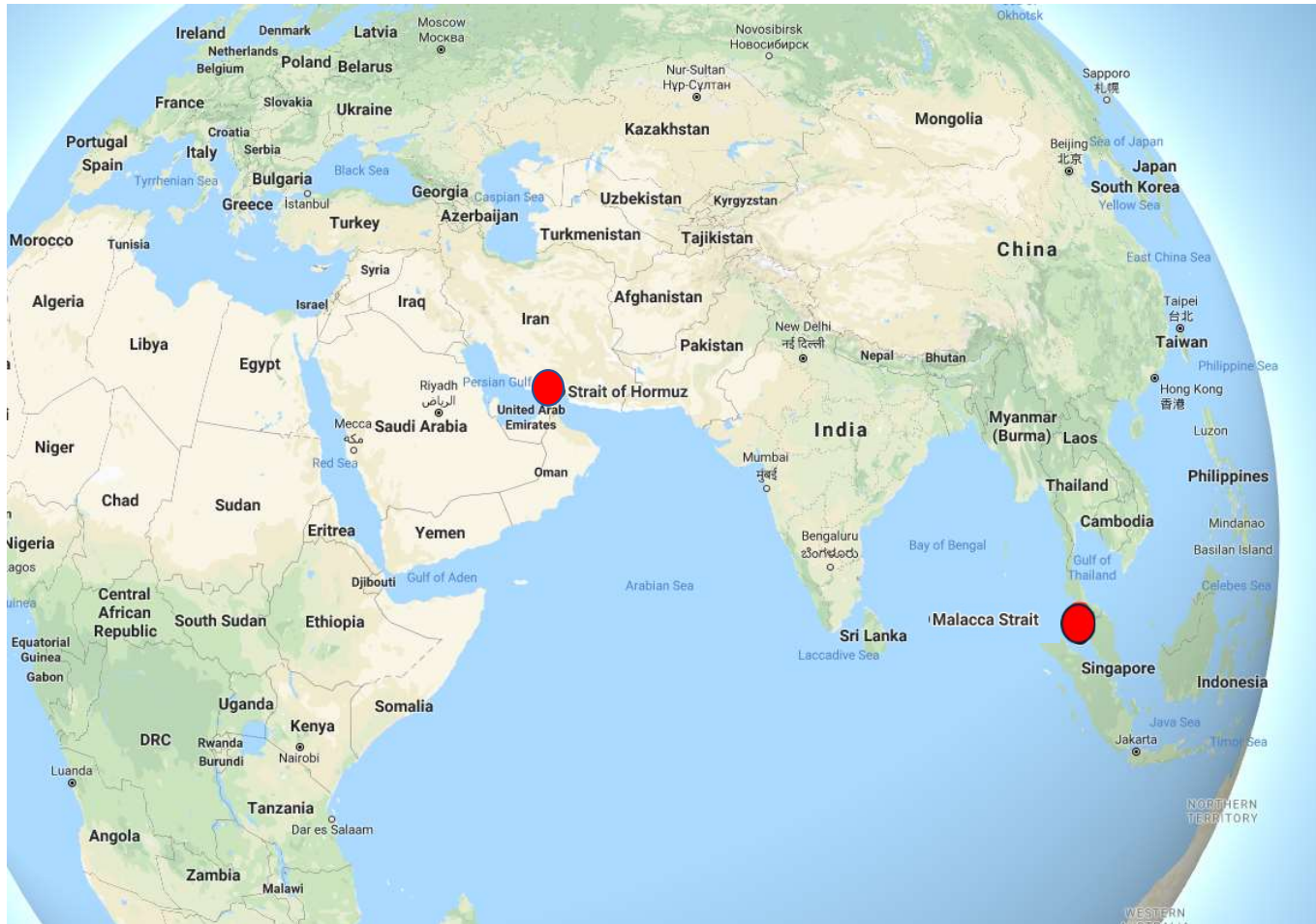
- Multiple vessel cancellations from China
- Customers front-loading orders to beat anticipated tariff increases
- EU tariffs creating concerns over potential recession in the EU noting a slowdown in GDP growth and Brexit worries
- Carriers must have ability to rapidly rethink and adapt deployed capacity in the event of a sourcing switch
- Failure to resolve trade disputes resulting in global container volume drop triggering either a panic-driven rate drop to protect existing volumes/cash flow or a carrier maturity to capacity management





