

Ro-ro Shipping

Lack of transparency in bunker adjustment factors can mean a difference of between \$1,500 and \$2,000 per unit, requiring a change in business model for many shippers to stay competitive



ROGER HAILEY

BUNKERS and their adjustment factors share a common characteristic: neither is renowned for transparency.

Any ro-ro operators with a sizeable share of the so-called 'high and heavy' market — transporting large-scale agricultural and construction machinery — should note their business faces a potential threat from the dreaded onslaught of containerisation, spurred on by baffling BAFs.

This can only get worse, if new sulphur limits in bunkers from 2015 force a 75% rise in vessel fuel costs. The complexity of BAFs can only become a greater source of disagreement between shippers and the lines.

The warning over ro-ro cargo switching to containers was the main message from UK-based JCB, a major high and heavy shipper, at the Association of European Vehicle Logistics (ECG) 'cost versus strategy' conference in Paris.

Johannes Van Osta, JCB general manager, group transport and logistics, warned a lack of transparency on maritime bunkers was forcing JCB to consider a "design for logistics" strategy in its product range that would see more and more loads transferred from ro-ro to boxships.

For a 10-tonne excavator, the BAFs can make a difference of between \$1,500 to \$2,000 per unit and JCB is prepared to "go through some hassle" in order to make its product competitive in the local market.

Mr Van Osta drew comparisons with the trucking sector, where JCB has come to a "fairly straightforward" agreement with its road-based suppliers.

"We have opened up the books and have a very fair mechanism to adjust fuel costs up or down,



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Soaring fuel costs force ro-ro shippers on to containers

depending on the market, even on a monthly basis, to avoid any longer-term risk for either party.

"In a shortsea and ro-ro-style environment, there is not that openness and there is also not always that logic.

"If you look at a [ro-ro] company's balance sheet and say what is your total turnover, what are your total costs and how much fuel do you typically buy in, it is usually between 25% and 30% in the European environment, whereas in the Middle East, people are charging 60% BAFs. How can you justify that?"

JCB is a \$3.2bn turnover company, which last year produced 51,000 machines — in pre-recession 2007 it made 72,000 units — which range from an 800 kg piece of kit to a 50-tonne monster that is 4 m wide and 30 m in length.

Mr Van Osta estimates the

global construction equipment market will see 1.1m units produced this year, with China's building boom accounting for 55% of the market.

He said both parties in maritime high and heavy need to be "brave enough" to look at the BAF dynamics and to discuss them in an "open and constructive environment" with facts and figures to which people can relate and which are "realistic".

Those discussions will have to include an analysis of the base rates charged by the shipping lines: "Sometimes your base rates have been historically kept low, because that is what people focus on, and you have been playing with your surcharges. And if you don't come clean, there it is going to be a very difficult discussion.

"With some carriers, we have very good discussions, also in the

ro-ro-style environment — but there are a number of carriers who are closing off from that style of discussion."

In the question and answer session, the JCB logistics boss said if the proportion of genuine bunker costs are "taken out of the equation" and a formula agreed, then the partners can focus on in optimising the total chain.

"It is very important that we come to the right solution. That is challenge we have with these types of environments and we are tackling them."

Failure to find an equitable solution will see JCB and others look at more "creative solutions".

"Traditionally, we used to ship 20-tonne or 30-tonne pieces fully built up on a ro-ro vessel. I do not like disassembling a fully-assembled machine, putting bits

and pieces into containers and then shipping the base unit on a ro-ro vessel because that is cheaper," Mr Van Osta said.

"But we are containerising more and more. Is that because we like it? No, it is because we are being forced into that by the landed cost."

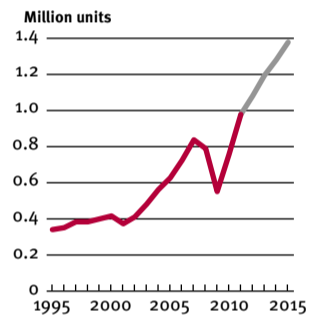
As JCB engineers look at the range of construction equipment, the requirements of the global logistics chain, vis a vis the landed cost, are being included in the new product design process.

"It is seen more and more as an important factor. Shipping prices are going up longer term, we are convinced about that. It used to be designed for manufacture and although that is still very important, there is now design for logistics."

One audience member asked what timescale JCB was looking at in terms of container rates — in other words, was it based upon the current short-term benchmark, when box rates are unsustainably low, due to intense competition?

Mr Van Osta said the rate comparison goes back as far as 2008 and he recognised the ro-ro market has the plus point of relatively stable rates, when compared to the container sector, which he described as a "commodity-driven market".

WORLD CONSTRUCTION EQUIPMENT MARKET



Source: World Market Analysis

He said: "That is one concern about containerisation: how stable is it? I have certain numbers in my head. Is this a sustainable rate for the future? For instance, I know that a 40 ft box for \$1,000, all in, is not sustainable.

"The risk is that people are opportunistic and will go for short-term gain. But you have to make sure you don't damage the relationship with your ro-ro carriers for the future. So this is not a short-term, opportunistic approach." ■

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Johannes Van Osta
JCB general manager, group transport and logistics

John Deere looks to seal long-term ro-ro relationships

LONG-TERM contracts with ro-ro lines, capacity planning for ships and ports, and the benefit of a fourth party logistics provider: just some of the items on the supply chain agenda of John Deere, the US-based agricultural equipment giant, writes Roger Hailey.

John Deere's global logistics manager for Europe, Africa and Middle East, David Panjwani, was another key shipper speaker at the 'high and heavy' session of the Association of European Vehicle Logistics 'cost versus strategy' conference in Paris. In the ro-ro versus container debate, he shared the stage with JCB's Mr Van Osta.

Mr Panjwani said the group has a central management of logistics

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David Panjwani
John Deere global logistics manager for Europe, Africa and Middle East



worldwide, choosing to work with a few ro-ro carriers and concentrate volumes at selected ports.

Mr Panjwani said: "We weigh the risk between ro-ro and the flat-rack of a container carrier, but that comes with some challenges, even though there are cost savings, but we manage our performance.

"We recognise that our volumes are not necessarily flat throughout the year and not necessarily flat from one year to the next. So with that in mind, we have to make sure we have capacity in place. That is when we talk to our carriers about specific volumes in ports.

"Some of our largest machines will not fit on a traditional flatbed

trailer, so it does require our carriers to invest in different types of specialised trailers. We are also sharing with our carriers longer-term forecasts to enable them to plan ahead."

Mr Panjwani stressed the collaborative approach, suggesting the high and heavy sector is becoming commoditised.

"With that mindset, we have to adjust our strategy to those considerations," he said.

"We have to assume in this segment, capacity will again get tight. We will assume ocean carriers will find a way to constrain capacity, whether it be slow steaming, or laying up vessels. Our mindset has to be longer-term.

"So there are things to consider. Should we have a one-year contract, or should we have a longer-term one in place?"

"We involve all of our carriers earlier in the process. Where our engineers are developing new designs, they will talk to us and we will speak to our carriers about the investment.

"Longer-term relationships are



John Deere: chooses to work with a few ro-ro carriers and concentrate volumes at selected ports.

about measuring everything. In former times, it was more transactional — let's move a load from A to B — but now it is much more sophisticated in how we measure our partners."

Mr Panjwani said John Deere

was considering whether a 4PL — a lead-logistics company brought in by a shipper to oversee and manage its other freight forwarder providers — could be introduced into the management chain.

"We like to contract directly

with our carriers, road transport or ocean, but we also see some value in putting another layer in, to pool some of those resources and some of those volumes to achieve a better result." ■

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