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Chapter IV Freight Markets



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Chapter IV

FREIGHT MARKETS

This chapter indicates comprehensive conditions and trends in freight markets, covering major liner and bulk cargo sectors, liner freight rates as a percentage of commodity prices, and estimates of global freight costs.

A. Freight rates in major liner trades: TransPacific, TransAtlantic and Europe-Asia

57. During 1996 ocean carriers had to face difficult times in most trades. Rates in the TransPacific Eastbound, Asia/Europe and Europe/Asia fell by 10 per cent or more. The Westbound TransPacific leg fell by 6 per cent, while among the major trades only the US/Europe route displayed notable strength, with carriers' average revenues up by 12 per cent to US\$ 1,621 per TEU. The quarterly analysis of liner freight rates shows that the lower freight rates in the main east-west trades during the final quarter of 1995 continued into the first quarter of 1996 as the consortia realignments and phasing into service of larger tonnage took place (see table 30). The second quarter showed a relatively higher level of pricing. Freight rates moved upwards in the United States/Asia and the United States/Europe trades, but fell in the Europe/United States trade. The upward movement in pricing in the second quarter continued into the July-September period, with rates rising on the Pacific Westbound (from the United States to Asia) and the Atlantic Eastbound (United States to Europe) routes. On the Europe/Asia/Europe trade route in 1996, freight rates in both directions continued to develop on a moderate but stable downward trend since the last quarter of 1995, despite the fact that containerized cargo increased by 12.1 per cent and 10.9 per cent respectively in the Europe/Asia and the Asia/Europe trades (see table 31). This fall in freight rates was mainly attributable to the continuing changes in service structures, based on the deepening of carrier alliances and on the introduction of larger ships, thus increasing tonnage oversupply.

TransPacific

58. Rates in both the eastbound and westbound directions fell during the first three months of 1996. Eastbound cargo volumes declined by 8 per cent from the previous three months to 890,000 TEUs, and rates fell by 6 per cent to an average of US\$ 1,746 per TEU. Westbound rates decreased by 9.1 per cent to US\$ 1,339 per TEU. During the second quarter, the TransPacific route was characterized by substantially lower rates on eastbound (down 6.8 per cent from the previous quarter) but firmer prices (up 6.6 per cent) on westbound. Although the previous downward pressure on eastbound rates eased during the third quarter, rates were still 13 per cent below their level of a year ago. Although there had been a rapid pick-up in cargo volumes since July 1996, the market had been plagued by high levels of overcapacity. On the westbound route, the trade was much stronger with rates up 6.2 per cent from the previous quarter. However, this largely reflected the movement of higher-value goods, specifically reefer products. Rates in the east and westbound sectors slumped in the final quarter of the year. The end of the seasonal cargo rush resulted in a reduction in cargo volumes on the eastbound leg. In the westbound trade, rates had previously held firm on the back of the export of higher-value cargoes (mainly reefer cargoes) from the United States, despite a fall-off in total traffic volumes. In the fourth quarter the cargo-balance between high and low value changed slightly and rates declined by 9 per cent.

TransAtlantic

59. In the first quarter of 1996, stability continued to characterize the Europe/USA/Europe

Table 30

Freight rates (average in markets) on three major liner trade routes for fourth quarter 1995
through first quarter 1997
(US\$ per TEU)

| | TransPacific | | TransAtlantic | | Europe-Asia | |
|------------------------|--------------|-------------|---------------|---------------|----------------|----------------|
| | Asia to USA | USA to Asia | USA to Europe | Europe to USA | Europe to Asia | Asia to Europe |
| 1995 Fourth quarter | 1 865 | 1 473 | 1 442 | 1 349 | 1 257 | 1 455 |
| Percentage change | -6.4 | -9.1 | 2.6 | 2.6 | -3.0 | -5.9 |
| 1996 First quarter | 1 746 | 1 339 | 1 480 | 1 384 | 1 219 | 1 369 |
| Percentage change | -6.8 | 6.6 | 1.0 | -3.0 | -0.1 | -1.7 |
| Second quarter | 1 628 | 1 428 | 1 495 | 1 342 | 1 218 | 1 346 |
| Percentage change | -0.1 | 6.2 | 7.7 | -2.4 | -4.2 | -0.7 |
| Third quarter | 1 627 | 1 517 | 1 610 | 1 310 | 1 167 | 1 337 |
| Percentage change | -5.2 | -8.8 | 0.7 | 0.0 | -2.6 | -4.2 |
| Fourth quarter | 1 543 | 1 384 | 1 621 | 1 311 | 1 137 | 1 281 |
| Percentage change | -4.5 | -7.5 | -10.0 | -0.7 | -12.5 | -13.2 |
| 1997 First quarter | 1 473 | 1 280 | 1 459 | 1 302 | 995 | 1 112 |

Source: *Containerisation International*, various issues, 1996/7.

Table 31

Cargo movements on three major liner trade routes for 1995 and 1996, and forecasts for 1997
(Thousands of TEUs)

| | TransPacific | | TransAtlantic | | Europe-Asia | |
|------------|--------------|-------------|---------------|---------------|----------------|----------------|
| | Asia to USA | USA to Asia | USA to Europe | Europe to USA | Europe to Asia | Asia to Europe |
| 1995 | 4 009 | 3 471 | 1 208 | 1 448 | 2 306 | 2 834 |
| Growth (%) | 2.4 | 1.4 | 0.9 | -1.9 | 12.1 | 10.9 |
| 1996 | 4 104 | 3 520 | 1 219 | 1 421 | 2 584 | 3 142 |
| Growth (%) | 8.7 | 5.3 | 4.7 | 9.5 | 7.9 | 6.9 |
| 1997 | 4 459 | 3 705 | 1 276 | 1 556 | 2 788 | 3 358 |

Sources: DRI/McGraw-Hill, *World Sea Trade Service Review*, various issues, 1996; *Journal of Commerce*, various issues, 1996; *Containerisation International*, various issues, 1996.

trade, with both eastbound and westbound rates rising by 2.6 per cent from the last quarter of 1995.

This reflected the fact that the TransAtlantic Conference Agreement's rate restoration programme had been effective since 1 January 1996. Freight rates were more volatile in the second quarter, with eastbound rates up a modest 1.0 per cent and westbound rates down 3.0 per cent. There were some early signs that cargo volumes would decrease, particularly westbound, and that accordingly freight rates would fall. During the third quarter, the eastbound trade (from the United States to Europe) continued to have the strongest performance. However, rates continued to show some softness on the westbound route. During the fourth quarter, the United States/Europe trade provided carriers with their highest average revenue, \$1,621 per TEU. There were signs, however, that existing carriers had a plan to lower their prices in anticipation of the entry of three Asian carriers in the first quarter of 1997. Westbound rates remained stable in the final quarter, but were expected to decline in the first quarter of 1997.

Europe-Asia

60. Significant rate erosion continued in this trade during the first quarter of 1996, with eastbound rates falling by 3.0 per cent to US\$ 1,219 per TEU and westbound rates by 5.9 per cent to US\$ 1,369 per TEU. These falls in freight rates were attributable to the substantial restructuring of carriers' groupings, and the scheduled phasing into service of new larger ships. In the second quarter, eastbound rates remained stable at low levels, while westbound rates continued to weaken by 1.7 per cent to US\$ 1,346 per TEU. It was notable that in the third quarter, rates remained under intense pressure and fell by 4.2 per cent eastbound and 0.7 per cent westbound, despite ships sailing with a relatively full load in both directions. In the fourth quarter, average revenue per TEU further deteriorated by 3 per cent to \$1,137 per TEU in the eastbound direction and by 4 per cent to \$1,281 on the westbound leg. The difficult situation in the trade is reflected in the fact that lower-value commodities

moved for as little as \$400-500 per TEU in the eastbound market.

B. Liner freight index

61. Table 32 reflects the development of liner freight rates on cargoes loaded or discharged by liners at ports in the Antwerp/Hamburg range for the period of 1994-1996. The overall 1996 liner freight index continued to decline to an average level of 93 (1991=100), which was only a one-point decrease from the average of 1995 but the lowest since 1991. A closer look at the 1996 liner freight level reveals that the overall index of homebound rates (to Antwerp/Hamburg range) fell by 3 points from 1995, while that of outbound rates rose by 1 point. The average index of container rates decreased by 2 points from their 1995 level, but conventional general cargo remained at the same rates as in 1995, mainly reflecting the downward trend of the container freight level in the Europe-Asia trade.