# OCEAN TRADE OUTLOOK

Geopolitical Tensions Impactil transportation



Strait of Hormuz (18.5m barrels per day)- Increased tensions with Iran, following attacks on tanker vessels in June

China issues security alert level for ships sailing through the Malacca Strait (16m barrels per day)

Ocean carriers implemented War Risk surcharges in July 2019

**Hormuz War risk surcharges (per TEU)**

ONE	\$55
EVERGREEN	\$50
Hapag Lloyd	\$42
Maersk	\$42
MSC	\$40
CMA CGM	\$36

# OCEAN TRADE IMPACT

## Epidemic and Pandemic

- Increase in blank sailings from Chinese ports. As of 2/4/2020 – a total of 44 Blank Sailings. This number is expected to grow.
- The current average vessel utilization is approx. 50% due to the Lunar Holiday and subsequent manufacturing slow down
- Expect delays in various ports around the world accepting bookings to China. Cargo in these ports will be on hold for longer period of time which will create port storage and equipment demurrage costs.
- Floating quarantine of vessels until declared virus free
- Air Cargo affected as well



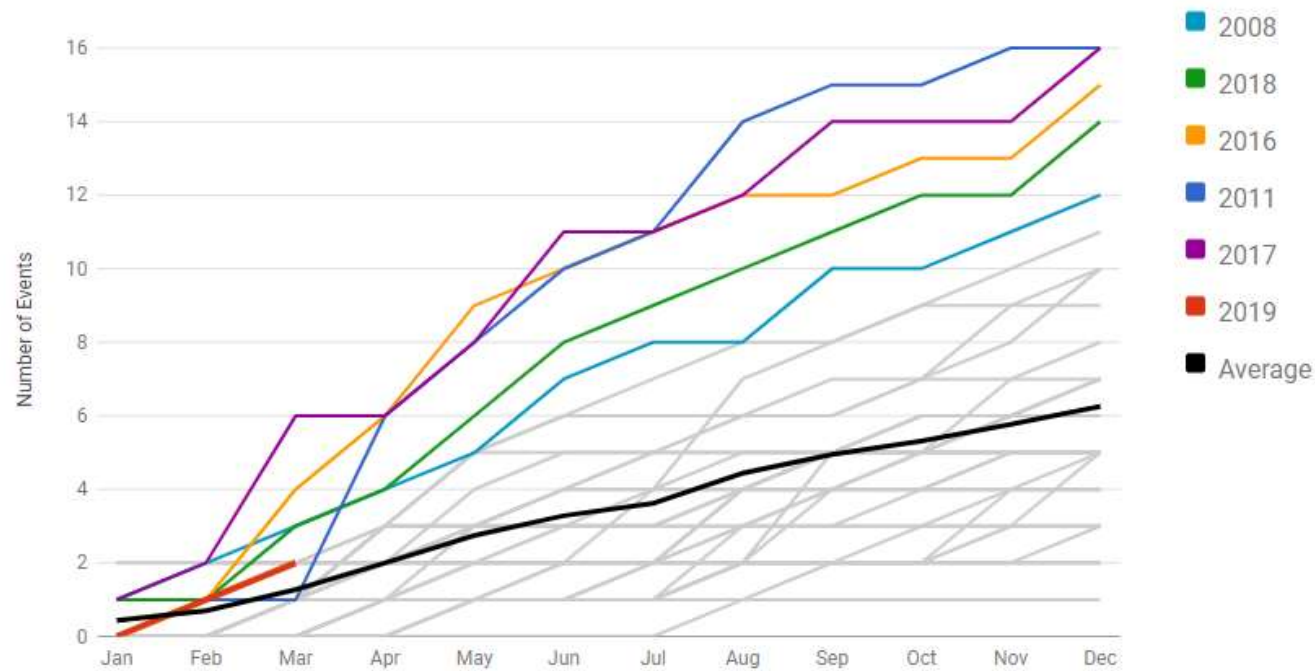


# OCEAN TRADE OUTLOOK

## Weather disruptions - NOAA

### 1980-2019 Year-to-Date United States Billion-Dollar Disaster Event Frequency (CPI-Adjusted)

Event statistics are added according to the date on which they ended.



Statistics valid as of April 9, 2019.

<https://www.ncdc.noaa.gov/billions/>

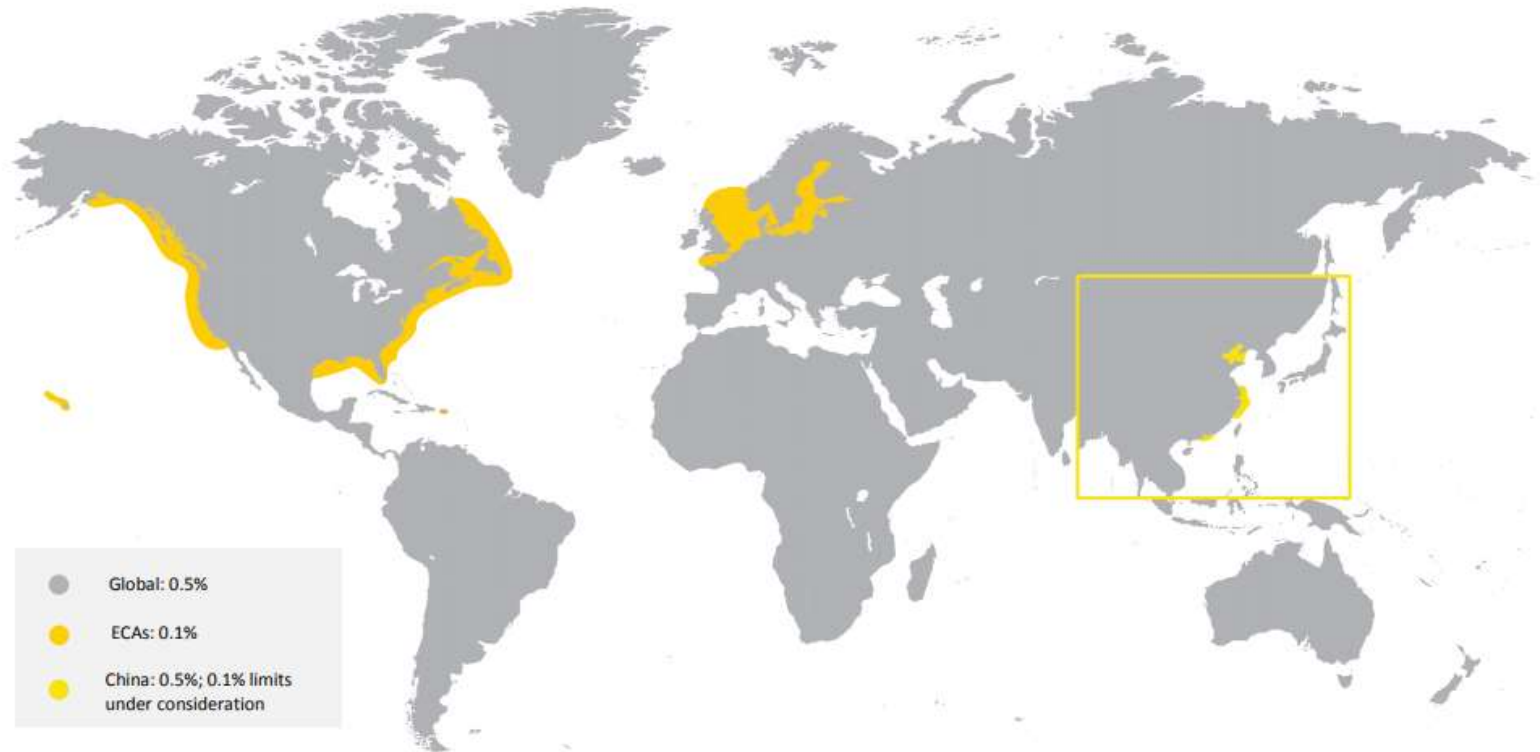
While the overall number of Hurricanes/Typhoons has decreased slightly, the strength has increased

