

## Maritime & Logistics Bulletin



### **BIG VESSELS ARE HERE, THE TIME LEFT TO ACT IS SHRINKING...**

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Dear friends,

We wanted to extend our wishes for a most prosperous 2016 and take this opportunity to give a brief update on some issues in the Latin American port industry and maritime transport sector.

In 2011, when we presented Sanchez and Perrotti: “Looking into the Future: Big Full Containerships and their Arrival to South American Ports”<sup>1</sup> at the IAME Annual Conference, the time span of the appearance of vessels averaging 13,000 TEU in South America was projected to be between 2016 and 2020. The great news was that on December 18, 2015, TCBuen, the Colombian terminal belonging to the Port of Buenaventura, received the largest container vessel ever to have operated in South America: the Maersk Edinburgh. Part of the AC2 service, this vessel is intended to connect China and South Korea with the Pacific Coast of Latin America, has a capacity of 13,102 TEU and measures 367 meters long and 48.2 meters wide.

Whether by chance, or not, the arrival of the first 13k TEU vessel to Latin America virtually coincides with the opening of the new set of locks on the Panama Canal, through which it could smoothly sail.

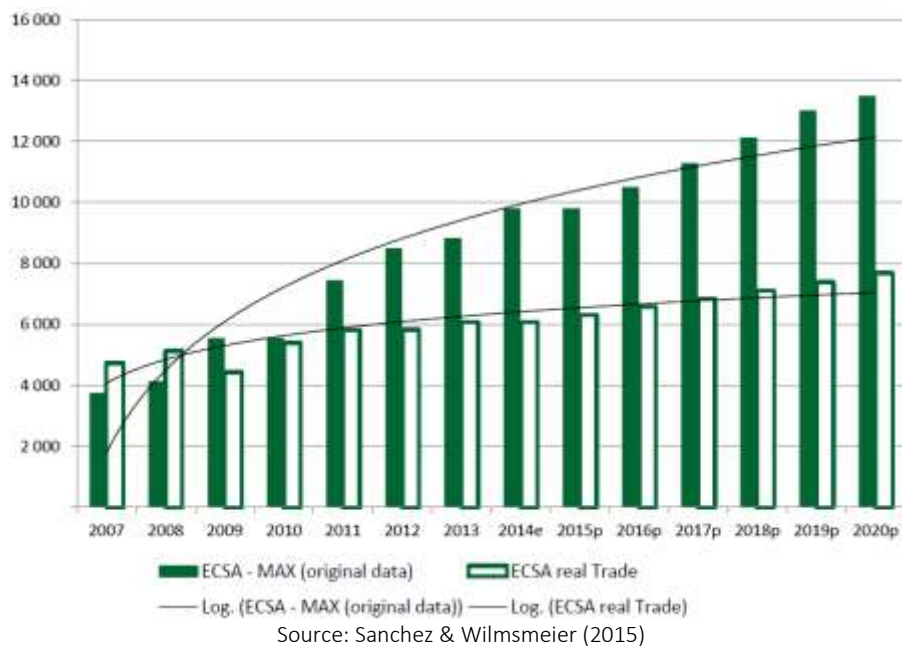
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<sup>1</sup> Sanchez, Ricardo J. and Daniel Perrotti (2012): Looking into the Future: Big Full Containership and their Arrival to South American Ports, *Maritime Policy and Management Vol. 39, No. 6*; pp 571-588. Taylor and Francis Ltd., Oxfordshire, UK.

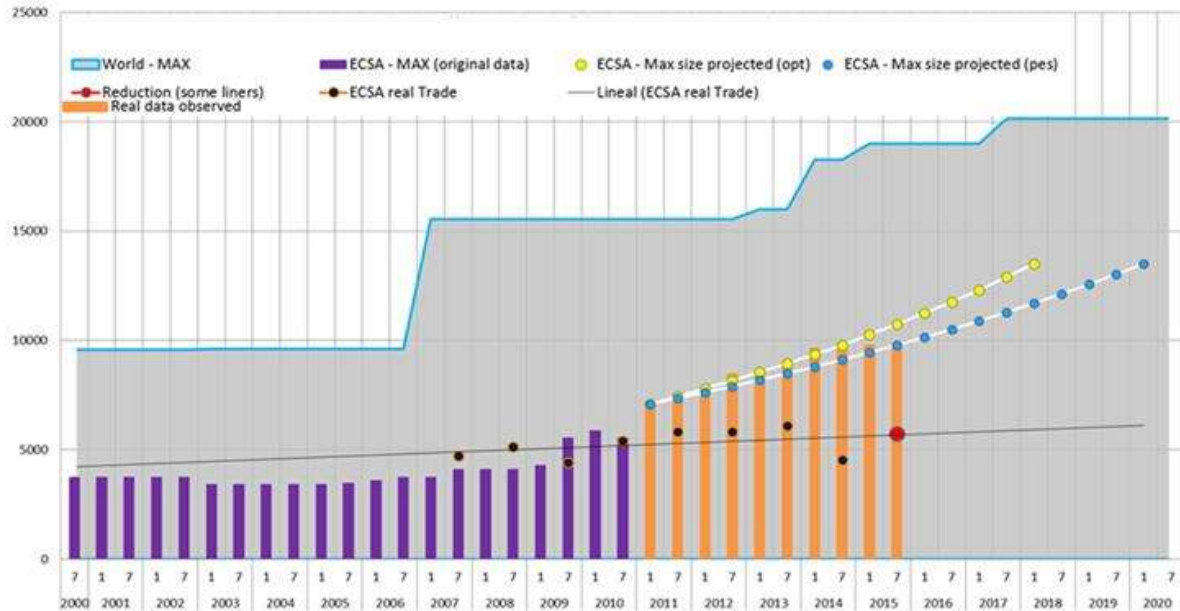
“Looking into the Future...” warned of the urgent need for an efficient medium-term plan for the port industry and logistics that could maximize the benefits of its impact on the regional economy. These findings were derived from modeling techniques as well as estimates throughout several sample periods. They led to the conclusion that ship size evolution in South America is continuing to advance at paces similar to those of the main trade routes and that the time span for their arrival is progressively decreasing, as demonstrated by the Maersk Edinburgh’s arrival.