C. Liner freight rates as a percentage of prices for selected commodities

62. Table 33 provides data on liner freight rates as a percentage of market prices for selected commodities and trade routes for selected years from 1970 to 1996. Prices for rubber and coffee (Colombia) declined, whilst freight rates for these commodities remained almost unchanged or were under more pressure than in the previous year, bringing about a moderate increase in the freight/price ratio. The significant decreases in the ratio were observed in the jute and cocoa beans (Brazil) trades, where the prices for jute increased by 24 per cent from the previous year and the freights for cocoa beans (Brazil) decreased by 30.0 per cent. While the ratio of coconut oil, tea and cocoa beans (Ghana) decreased moderately, mainly because of the increase in prices of coconut oil and tea respectively, and the decrease in freights for cocoa beans, the marginal decrease in coffee (Brazil) was due to the fall in freights by 25 per cent from the previous year as well as the decrease in its c.i.f. prices by 18 per cent.

Table 32

Liner freight indices, 1994-1997
(Monthly figures)
(1991=100)

| Month | Overall index | | | | Homebound index | | | | Outbound index | | | | Container index | | | | Conventional general cargo index | | | |
|----------------|---------------|------|------|------|-----------------|------|------|------|----------------|------|------|------|-----------------|------|------|------|----------------------------------|------|------|------|
| | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 |
| January | 101 | 97 | 94 | 96 | 100 | 93 | 89 | 90 | 102 | 100 | 99 | 102 | 101 | 96 | 92 | 91 | 102 | 98 | 96 | 100 |
| February | 101 | 95 | 93 | 98 | 100 | 92 | 87 | 91 | 102 | 99 | 98 | 104 | 101 | 95 | 91 | 92 | 102 | 97 | 96 | 103 |
| March | 100 | 92 | 93 | 98 | 99 | 89 | 87 | 92 | 100 | 96 | 99 | 104 | 99 | 91 | 91 | 92 | 100 | 94 | 96 | 103 |
| April | 99 | 92 | 94 | 96 | 97 | 89 | 88 | 90 | 100 | 95 | 100 | 102 | 97 | 91 | 92 | 90 | 100 | 94 | 97 | 102 |
| May | 97 | 94 | 95 | 96 | 96 | 91 | 89 | 90 | 98 | 97 | 101 | 101 | 96 | 92 | 92 | 90 | 99 | 96 | 98 | 101 |
| June | 96 | 94 | 95 | 96 | 95 | 90 | 89 | 90 | 98 | 97 | 100 | 102 | 95 | 92 | 92 | 90 | 98 | 95 | 98 | 102 |
| July | 95 | 94 | 93 | | 94 | 91 | 86 | | 97 | 97 | 98 | | 93 | 93 | 89 | | 97 | 96 | 96 | |
| August | 95 | 96 | 92 | | 94 | 93 | 86 | | 97 | 99 | 97 | | 93 | 95 | 88 | | 98 | 97 | 95 | |
| September | 95 | 96 | 92 | | 93 | 92 | 86 | | 97 | 99 | 98 | | 93 | 95 | 89 | | 97 | 97 | 95 | |
| October | 95 | 92 | 93 | | 93 | 87 | 87 | | 96 | 97 | 99 | | 93 | 91 | 90 | | 97 | 94 | 96 | |
| November | 95 | 92 | 93 | | 94 | 87 | 87 | | 97 | 97 | 98 | | 93 | 91 | 89 | | 98 | 94 | 96 | |
| December | 97 | 93 | 94 | | 95 | 88 | 88 | | 98 | 98 | 100 | | 95 | 92 | 91 | | 99 | 95 | 97 | |
| Annual average | 97 | 94 | 93 | 97 | 96 | 90 | 87 | 91 | 99 | 98 | 99 | 103 | 96 | 93 | 91 | 91 | 99 | 96 | 96 | 102 |

Source: Compiled by the UNCTAD secretariat on the basis of the Liner Index worked out by the German Ministry of Transport. Monthly weighted assessments of freight rates on cargoes loaded or discharged by liners of all flags at ports of the Antwerp/Hamburg range.

Box 2

Shippers know best

Shippers know what they want, and retain control by ensuring that their forwarders buy ocean carrier and other capacity accordingly. This was the message from replies to an extensive survey of shippers' views around the world.

Completed questionnaires were received from shippers and importers in 33 countries: Argentina, Bangladesh, Belgium, Brazil, Canada, Chile, China, Denmark, Finland, France, Germany, Hong Kong, Indonesia, India, Islamic Republic of Iran, Japan, Malaysia, Netherlands, New Zealand, Paraguay, Peru, Puerto Rico, Saudi Arabia, Singapore, Spain, Sri Lanka, Sweden, Trinidad and Tobago, United Arab Emirates, United Kingdom, United States and Uruguay.

| | | |
|----|---|-----|
| 1. | When arranging the ocean shipment of FCL consignments, is your forwarder required to | |
| | - select the ocean carriers with which bookings are made | 35% |
| | - book only with ocean carriers selected by yourself | 59% |
| | - both of the above apply | 4% |
| | - no FCL traffic | 2% |
| | When arranging the ocean shipment of LCL consignments, is your forwarder required to | |
| 2. | - select the groupage operators used | |
| | - book only with groupage operators selected by you | 40% |
| | - use groupage services it operates | 33% |
| | - all three of the above apply | 19% |
| | - no LCL traffic | 2% |
| | When transport is arranged from the point at which a container is loaded to the port or container terminal, do you | 6% |
| 3. | - arrange this yourself, without forwarder involvement | |
| | - allow your forwarder free choice in making whatever arrangements are considered to be the most effective | 39% |
| | - require your forwarder to make overland transport arrangements only with transport operators nominated by yourself | 43% |
| | - all three of the above apply | 16% |
| | In regard to ocean freight rates, do you | 2% |
| 4. | - negotiate these yourself, without any forwarder involvement | |
| | - negotiate freight rates in conjunction with your forwarder | 48% |
| | - instruct your forwarder to negotiate freight rates on your behalf | 27% |
| | - all three of the above apply | 19% |
| | In regard to signing conference agreements, or otherwise, do you | 6% |
| 5. | - make these decisions entirely on your own, without guidance from your forwarder | |
| | - allow yourself to be guided by recommendations from your forwarder | 39% |
| | - both of the above apply | 51% |
| | In regard to service contracts with ocean carriers, do you | 2% |
| 6. | - negotiate these, if appropriate, entirely on your own, and without forwarder involvement | |
| | - negotiate them in conjunction with your forwarder | 53% |
| | | 47% |

| | | |
|-----|---|-----|
| 7. | In regard to changes in freight rates, and ocean carrier service charges, do you | |
| - | expect your forwarder to keep you informed at all times | 42% |
| - | keep yourself informed (by information received directly from ocean carriers, from shippers' councils, or from the freighting media) without assistance from your forwarder | 49% |
| - | both above apply | 9% |
| 8. | When negotiating sales to overseas customers, do you | |
| - | expect your forwarder to guide you as to the most appropriate incoterms | 23% |
| - | select the most appropriate incoterms without reference to your forwarder | 75% |
| - | both above apply | 2% |
| 9. | In regard to export documentation do you | |
| - | instruct your forwarder to prepare only shipping documentation, such as B/L, waybills, certificates of origin etc. | 70% |
| - | expect your forwarder to assist in obtaining payment from overseas customs by becoming involved in negotiating documents through banks, especially when letters of credit and sight drafts are involved | 30% |
| 10. | Do you expect your forwarder to | |
| - | only act for you in your own country, i.e. the country of shipment | 35% |
| - | have a global network of offices and freight handling facilities, and thus to be involved in the destination country, as well as in the country of shipment | 65% |
| 11. | Do you expect your forwarder to provide logistics facilities, such as | |
| - | order processing when orders are placed on suppliers, warehousing and distribution | 35% |
| - | do not expect your forwarder to provide such logistics facilities | 65% |
| 12. | Do you expect your forwarder to | |
| - | be able to communicate with you electronically, and to provide shipment status reports, and other relevant data, electronically | 79% |
| - | consider the provision of electronic information technology to be irrelevant | 21% |

The proportion of shippers who instruct their forwarders as to which ocean carriers traffic should be booked with (question 1) was an overwhelming 59 per cent compared to only 35 per cent allowing the forwarders to make the decision. With LCL traffic (question 2), a sizeable 33 per cent of shippers instruct their forwarders as to which groupage operators are to be used, although a high proportion of 40 per cent does allow choice to the forwarders.