## IMO 2020 – LOW SULFUR FUEL MANDATE

January 1 will mark the full implementation reducing sulfur oxide emission from 3.5% to 0.5 %

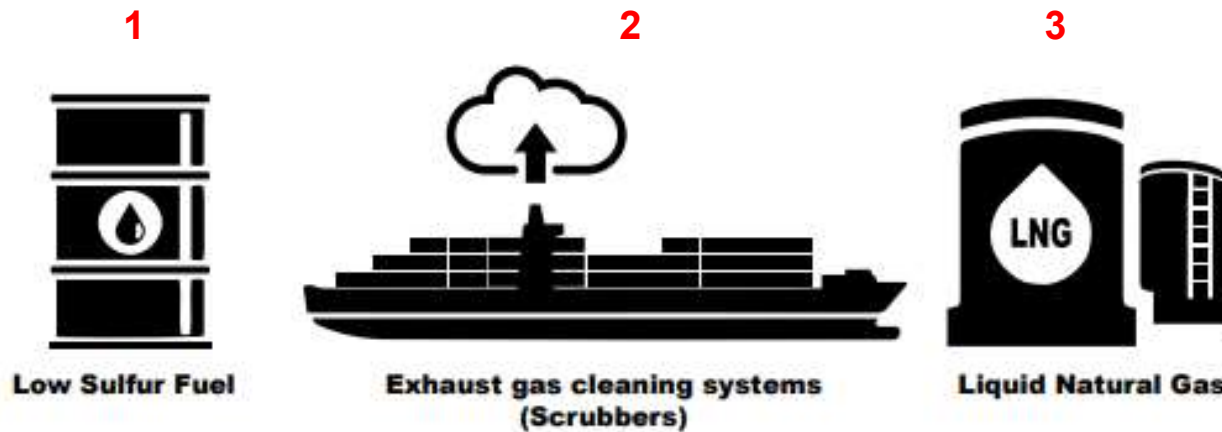
The UN International Maritime Organization requires that from 1 January 2020, Sulphur content in the fuel used for international shipping must be limited globally to 0.5%, compared with the current standard of 3.5%, in order to minimize emissions of Sulphur oxides from ships.

In specific Emission Control Areas (ECAs), defined by the UN IMO or other government bodies, the limit is already 0.1%



## IMO 2020 – LOW SULFUR FUEL MANDATE

Carriers have 3 ways to comply each with its own advantages, disadvantages and cost implications



- Many carriers will use a combination of all three solutions both in the long and short term
- The **cost of compliance will impact freight rates through new bunker formulas**
- Currently, 922,000 teus are out of circulation for scrubber retrofits
- 1<sup>st</sup> delivery of an LNG 23,000 teu vessel for CMA/CGM to be followed by another 8 ships

## OCEAN TRADE IMPACT US PORTS AND DRAYAGE OPERATIONS

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- Volume activity forecast is moderate based on global shipping interruptions such as tariffs and Coronavirus
- Shift in Production Locations = greater growth in the US Southeast.
- New legislation that limits owner operators in the ports will reduce drayage capacity. California (2020) and New Jersey (currently stalled). This will produce higher costs as employee drivers = higher payroll taxes and benefit costs
- Trucking safety and the cost of rising insurance
- Chassis availability and pools adding cost
- Continued reductions in carbon footprint – clean truck, idling time reduced, etc..