The design and construction of increasingly larger vessels causes a ‘cascading process’ which affects the organization of maritime transport networks, toward longer distances and less port calls for larger ships. This, in turn, creates hierarchies within the port network—from international hub ports, and local gateway ports, for example. In the meantime, vessel sizes show no sign of slowing down. In spite of difficulties ranging from a trade slow down, fleet overcapacity, and plummeting freight rates, this post-2009 crisis context has cast serious doubts upon the traditional approach to shipping cycles and will be the topic of an upcoming paper.

There was a resounding break between trade evolution and the containership fleet growing process. As reflected in the following chart, there is no direct link between the evolution of trade and fleet size. The chart also makes it possible to highlight that the evolution of trade is not the primary explanation for the growth of containership fleets.



The following graph contains the forecasts made by Sánchez and Perrotti (2012), both the optimistic and pessimistic, as well as the evolution verified from 2011 on (orange bars) and the series which were used to calculate (purple bars).



Source: Sánchez, based on Sánchez & Perrotti, 2014, and Wilmsmeier, 2014, quoted in Sánchez & Wilmsmeier (2015)

Our forecast regarding the arrival of the vessels averaging 13,000 TEUS was almost exact, with the exception that vessels first arrived at WCSA and not ECSA (as originally projected). In 2016, WCSA will be the regular recipient of a 13,000 TEU (367 meters long) and up fleet, and ECSA is expected to receive the 350m fleet.

Today, our recommendations and considerations remain the same:

- ✓ The strategy of port-improvement plans must be aimed at accurately positioning several terminals and ports, as a system;
- ✓ Port planning needs a leap in quality and must be integrated in comprehensive public policies of logistics;
- ✓ Larger ships will make fewer stops, increasing the combination with feeder and other North-South services; a smaller number of ports will receive ships;
- ✓ A new hierarchy of ports will emerge;
- ✓ As a consequence, the process of inter-port competition should be progressively accompanied by a stronger cooperation between regional ports.

The increase in requirements for Latin America and the Caribbean ports requires investments which are separate from the expectations suggested by activity levels and will exacerbate an already intense competition between terminals and ports.

Given the non-relationship between technical change and the evolution of transport demand in quantitative terms, new challenges emerge for terminal operators, port authorities and government, and thus raise the following questions<sup>2</sup>:

- ✓ What is the role of the authorities in forecasting and adapting to the demands of the shipping industry?
- ✓ Are the authorities prepared and technically capable to lead the discussion?
- ✓ What would be an acceptable level of collaboration and concentration in the industry and what are some measures that could be taken to govern this global phenomenon?
- ✓ Should collaboration and competition in the port industry be seen as mutually exclusive?
- ✓ Can lessons be learned from other parts of the world?

The evolution in ship sizes is clearly indicating that economies of scale continue to form an important part of broader strategies in shipping. However, most terminals in Latin America and the Caribbean are not ready to receive larger vessels.

To meet the infrastructure requirements of the maritime industry, the question of how to finance the infra and superstructure needed to meet current industry demands inevitably emerges. We must ask: how suited are the current models of governance and existing port policies in the region to meet this challenge proactively? Is it possible to build future infrastructure under the current framework?

These challenges bear a complexity that goes beyond traditional discussions on the topic and reach well beyond the local and national scope. They require follow-up analyses, knowledge exchange and better practices in order to meet the challenges that will arise.

**The magnitude of changes, across all their dimensions, bears witness to the need for a thorough review of port governance, as well as new kinds of port leaders.**

**The time left to act is shrinking, there is no more time to waste.**

Sincerely,  
Ricardo J Sanchez

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<sup>2</sup> Sánchez, Ricardo J. and Gordon Wilmsmeier (2015): “Capacidad de contenedores en las rutas principales de América del Sur: los desafíos para el sistema portuario,” *Maritime and Logistics Bulletin 58*. ECLAC, Santiago, Chile, November.