Forwarders like to claim that they are better able to negotiate rates with carriers, but discomfortingly for them, 48 per cent of shippers stated that they negotiate rates themselves, without any forwarder involvement (question 4). However, by a narrow margin (question 5) most shippers allow themselves to be guided by recommendations from their forwarder when signing conference agreements. Even so, 53 per cent of shippers (question 6) negotiate service contracts with ocean carriers without forwarder involvement, 47 per cent of shippers negotiating them in conjunction with their forwarders.

In relation to the overland transport of containers from the point of loading to a port, or terminal (question 3) a slender majority of forwarders, at 43 per cent, is allowed free choice in making the most appropriate arrangements, but the 39 per cent of shippers who stated that they arrange this themselves is surprisingly high in view of forwarders' pretensions to unrivalled expertise in organizing intermodal movements.

Forwarders frequently claim to justify their involvement in short or deep-sea traffic by inputting expertise relating to various pre- or post-shipment ancillary services. Doubtless such claims are justified, particularly when traffic is being arranged on behalf of smaller volume shippers. But the replies indicate that shippers also have considerable in-depth knowledge, such as the ability to select Incoterms when negotiating sales to overseas customers. Answers to question 8 reveal that 75 per cent of shippers select their own Incoterms, with only 23 per cent expecting guidance from their forwarders. Moreover, an overwhelming 70 per cent of shippers restrict their forwarders to preparing strictly "shipping" documentation (B/L, other transport documents and paperwork, such as certificates of origin), and a mere 30 per cent require help from their forwarders when banking procedures are involved to obtain payments from overseas customs (question 9).

The survey offers strong support for the belief that the forwarding industry is becoming increasingly "internationalized", and that shippers require their forwarders to have a global presence. Indeed, as shown in the responses to question 10, a minority of 35 per cent of shippers expect their forwarders to act for them only in their own country, i.e. the country of shipment, with an overwhelming 65 per cent of respondents stating that they expect their forwarders to have global networks of offices and freight handling facilities, and thus to be involved in the destination country, as well. Of course, even the smallest forwarder can access global handling facilities through agency agreements with other forwarders. It is nonetheless significant that 79 per cent of shippers (question 12) expect their forwarder to be able to communicate with them electronically, with only 21 per cent dismissing the provision of electronic information technology as irrelevant. Clearly, during the past few years the number of shippers using EDI to communicate with freight service providers has increased substantially.

The survey may have exploded a myth. Forwarders, especially the larger global operators, now frequently assert that the future for them will depend on providing logistics services (especially warehousing, distribution, stock control and purchase order management) to complement basic ocean, overland and air-freight forwarding services. Yet only 35 per cent of shippers (question 11) stated that they expect their forwarders to provide such services. This response, when restricted to a pure statistical analysis, could be misleading, since there is little doubt that the large multinational shippers do frequently need logistical support. Out there in the market place, though, are large numbers of shippers whose principal needs are still for the basic services, and no more, that forwarders provide.

If there is one clear message which shines through the survey, it is that a majority of shippers have considerable knowledge of international distribution, are aware of current conditions dictating the supply of ocean freight and other transport capacity, are able to negotiate freight rates effectively, and are well placed to determine the most appropriate options in buying this capacity. And for the most part, without forwarder participation in the decision making process.

This is indicated by the replies to question 7, relating to changes in freight rates, and other charges. Some 49 per cent of shippers keep themselves informed without forwarder assistance.

The survey does indicate that shippers still depend to a large degree on forwarders for processes such as cargo booking, the preparation of documentation, and the provision of information, albeit now generally electronically. So the forwarders are still needed, but their pretensions should not ride too high.

Source: *Containerisation International*, November 1996.

Table 33

Ratio of liner freight rates to prices of selected commodities

| Commodity | Route | Freight rate as percentage of price a/ b/ c/ | | | | | | |
|-------------|----------------------------|--|------|------|------|------|------|------|
| | | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 1996 |
| Rubber | Singapore/Malaysia-Europe | 10.5 | 18.5 | 8.9 | n.a. | 15.5 | 7.8 | 8.9 |
| Jute | Bangladesh-Europe | 12.1 | 19.5 | 19.8 | 6.4 | 21.2 | 18.0 | 15.5 |
| Cocoa beans | Ghana-Europe | 2.4 | 3.4 | 2.7 | 1.9 | 6.7 | 7.1 | 6.3 |
| Coconut oil | Sri Lanka-Europe | 8.9 | 9.1 | 12.6 | 12.6 | n.a. | 6.7 | 6.0 |
| Tea | Sri Lanka-Europe | 9.5 | 10.4 | 9.9 | 6.9 | 10.0 | 6.1 | 5.6 |
| Coffee | Brazil-Europe | 5.2 | 9.7 | 6.0 | 5.0 | 10.0 | 2.8 | 2.6 |
| Coffee | Colombia (Atlantic)-Europe | 4.2 | 5.7 | 3.3 | 6.7 | 6.8 | 3.7 | 4.6 |
| Cocoa beans | Brazil-Europe | 7.4 | 8.2 | 8.6 | 6.9 | 11.0 | 9.5 | 6.6 |
| Coffee | Colombia (Pacific-Europe) | 4.5 | 6.3 | 4.4 | 6.1 | 7.4 | 4.0 | 4.9 |

Source: Compiled by the UNCTAD secretariat on the basis of data supplied by the Royal Netherlands Shipowners' Association (data for 1970-1989) and conferences engaged in the respective trades (data for 1990-1996).

a/ C.i.f. prices are quoted for coffee (Brazil-Europe and Colombia-Europe) and coconut oil. For cocoa beans (Ghana-Europe and Brazil-Europe) and tea, the average of the daily prices in London is quoted. Prices of the remaining commodities are quoted on f.o.b. terms.

b/ Freight rates include, where applicable, bunker surcharges and currency adjustment factors, and a "tank cleaning surcharge" (for coconut oil only). Conversion of rates to other currencies is based on parities given in *International Financial Statistics*, published by the International Monetary Fund. Annual freight rates were calculated by taking a weighted average of various freight rates quoted during the year, weighted by their period of duration.

c/ For the period 1990-1996, the prices of the commodities were taken from UNCTAD, *Monthly Commodity Price Bulletin*, March 1997.

D. Containership charter market

63. Containership charter rates are one of the main indicators of liner service developments. The 1996 containership charter market started off very calmly, with few activities recorded. After a short recovery the market declined again towards the end of the year. Charterers therefore tried to fix for comparatively shorter periods and managed to take advantage of the instability to obtain more favourable terms. In general, the market was heavily influenced by the policy of major liner operators to favour larger and faster ships.

64. The market for ships of 500 TEUs to 1,000 TEUs benefited from the rise in demand for feeder services. A major part of the charter activities were, however, dominated by the

extension of existing contracts. The market for geared tonnage remained fairly stable, with only minimum reductions on the previous charter rates. Geared newbuildings of 900 TEUs were fixed at US\$ 9,500-10,000 per day on 12-month time-charter and 750 TEU newbuildings were available at US\$ 9,000 per day for the same period.

65. In the category of 1,000 TEUs to 2,000 TEUs, a clearer difference in charter hire between geared and gearless tonnage was recognized. With constant demand for feeder services in South America or intra-Asia, the market remained stable specifically for geared cellular ships. In the smaller size of 1,100 TEUs to 1,400 TEUs, massive deliveries of newbuildings with gears and cells pushed charterers to replace older ones. Consequently, rates fell from the high

level of US\$ 12,000 per day in 1995 down to around US\$ 10,000 at one time, and thereafter, particularly towards the end of the year, geared newbuildings of 1,100-1,200 TEUs were paid at over US\$ 12,000 per day. In the size of 1,400 TEUs to 1,900 TEUs, all new units were also employed. Geared ships of 1,600-1,700 TEUs received US\$ 16,500-17,000 per day on 12-month time-charter. Gearless ships in this category experienced the comparatively weak conditions in the 1996 market, as the situation was confused by lack of details about how the global alliances were organizing their intraregional subordinate services. A 1,550 TEU ship was employed at the US\$ 15,000 level per day and a ship capable of loading 1,860 TEUs also received US\$ 15,000 per day.

