Industry opinion

What the bigger Panama Canal means for Australia and international shipping

Peter Van Duyn*

BIGGER vessels are on their way to Australia owing to ship-cascading and the expanded Panama Canal. With their consequently wider beams and greater lengths, the arrival of bigger vessels could create issues for ports with restricted infrastructure, such as Swanson Dock at the Port of Melbourne.

So why are bigger vessels on their way to this country. Why? Well, one part of the answer is the currently depressed container vessel charter market. According to analyst Alphaliner, around 269 boxships are currently laid up.

Shipping experts believe that even with the increased scrapping of younger vessels (e.g. MOL Excellence, a 4,646 TEU vessel which was a regular visitor to Australian shores is being scrapped after only 13 years of service), the new tonnage (comprising mainly large vessels) is causing a 'cascading' effect as existing vessels are displaced on to lower-volume trades. They, in turn, displace the vessels already on that lower-volume trade, which, in turn, do the same to the next lower-volume trade and so on.

And another issue is the larger Panama Canal, which maritime analysts believe will open new routes, services and market segments. The expansion will double the waterway's capacity and allow passage of New Panamax container vessels with a capacity of up to 14,000 TEU.

The pre-expanded Panama Canal accounted for roughly 5% of the world sea trade and the extended Panama Canal is estimated to generate a 60% increase in cargo volumes transiting the Canal. About 60% of the Panama Canal traffic either begins or ends in U.S. ports so increased capacity will have a notable impact on the trade between Asia and the U.S. East Coast.

The US$5.25 billion expansion program is the largest improvement project in the Canal's 102-year history. It included the construction of new, larger locks on both the Pacific and the Atlantic sides and dredging of more than 150 million cubic metres of material, creating a second lane of traffic and doubling the capacity of the waterway. The new locks use tugs to guide the vessels through rather than locomotives (or mules) as was the custom in the old locks.

On June 26 the first vessel transited the expanded Panama Canal. The 9,400 TEU container vessel Andronikos was renamed China Shipping Panama for the occasion.

And, recently, the 10,000 TEU container vessel MOL Benefactor, with a length of 337 metres and a beam of 48 metres, transited the Canal north bound on its way to the Port of New York and New Jersey. It paid a record toll of more than US$829,000 for the transit. Ports located along the U.S. East Coast and the Gulf are investing billions of dollars in preparation for the arrival of the larger vessels.

This has had its difficulties, such as the raising of the Bayonne Bridge roadway by 20 metres, a US$1.3 billion project due to be completed in late 2017 that is the key to the Port Authority of New York and New Jersey's efforts to attract larger container ships. Extensive and environmentally sensitive dredging is required at a number of East Coast ports to accommodate the larger vessels as well as extending the booms of ship to shore container cranes in order to service the wider container vessels.

Currently, East Coast ports get about 35% of the container traffic from Asia, while the other 65% is unloaded at West Coast ports such as Los Angeles-Long Beach and Seattle-Tacoma, which can already handle larger ships and have

Photo: Victoria University

the additional advantage of access to roads that are less congested than those of the eastern seaboard.

The Panama Canal expansion could shift the flow of goods from the U.S. West Coast to the East Coast. However, Basil Karatzas, a shipping consultant in New York says "It's not self-evident that the ports will benefit on the East Coast". The main advantage would be that shipowners and their customers will gain a cheaper way to reach markets in the densely populated eastern half of the United States via the Atlantic ports, but it will be slower.

The trip from Asia to markets on the eastern seaboard is about 18 days via the West Coast ports, using trucks and trains for the final leg. The same journey takes 22 days sailing through the Panama Canal to East Coast ports, including road and rail transport.

One of the other benefits from the Canal expansion will be exports of liquefied natural gas (LNG) from the U.S. Gulf Coast. The U.S. will become the world's third-largest LNG producer after Australia and Qatar by 2020, according to a report by the Energy Information Administration (EIA). LNG tankers will be able to reach buyers in Asia and South America faster and at lower costs with the potential for 550 tankers a year using the Canal by 2021.By using the Canal, large tankers bound for Asia may save as much as US$3.2 million per round-trip compared with travel through the Suez Canal, and US$2.8 million compared with travelling around Africa's Cape of Good Hope.