66. Some older ships of 2,000 TEUs to 3,000 TEUs had their charter parties terminated in the course of the year with no extension, as a result of redeployment of ships for new alliances or arrival of newbuildings for replacement. It was another feature of 1996 in this category's market that an increasing number of operators were trying to make inroads into North-South trades, intraregional services, and other types of trades such as Far East to South America, with geared tonnages. In the market with gearless ships, ships of 2,100 TEU class were fixed at US\$ 18,500 per day for 12 months and 2,300-2,500 TEU tonners were paid at US\$ 20,000-23,000 per day. Larger ships of 2,600-2,700 TEUs were employed at US\$ 22,000-25,000 per day on one-year charter. For long-period charter, a series of 2,800-2,900 TEU newbuildings were fixed at US\$ 22,500-23,000 per day for four years.

67. About 50 ships with a carrying capacity of 3,000 TEUs and over were in service in 1996. A very large portion of them are owned by the top 20 liner operators, although several non-operator owners moved further into this sector in 1996, and made better deals in chartering than in previous years. In the long-term charter market, a ship of 3,500 TEUs was fixed at US\$ 27,000-28,000 per day for three years, and another of 3,900 TEUs was ordered for charter at US\$ 27,000 per day for the first four years and US\$ 28,000 per day for another four-year period. For short-term employment, a 3,400 TEU ship was employed at US\$ 27,500 per day for 18 months.

E. Dry bulk freight market

Dry bulk trade

68. Dry bulk carrier owners experienced a very gloomy charter market in 1996. Specifically, at the end of September, the Baltic Freight Index (BFI) slipped under the critical 1,000 level, which was a record low since August 1987. The 1996 overall development in dry bulk charter markets reflected, primarily, declining steel production, a temporary severe shortage of demand for grain, and weak economic growth especially in Western Europe and major South-East Asian economies. Additional pressure was exercised by the delivery of 258 newbuildings of 17.49 million dwt. On the other hand, an increase in sales of dry bulkers for demolition of 7.6 million dwt, coupled with the resumption of rather active steel production and expanded grain trades, reversed the decline in freight rates to a certain extent (see table 34).¹

69. The volume of seaborne iron ore trades fell by about 3 per cent in 1996 from 402 million tons to 390 million tons. Their on ore imports of the European Union in 1996 are estimated at 138 million tons, a 3.2 per cent decline from 1995 (142.6 million tons).

A similar trend was shown in Japan, where iron ore imports were reportedly down by about 1.5 per cent from 1995, indicating a drop of 118 million tons in 1996. The Republic of Korea's imports of iron ore decreased slightly by about 1.7 per cent in 1996 to 34.5 million tons, from 35.1 million tons in 1995. Chinese iron ore imports reached about 45 million tons in 1996, an increase of 9.2 per cent on the total of 41.2 million tons in 1995. Taiwan Province of China recorded growth in iron ore imports from 9.2 million tons in 1995 to over 10 million tons in 1996 (an increase of 8.7 per cent). Supply-side patterns in the iron ore trades continue to be dominated by a few major producers and exporters: Australia and Brazil together accounted for two-thirds of all overseas shipments, exporting about 131 million tons and 125 million tons respectively in 1996. Both countries, however, experienced declining exports (3.8 per cent and 4.8 per cent respectively from 1995). Other significant suppliers include India, Canada, South Africa, Sweden, Mauritania and Venezuela, providing 10-30 million tons each.

Table 34

Dry cargo freight indices, 1994-1997
(Monthly figures)

| Period | Dry cargo tramp time charter a/ (1991 = 100) | | | | Dry cargo tramp trip charter b/ (July 1965 to June 1966 = 100) | | | |
|----------------|---|------|------|------|---|------|------|------|
| | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 |
| January | 80 | 111 | 83 | 84 | 189 | 234 | 207 | 209 |
| February | 78 | 106 | 77 | 87 | 185 | 227 | 202 | 197 |
| March | 78 | 108 | 80 | 91 | 185 | 229 | 192 | 199 |
| April | 87 | 111 | 81 | 89 | 198 | 243 | 192 | 197 |
| May | 90 | 115 | 82 | 82 | 191 | 245 | 196 | 190 |
| June | 81 | 106 | 73 | 81 | 196 | 239 | 195 | 184 |
| July | 83 | 100 | 66 | | 198 | 230 | 186 | |
| August | 82 | 112 | 58 | | 202 | 218 | 189 | |
| September | 87 | 110 | 57 | | 208 | 220 | 186 | |
| October | 98 | 92 | 65 | | 212 | 221 | 176 | |
| November | 102 | 84 | 75 | | 212 | 198 | 188 | |
| December | 110 | 88 | 80 | | 234 | 198 | 211 | |
| Annual average | 88 | 104 | 73 | 86 | 201 | 225 | 193 | 196 |

Note: All indices have been rounded to the nearest whole number.

a/ Compiled by the German Ministry of Transport.

b/ Compiled and published by Lloyd's Ship Manager.

70. Decreasing iron ore imports resulted from slackening world crude steel production, which declined by 0.4 per cent from 753.43 million tons in 1995 to 750.36 million tons in 1996. A major exception was China, whose 1996 crude steel production increased by 7.9 per cent to 100.35 million tons, thus exceeding 100 million tons for the first time. This increase made China the world's largest steel producer, with Japan now occupying second place with a production of 98.8 million tons, down 2.8 per cent. Other regional developments showed that the steel industry of Western Europe registered -4.4 per cent and the United States -0.6 per cent, whereas the Republic of Korea recorded an increase of 5.7 per cent and Taiwan Province of China 3.1 per cent.

71. The volume of seaborne coal increased from 423 million tons in 1995 to 437 million tons in

1996. Whilst coking coal volumes showed only marginal growth (from 173 million tons to 175 million tons), mainly because of low steel demand, the volume of thermal coal again registered a notable increase (from 250 million tons to 262 million tons), attributable to a colder winter in Europe and steadily rising oil prices throughout the year. Consequently, Australia reasserted its position as the world's leading exporter of both coking and thermal coal, whilst the United States and the Republic of South Africa occupied second place for coking and thermal coal respectively. As Asian demand increased for both its expanding steel industry and the growing power supply demand, trade patterns continued to change. United States exports to the Far East continued to fall, whilst South Africa and Australia increased their market shares in Asia and the growing fleet of modern Far-East-controlled bulkers concentrated on the intra-

Pacific routes. Australian exports to Europe declined, with the greater part of European demand being met by United States suppliers. Despite an increase in total coal volume, these new trading patterns reduced shipping distances and thus tonnage demand.

72. The volume of seaborne grain fell again in 1996, by about 4 per cent from 196 million tons to 188 million tons. This decrease was mainly the result of poor and delayed harvests, low stocks and high prices. The high level of United States grain exports in 1995 left stocks at their lowest level ever in early 1996. Combined with the consequent high prices, this reduced United States export volume, bringing about a decline in the world seaborne grain trade. Towards the end of the year, there was a good harvest in the United States, with prices falling and export volume improving.

73. Trades for handy-size and handymax dry bulkers were rather sluggish in 1996, with a low rate of handymax scrapping and over 150 newbuildings below 50,000 dwt delivered. In addition, Chinese domestic steel production increased considerably, reducing drastically imports of steel, which had been one of the most important commodities for handy-size tonnage. A reduction in fertilizer shipments from the Black Sea to the Far East was also recorded.

Dry bulk freight rates

74. Whereas total dry bulk shipping in 1996 decreased by 1.3 per cent in ton-miles, the fleet of bulk and combined carriers increased by 2.9 per cent to 273.6 million dwt and the pure bulk carrier fleet increased by 5.0 per cent to 254.0 million dwt. Lay-up of bulk and combined carriers marginally increased from 1.3 million dwt to 1.4 million dwt. Dry bulk accounted for 51 per cent of the cargo lifted by combined carriers in 1996, down from 71 per cent in 1995.

75. In the Atlantic coal trades, Hampton Roads/Rotterdam started the year at US\$ 5.90 per ton and then fell slowly to a low of US\$ 4.40 in August. Thereafter, there was a rather brisk improvement and the year ended as it had started at about US\$ 5.90 per ton. In the Pacific, rates were

more volatile, as the Asian economies showed greater strength than the European ones. Queensland/Rotterdam coal rates were more sensitive to European demand, moving from US\$ 9.25 per ton in January to US\$ 10.00 per ton in April. The rates remained stable until mid-year, when the steady flow of newbuilding deliveries combined with summer holidays brought the rate below US\$ 6.00 per ton. Intra-Pacific coal rates showed a closer reflection of Asian demand, with Queensland/Japan moving from US\$ 5.00 per ton in January to a peak of over US\$ 7.00 per ton in April, before dropping to below US\$ 4.00 per ton in mid-summer and then climbing back to US\$ 6.00 per ton by year-end. The Richards Bay/Rotterdam route gained in importance as volume rose. Rates started the year at US\$ 5.25 per ton and then rose to US\$ 7.00 per ton in April. They weakened steadily to below US\$ 5.00 per ton in August, before rallying during the last quarter to about US\$ 6.80 per ton.

76. The volatile grain market was clearly reflected by freight rates in major grain trades. The United States Gulf/Japan rates were down from nearly US\$ 30.00 per ton at the end of 1995 to US\$ 24.75 per ton by the end of February. Better weather and the start of the South American grain season pushed the rates for Japan up to US\$ 26.00 per ton by late April. Thereafter, a steady decline was experienced right through to September, when the rate levelled out at US\$ 19.00 per ton. The effect of the good 1996 crop in the United States and reduced grain prices were manifested in rates rising rapidly to end the year at US\$ 26.50 per ton. The United States Gulf/Continent showed a similar trend, falling from US\$ 14.00 per ton in January to US\$ 10.50 at the end of February, and rising to US\$ 13.00 per ton in April, before declining to a low of US\$ 8.25 per ton by September. The autumn rally in this trade brought the rate to nearly US\$ 16.00 per ton towards December.

77. In 1996 dry bulker time-charter trip markets, trips to the Far East for the most modern Capesize tonner started the year at US\$ 17,000 per day but declined slowly to US\$ 15,000 per day by June before dropping to about US\$ 12,500 per day in mid-summer. A slow improvement to US\$ 14,500

per day in October was recorded, before rates strengthened to nearly US\$ 16,500 perday by year-end. TransPacific routes showed greater volatility in the face of a continuous stream of new building deliveries. Rates fell to US\$ 11,000 per day in February, then rose to US\$ 16,000 per day in April, before declining steadily to US\$ 7,500 per day in September, and then rising back to over US\$ 15,000 per day by the end of December. Panamax time-charter trip activities were closely linked to grain demand. Grain trips to the Far East for modern vessels were worth US\$ 18,000 per day when 1995 ended, but declining grain volumes quickly pushed the rates down to US\$ 14,000 per day in May. There had been a drastic decline to US\$ 10,000 per day by September, before activated grain business pushed the rate back to US\$ 16,000 per day towards the end of the year. TransPacific round trips showed a similar trend, falling slowly from US\$ 12,500 per day in January to a low of US\$ 6,750 per day in September and climbing back to US\$ 12,250 per day in December.

78. Time-charter period activity was concentrated on the beginning and the end of the year, with very little interest specifically from the late first quarter to the early fourth quarter. In comparison with 1995, the number of reported period-fixtures of Capesize bulkers declined from 54 to 15 (by about 70 per cent), illustrating the lack of demand from the industrial carriers, which had in previous years supplemented their fleet by taking vessels on period-charter from the market. Several Republic of Korea and Japanese charterers took several Capesize vessels on time charter. The Capesize market remains the largest sector of the dry bulk shipping industry, mainly to satisfy demand for the carriage of iron ore and coal on comparatively long hauls. The one-year rate for modern 150,000 dwt bulkers was fixed at around US\$ 20,000 per day, reaching its lowest point of US\$ 11,500 per day in September-October before a small rebound to US\$ 14,000 per day by the end of the year. Panamax rates also reflected less interest in period-charters, specifically for the first nine months. Rates varied from US\$ 12,750 per day in January to US\$ 9,000 per day by late summer for very modern tonnage. The improved autumn grain market helped in regaining interest in this market segment and rates rallied up to US\$ 11,000 per day by late December.

79. Developments in dry bulk markets are also

Index (BFI). This index is weighted on the basis of reflected in the movements of the Baltic Freight the importance of the global major dry bulk trade routes. The composition of the index during 1996/1997 is as follows:

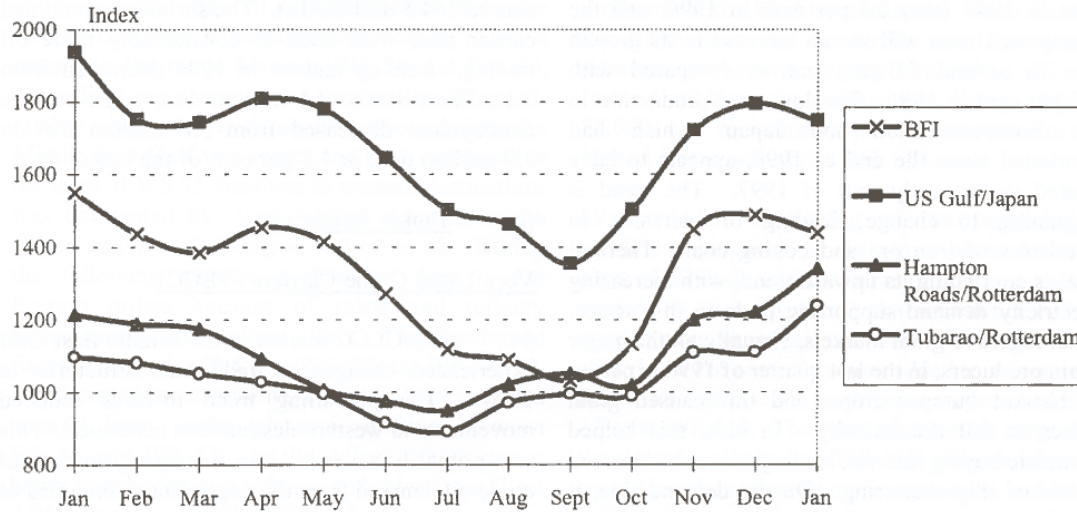
| <u>Route</u> | <u>Weighting</u> | <u>Commodity</u> | |
|--------------|-------------------------------|------------------|--------------|
| 1 | US Gulf-North Continent | Grain | 10 per cent |
| 1a | TransAtlantic round | T/c | 10 per cent |
| 2 | US Gulf-Japan | Grain | 10 per cent |
| 2a | US Gulf-Far East time charter | Grain | 10 per cent |
| 3 | US North Pacific-Japan | Grain | 10 per cent |
| 3a | TransPacific round | T/c | 10 per cent |
| 6 | H Roads-R Bay-Japan | Coal | 7.5 per cent |
| 7 | H Roads-Rotterdam | Coal | 7.5 per cent |
| 8 | Queensland-Rotterdam | Coal | 7.5 per cent |
| 9 | Far East to Nopac-Cont | T/c | 10 per cent |
| 10 | Tubarao-Rotterdam | Iron ore | 7.5 per cent |

Graph 11 shows the trend of the BFI and of selected trade routes for 1996/1997. The significant decline in dry bulk freight markets in the second and third quarters of 1996 sent freight indicators down to the bottom, particularly during a number of days in September when the BFI plummeted to under the critical 1,000 level. The unfavourable dry bulk market in 1996 could be attributed to an overall decrease in the growth rate of dry bulk cargo, specifically main bulk commodities, to 0.9 per cent as compared with 5.3 per cent the previous year, and in particular to unfavourable sectoral developments of trades, such as declining steel production, the consequent fall of iron ore and a temporary shortage of demand for grain.