The Canal will reduce travel time from the U.S. Gulf Coast to Japan to 20 days compared to 31 days through the Suez Canal and from 34 days around the southern tip of Africa. Trips to Chile will shrink to eight or nine days from 20, and from 25 to five days to Colombia and Ecuador, according to the EIA report.

This could certainly have a detrimental effect on a number of large LNG export operations in Australia such as Curtis Island near the Port of Gladstone and the North West Shelf Project, as well as future projects coming on line such as the Ichthys LNG Project which is being realised at Baldin Point in the Port of Darwin.

Time will tell whether the huge investment in the Canal expansion will pay off in years to come.

Editor's no e: This is a private opinion and is not the official viewpoint of Lloyd's List Australia.

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We don't want no stinkin' stink bugs

Ian Ackerman

AN INVADING horde of brown marmorated stink bugs from America is threatening Australian agriculture.

Halyomorpha halys is a voracious pest, feeding on – and severely damaging – more than 300 types of plants, including fruit, vegetables and ornamentals. It is of "considerable" biosecurity concern to Australia's agriculture industries.

The high season for these vicious hitchhikers from America is nigh, beginning in September, and the Department of Agriculture and Water Resources has issued a notice updating shippers on changes in sea freight biosecurity measures.

The department's measures for the 2016-17 season (which continues through April 2017) are largely the same as the previous season.

Targeted goods must be treated with sulfuryl fluoride, or methyl bromide, or heat (50 degrees C or greater).

There are some changes this year compared to last year in the nature of the goods targeted.

Targeted goods include machinery parts shipped as break bulk and machinery from additional tariffs.

Targeted goods will exclude lower risk goods such as small all-terrain vehicles, jet skis, canoes and buoys.

These measures will remain in place for the entire season unless infestations are detected. Should they occur, the DWAR may impose emergency measures.

Photo: Susan Ellis, Bugwood.org

Qube's acquistion of AAT equity to be subjected to ACCC investigation

Just weeks after it said it wouldn't interfere with a Qube-led consortium's plans to break up and takeover port and rail giant Asciano, the Australian Competition and Consumer Commission has opened an investigation into Qube's planned acquisition of Asciano's share of the Australian Amalgamated Terminals (AAT) business. OLIVER PROBERT reports

ALTHOUGH the Australian Competition and Consumer Commission (ACCC) approved the overall takeover of Asciano last month, the competition watchdog will now investigate Qube's acquisition of Asciano's share of the Australian Amalgamated Terminals (AAT) business.

Under the plan, Qube, which spearheaded the successful bid, will take a 50% ownership of Asciano's Patrick ports business, along with investment firms Brookfield (33.5%), GIC (5.5%) bcIMC (5.5%) and QIA (5.5%).

Asciano's rail business, Pacific National, will end up in the hands of financial firms GIP (27%), CPPIB (33%), CIC Capital (16%), GIC (12% and bcIMC (12%).

And its Bulk & Automotive Port Services business will end up being majorly owned by Brookfield (67%) along with smaller investors GIC (11%), bcIMC (11%) and QIA (11%).

The final transaction is set to take place on August 19.

But it's the acquisition of Asciano's 50% share in multi user port business Australian Amalgamated Terminal that is the subject of the ACCC latest inquiry.

Qube already owns the other 50% share of AAT, so by acquiring the remaining 50%, Qube plans to take full control of the business, which has sites in Victoria, NSW, Queensland and South Australia.

"The proposed acquisition would result in Qube holding 100% of AAT" the competition authority said on August 8.

"There are two issues that the ACCC is seeking market feedback the likely effect of the proposed acquisition on competition; and the potential of the proposed undertaking offered by Qube and AAT to address any competition concerns that would otherwise result from the proposed acquisition."

The ACCC plans to make a decision on the acquisition, and any potential undertaking agreement, by October 6.

Meanwhile the competition authority will also look into Queensland rail operator Aurizon's bid to purchase Glencore's NSW rail business, GRail.

Aurizon is one of three rumoured bidders for the business, which Glencore is looking to offload as part of its debt reduction strategy.

Pacific National and GRail's existing operator, Genesee & Wyoming are the other rumoured parties in the bidding process.

The ACCC said on August would review the bid, and invited public submissions, with planned decision announcement September 29.