80. Table 35 indicates the highest and lowest freight rates reported during 1995 and 1996 in selected major dry bulk trades. In 1996 high rates and low rates for the main commodities were down compared with the previous year. The range between the year's high and low rates increased only for grain in the United States (Gulf of Mexico)/Japan trade. This grain trade continued to show great variations throughout 1996, registering US\$ 28.00 at the beginning of the year and US\$ 13.35 in the third quarter. The lowest freight levels and narrowest margins were recorded in the Brazil/Continental Europe iron ore trade, with a high of US\$ 6.80 at the end of the first quarter and a low of US\$ 4.30 in the third quarter.

Graph 11

Baltic Freight Index and selected routes, 1996 and January 1997



Source: London International Financial Futures and Options Exchange.

Table 35

Comparative freight rates for selected commodities, 1996 versus 1995

| Commodity | Route | Freight rate range | | | |
|-----------|--------------------------------------|--------------------|-------|-----------------|-------|
| | | 1996 (US\$/ton) | | 1995 (US\$/ton) | |
| | | High | Low | High | Low |
| Grain | Mississippi/Venezuela | 21.00 | 12.50 | 25.00 | 15.50 |
| Grain | United States (Gulf of Mexico)/Japan | 28.00 | 13.35 | 37.50 | 25.40 |
| Coal | Hampton Roads and Richards | 12.75 | 11.25 | 18.50 | 12.60 |
| Coal | Bay/Japan | 8.25 | 4.95 | 11.25 | 8.00 |
| Ore | Richards Bay/Continental Europe | 11.00 | 8.00 | 13.85 | 9.25 |
| Ore | Brazil/Japan | 6.80 | 4.30 | 11.25 | 6.20 |
| | Brazil/Continental Europe | | | | |

Source: Drewry Shipping Consultants Ltd. (London), *Shipping Statistics and Economics*, 1996-1997, various issues.

Market prospects

81. In 1997, output growth in developed market-economy countries is expected to continue at the 1996 level, stabilizing at 2.3 per cent. In the United States it is expected to increase to 2.9 per cent in 1997 from 2.5 per cent in 1996, and the European Union will see an increase in its growth rate to around 2.0 per cent as compared with 1.5 per cent in 1996. The low steel production in the European Union and Japan, which had continued since the end of 1996, appears to have abated in the early part of 1997. The trend is beginning to change, leading to increases in purchases of iron ore and coking coal. Thermal coal is continuing its upward trend, with increasing electricity demand supporting trade in this sector. With regard to grain markets, virtually all the major grain producers, in the last quarter of 1996 expected to harvest bumper crops, and this caused grain prices to fall dramatically. In turn, this helped stimulate buying interest, leading to much improved levels of ship-chartering. On the demand-side, it would seem that the recovery in the market is set to continue, with economic growth trends which will impact particularly on iron ore and coal trades throughout 1997. On the supply-side, however, the unfavourable supply/demand balance in the dry bulk trade will continue to hamper upward movements.

F. Oil and oil products seaborne freight market

(a) Oil and oil products seaborne trade

82. World crude oil production increased by 2.8 per cent to 65.9 million barrels per day in 1996, while OPEC output grew by 1.7 per cent to 27.2 million barrels per day. Consequently, in 1996 the volume of seaborne crude oil trade increased by 2.5 per cent to 1,450 million tons from 1,415 million tons in 1995, with most of the export growth coming from non-OPEC sources. At the same time, the average transport distance for crude oil decreased. As a result, demand for tanker shipping in terms of ton-miles, increased only marginally to 7,400 billion ton-miles in 1996 from 7,375 billion ton-miles in 1995. Oil product shipments in 1996 increased by 3.7 per cent from 381 million tons to 395 million tons, mainly because

of increasing imports by countries in South-East Asia, the Far East (including Japan) and the United States.

83. International shipments of crude oil and oil products in 1996 increased by 0.9 per cent in terms of ton-miles, whereas the fleet increased by 1.2 per cent to 264.5 million dwt. The shrinking combined carrier fleet went back to considerably more oil trading. Laid-up tankers in 1996 decreased from 3.1 million dwt to 2.1 million dwt, while storage employment decreased from 5.6 million dwt to 3.9 million dwt, or 1.5 per cent of the tanker fleet.

(b) Tanker freight rates

Very Large Crude Carriers (VLCC)

84. The VLCC market in the Middle East Gulf experienced changes in trade-route structures in 1996. The prevailing trend towards reduced movements to western destinations continued. This was primarily a result of an increasing amount of crude oil demand from the expanding economies of Asian nations such as the Republic of Korea, China, Taiwan Province of China, Thailand and the Philippines. It also reflected the fact that many of the refiners in Western Europe and the United States preferred the cheaper transportation costs incurred in the shorter-haul trades from West Africa, the North Sea and Venezuela. While the United States imported a total of 7 million barrels of crude oil daily in 1996, which was a five-year record, only 1.5 million barrels daily were imported from the Middle East Gulf, representing the lowest level in 16 years. European imports from this region also decreased for the third consecutive year.

85. The number of VLCCs fixed for western destinations was down to 256 in 1996, after 360 ships in 1994 and 310 in 1995. Conversely, fixtures increased steadily from the Middle East Gulf to South-East Asia and the Far East, showing about 510 VLCCs in 1994, 575 in 1995 and 662 in 1996.

86. The yearly average rates in 1996 to the West were in the low WS 50s. Those for the Far East varied from WS 60 to WS 65. The decline in westbound traffic with VLCCs was, however, partially offset by more regular use of VLCCs on

the Atlantic routes. There continued to be frequent charter of VLCC tonnage in the Atlantic trades, primarily from West Africa and the North Sea. In 1996 there were 196 VLCCs fixed from West Africa and 62 from the North Sea.

87. Between end-1995 and mid-March 1996, about two-thirds of all VLCC fixtures from the Middle East Gulf were eastbound, helping to boost rates into the range between WS 58 and WS 70, depending on demand and availability of good-quality units. While demand westbound from the Middle East Gulf was scarce and rates continued at the level of WS 55, business to western destinations was dominated by West African demand, which stayed active with fixing at WS 62 to 68. During the following months, a dramatic drop in Far Eastern orders because of relets and refinery maintenance had a severe effect. Thus eastbound fixing dropped off from WS 70 to WS 47-50. Westbound business from the Middle East Gulf had already been under pressure, drifting between WS 43 and WS 53. In the Atlantic there was a better supply/demand balance and rates from West Africa remained within WS 62-68. After slow business, eastbound demand from the Gulf revived markedly in early summer and pushed rates well into the WS 70s for modern vessels. These improved conditions spread to the westbound trades, where the numbers of fixtures inched up to WS 55-60. In West Africa a shortage of ships and increased demand pushed rates up to WS 70. In late summer, slow demand and a large amount of VLCC tonnage enabled charterers to push the Middle East Gulf eastbound market down to WS 47-53. Westbound business was also sluggish, but numbers improved from WS 40s to WS 50-53. On the other hand, West African fixing continued in WS 65-68 for usual western destinations. When the fourth quarter began, a revival of Japanese and Republic of Korea business provided fresh momentum and freights climbed back to even WS 65 for preferred units (see table 36).

Medium-size crude carriers

88. Suezmax vessels had another year of good business in 1996. The 1996 principal market for this size vessel was in the trade from West Africa, where Nigerian oil production accelerated, greatly exceeding the country's OPEC quotas. The average rate for fixtures from West Africa to the United States in 1996 was in the low WS 90s,

which compared very favourably with an average in the WS 80s for the previous year. Aframax vessels also had a better market in 1996. Aframax trading in the Atlantic received the added benefit

of the declining number of VLCC liftings to the West from the Middle East Gulf as refiners secured more crude oil in the Mediterranean, the North Sea and the Caribbean. In the North Sea, the average Aframax market was slightly better than WS 110. In the Caribbean, the average rate during 1996 for 75,000 ton movements from Venezuela to the United States was about WS 140.

89. At the beginning of the year, bullish conditions prevailed in the major areas for these sizes of oil trade as the volume of business enabled owners to push up rates. An occasional lack of good-quality tonnage combined with a hardening attitude on the part of owners added to this upward trend. Suezmax for West African cargoes had rates of up to WS 110. The rates of Aframax cargoes in the Atlantic climbed to WS 150. These increases spread to other oil-trade areas. Since the end of the first quarter, softer conditions for Suezmax vessels were evidenced by slower turnover in West Africa, where freights slid to WS 95-100. Steadily softening rates for Aframax in the North Sea pushed the market down to WS 120s. The Mediterranean market for Aframax failed to preserve the previously established WS 150 level, thus eroding to WS 105-120. The Caribbean market also slid with slack demand to WS 120s. As the summer season in the Northern Hemisphere began, the market for Suezmax tonnage in West Africa started slowly, with rates sliding to WS 80-90, depending on the quality of vessels. The main Aframax market experienced a slump to WS 95-105. While firm conditions for Aframax prevailed in the Mediterranean with rates up to WS 120, Caribbean business dropped to WS 115-120. In the middle of the third quarter, there was a two-tier market for Suezmax, which kept freights for modern units at WS 90 or better to the United States, while the 1990s-built units accepted rates around WS 70. As the months passed, this discrepancy narrowed as modern vessels were forced to accept below WS 90 and older ones managed to obtain the low WS 80s. Despite a fair amount of overall Aframax business, the Mediterranean market experienced a further but slight setback to WS 95-100. The Caribbean market showed only a slight fluctuation within the

Table 36

Tanker freight indices, 1994-1997
(Monthly figures)

| Period | Tanker freight indices a/ | | | | | | | | | | | | | | | | | | | |
|----------------|---------------------------|------|------|------|----------------------------|------|------|------|----------------------------------|------|------|------|------------------|------|------|------|------------------|------|------|------|
| | VLCC/ULCC | | | | Medium-size crude carriers | | | | Small crude and product carriers | | | | Handy-size clean | | | | Handy-size dirty | | | |
| | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 | 1994 | 1995 | 1996 | 1997 |
| January | 34 | 53 | 61 | 59 | 89 | 105 | 120 | 114 | 144 | 155 | 158 | 164 | 221 | 226 | 228 | 256 | 171 | 170 | 178 | 198 |
| February | 37 | 48 | 67 | 58 | 88 | 99 | 120 | 109 | 131 | 146 | 154 | 156 | 219 | 216 | 230 | 238 | 175 | 163 | 202 | 201 |
| March | 38 | 50 | 61 | 62 | 88 | 101 | 114 | 120 | 126 | 142 | 178 | 201 | 204 | 215 | 233 | 223 | 172 | 159 | 228 | 194 |
| April | 37 | 45 | 49 | 52 | 94 | 95 | 117 | 110 | 125 | 140 | 161 | 182 | 199 | 187 | 221 | 214 | 169 | 176 | 210 | 181 |
| May | 34 | 45 | 57 | 63 | 89 | 101 | 114 | 111 | 126 | 145 | 153 | 183 | 183 | 211 | 212 | 203 | 176 | 217 | 215 | 203 |
| June | 38 | 56 | 67 | 64 | 92 | 95 | 106 | 107 | 130 | 147 | 160 | 173 | 189 | 218 | 204 | 181 | 185 | 217 | 241 | 186 |
| July | 46 | 63 | 70 | | 89 | 108 | 101 | | 124 | 145 | 136 | | 182 | 213 | 181 | | 199 | 214 | 217 | |
| August | 48 | 64 | 63 | | 93 | 107 | 101 | | 134 | 148 | 139 | | 186 | 204 | 180 | | 202 | 192 | 185 | |
| September | 45 | 54 | 54 | | 97 | 100 | 98 | | 142 | 135 | 133 | | 196 | 189 | 174 | | 200 | 166 | 212 | |
| October | 48 | 49 | 55 | | 102 | 101 | 110 | | 153 | 143 | 138 | | 199 | 207 | 197 | | 189 | 175 | 198 | |
| November | 48 | 61 | 60 | | 118 | 97 | 108 | | 173 | 132 | 148 | | 215 | 215 | 187 | | 209 | 163 | 190 | |
| December | 52 | 61 | 57 | | 116 | 103 | 107 | | 176 | 137 | 166 | | 251 | 234 | 234 | | 184 | 162 | 188 | |
| Annual average | 42 | 54 | 60 | 60 | 96 | 101 | 110 | 112 | 140 | 143 | 152 | 177 | 204 | 211 | 207 | 219 | 186 | 181 | 205 | 194 |

Note: All indices have been rounded to the nearest whole number.

a/ Compiled and published by Lloyd's Ship Manager. Worldscale = 100, as effective in each year. For tankers, vessel size groups are as follows: VLCC/ULCC: 150,000 dwt upwards; medium-sized crude carriers: 60,000-150,000 dwt; small crude and product carriers: 30,000-60,000 dwt; and handy-sized clean and dirty tankers: below 30,000 dwt.

WS 115-120 range. As the fourth quarter began, market conditions for Suezmax were encouraging and a steady flow of orders gave the market a sizeable boost, with rates up to WS 110. The North Sea Aframax market also saw a favourable level up to WS 110s, at which a fair number of fixtures were arranged for short hauls (see table 36).

Small crude and product carriers

90. Since March 1996, the overall market rates for this size (see table 36) improved as the Caribbean business paid above WS 200. The Mediterranean/United States trade also paid an improved WS 150, and the North Sea/United States WS 135-145. After July, Caribbean business for 60,000 ton vessels widely fluctuated between WS 130s and WS 160s. The North Sea and Mediterranean markets settled around WS 130. As in the fourth quarter, owners managed to secure gains of up to WS 175 for 50,000 ton cargoes in the Caribbean market, and North Sea trade to the United States paid up to WS 140-150 (see table 36).

Handy-size dirty carriers

91. In March the overall markets for this size improved, led by North Sea activities, increasing freights for the 25,000 ton size to WS 260s for short trips. In the Mediterranean, WS 160-175 were paid for 30,000 ton size and WS 190s for 25,000 tonners. After dropping in August, the North Sea market picked up again and reached WS 230s for the most popular 25,000 ton size on short hauls. In the Mediterranean, 30,000 ton class vessels managed to fix at around WS 200 to the United States. A moderate downward movement persisted throughout the fourth quarter, but rates picked up again in early 1997 and a favourable trend continued well into spring (see table 36).

Handy-size clean carriers

92. After a positive start to the year, the market for handy-size clean carriers deteriorated and reached its low in the third quarter of 1996, when the general rate levels remained depressed at around WS 170 despite regional market improvements. The generally negative market perception was based on continuing low demand in the Caribbean trades. An active month of October,

with fair trading in several market segments, saw the Middle East Gulf market improve slightly for 50,000-60,000 ton cargo to the Far East, paying up to WS 180 depending on options. Similarly, Indonesian trades developed favourably. In the smaller 30,000 ton class, rates from the Middle East Gulf to the Far East were as high as WS 270. In the same size group, Caribbean trades speedily recovered to WS 220 after plunging to the WS 180s in previous months. The Mediterranean picked up to WS 180s for 30,000 tons on short hauls. Despite the high level of activity in the North Sea/United States trade, freights continued to fluctuate within the WS 130-170 range for 30,000-35,000 ton vessels (see table 36).

(c) Period-charter market

93. Only a limited number of period-charter contracts were concluded in 1996, resulting in slight market improvements. The majority of contracts were limited to one year - a clear sign of shipowners' optimism for upcoming years. Average time-charter rates for modern double-hull VLCCs increased in 1996 from US\$ 25,000 to around US\$ 30,000 per day for 12-24 months. VLCCs built in the 1970s were chartered at between US\$ 15,500 and US\$ 18,000 per day for 12 months. Improved spot rates in the Suezmax market were reflected in better time-charter rates. In general, the Suezmax period market was more active than in previous years, with an average of US\$ 20,000-22,000 per day over 12 months for a modern tonnage. The Aframax market also enjoyed improved time-charter rates throughout the year. Modern double-hull units secured around US\$ 19,000 per day for 12 months. While single-bottom, modern vessels received rates of between US\$ 17,500 and US\$ 18,500 per day for one year, early 1980s-built vessels were employed at rates of between US\$ 14,000 and US\$ 15,000 per day for the same period.

(d) Market prospects

94. Oil companies' downsizing of their fleets has reportedly been accelerating. This will eventually increase charterers' dependence on independent shipowners. Orders for new tankers have decelerated. At the beginning of December 1996, only 22 VLCCs, 31 Suezmax and

42 Aframax tankers were scheduled for delivery by the year 2000. On the other hand, comparatively fewer tankers were scrapped in 1996, representing 6.55 million dwt. In the first 11 months of that year, only 14 VLCCs (30 units throughout 1995), 7 Suezmax and 6 Aframax went for demolition. The North Sea and other oil-producing countries close to the large consuming areas increased their output late in 1996. This trend will continue. World oil demand will grow by almost 3 per cent or 2.1 million barrels per day to 73.8 million barrels per day in 1997, and non-OPEC production will increase by as much as 2.0 million barrels per day. Furthermore, within OPEC, growing exports from Venezuela and African States will have an adverse effect on the ton-mile development and the demand for crude tankers.

G. Estimates of total freight costs in the world

95. The world total value of imports (c.i.f.) increased further by 15.39 per cent in 1995 from the previous year, while world total freights paid for transport services rose by 12.77 per cent. Table 37 indicates estimated total freight payments for imports and the percentage of total import value by country groups. World total freight payments as a proportion of import value had been on a downward trend from as high as 6.64 per cent in 1980 to 5.27 per cent in 1995 (see also graph 12).

96. The relative level of freight costs incurred in the import trades of developing countries continued to be nearly twice as high as that of developed market-economy countries. The difference between the two groups is mainly attributable to differences in trade structures, regional infrastructure facilities and distribution systems, and the more influential shipping strategy of shippers of developed market-economy countries when negotiating with shipowners or liner conferences/operators for larger cargo volumes. Notwithstanding this general tendency, there is also a large variation in freight cost ratios among the developed market-economy countries. Among those countries whose total c.i.f. import value exceeded US\$ 100,000 million in 1995, Canada, the United Kingdom and Germany incurred relatively low freight costs of 2.40, 2.40 and 2.68 per cent respectively. The United States and France recorded moderate rates of 3.51 and 3.24 per cent respectively, while Japan paid as high as 8.13 per

cent. This high rate can be primarily explained by geographical and structural factors of import trade, but to some extent also reflects relatively higher charges for distribution, including cargo-handling activities in ports.

97. The overall ratio of freight charges of developing countries declined almost yearly from 1980 to 1994, as did that of developed market-economy countries. However, in 1995 it rose to 8.30 per cent from 8.25 per cent in 1994. Within the group, Africa showed a higher ratio of 11.44 per cent in 1995, as compared with 11.05 per cent in 1994. West Africa and East Africa incurred higher freight costs at 13.81 and 13.70 per cent respectively, while North Africa was charged at 8.95 per cent, which is slightly higher than the developing countries' total (8.30 per cent). The majority of African land-locked countries paid a comparatively greater amount of freight charges: Malawi paid 39.41 per cent, Mali 29.57, Chad 25.54, Burkina Faso 21.67, Zambia 16.42, Niger 14.53 and Zimbabwe 12.85 per cent.

98. In 1995, Asia accounted for 66 per cent of the total freight costs and 69 per cent of the total value of imports of developing countries. The freight factor rose slightly to 8.03 per cent as compared with 7.97 per cent in 1994. West Asia paid 8.97 per cent, with Iran paying the highest (13.59 per cent). South and East Asia incurred 7.89 per cent. Among major importing countries in this group, the Republic of Korea and Singapore paid relatively low levels of freight costs (5.22 and 5.58 per cent respectively), while Malaysia and Thailand incurred freight costs as high as 9.36 and 9.60 per cent respectively. India and Indonesia incurred the highest freight costs - 10.32 and 10.55 per cent respectively. These variations can be explained by differences in trade and shipping patterns, particularly in the liner sector.

99. With 7.89 per cent in 1995, developing countries in America registered the most favourable relative freight factor of all developing countries. Within this region, Central America had the lowest freight factor (5.82 per cent). This favourable rate reflects the fact that Mexico, the major trading nation in the subregion, had a freight factor of only 4.42 per cent.

Table 37

Estimates of total freight costs in world trade a/ by groups
(Millions of US dollars)

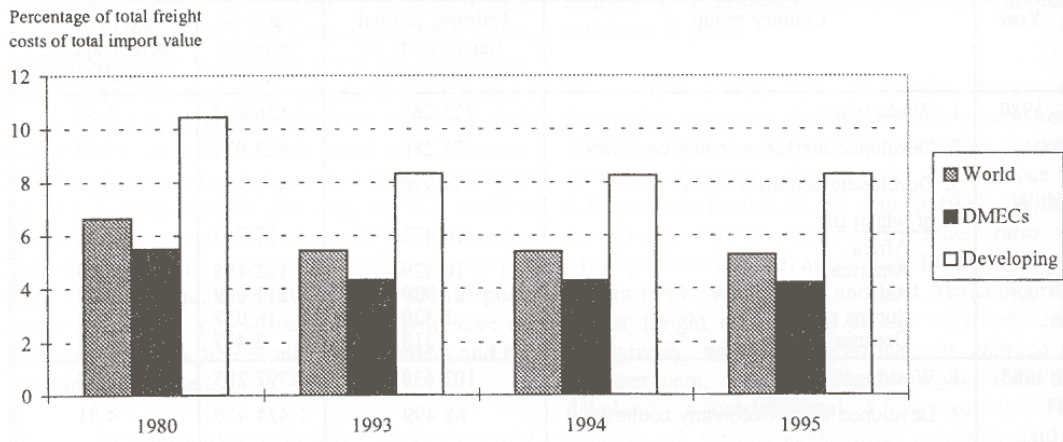
| Year | Country group | Estimate of total freight costs of imports | Value of imports (cif) | Freight costs as percentage of import value |
|---------|---------------------------------------|--|------------------------|---|
| 1980 | 1. World total | 123 264 | 1 856 834 | 6.64 |
| | 2. Developed market-economy countries | 78 286 | 1 425 979 | 5.49 |
| | 3. Developing countries - total | 44 978 | 430 855 | 10.44 |
| | <u>of which in:</u> | | | |
| | Africa | 10 432 | 77 757 | 13.42 |
| | America | 10 929 | 123 495 | 8.85 |
| | Asia | 21 979 | 211 089 | 10.41 |
| | Europe | 1 320 | 16 037 | 8.23 |
| Oceania | 318 | 2 477 | 12.84 | |
| 1985 | 1. World total | 103 638 | 1 792 285 | 5.78 |
| | 2. Developed market-economy countries | 68 499 | 1 424 420 | 4.81 |
| | 3. Developing countries - total | 35 139 | 367 865 | 9.55 |
| | <u>of which in:</u> | | | |
| | Africa | 5 813 | 51 576 | 11.27 |
| | America | 6 825 | 81 259 | 8.40 |
| | Asia | 21 162 | 219 956 | 9.62 |
| | Europe | 1 074 | 12 919 | 8.31 |
| Oceania | 265 | 2 155 | 12.30 | |
| 1994 | 1. World total | 219 317 | 4 063 338 | 5.40 |
| | 2. Developed market-economy countries | 125 252 | 2 922 810 | 4.29 |
| | 3. Developing countries - total | 94 065 | 1 140 528 | 8.25 |
| | <u>of which in:</u> | | | |
| | Africa | 10 660 | 96 453 | 11.05 |
| | America | 17 438 | 219 350 | 7.95 |
| | Asia | 64 156 | 805 203 | 7.97 |
| | Europe | 1 331 | 15 600 | 8.53 |
| Oceania | 480 | 3 922 | 12.24 | |
| 1995 | 1. World total | 247 325 | 4 688 637 | 5.27 |
| | 2. Developed market-economy countries | 145 040 | 3 457 009 | 4.20 |
| | 3. Developing countries - total | 102 285 | 1 231 628 | 8.30 |
| | <u>of which in:</u> | | | |
| | Africa | 11 598 | 101 369 | 11.44 |
| | America | 20 305 | 257 505 | 7.89 |
| | Asia | 68 003 | 847 054 | 8.03 |
| | Europe | 1 728 | 20 445 | 8.45 |
| Oceania | 651 | 5 255 | 12.39 | |

Source: Derived from IMF c.i.f./f.o.b. factors and IMF import data.

a/ The estimate for the world total is not complete, since data for (1) countries that are not members of the IMF, (2) countries of Central and Eastern Europe and republics of the former Soviet Union, and (3) socialist countries of Asia are not included for lack of data and other reasons.

Graph 12

Estimates of total freight costs in world trade by groups



Source: Table 37.