Car Carrier

Like a Phoenix

Widespread logistical and supply chain disruptions drove the car carrier sector to what only 12 months ago was inconceivable, namely a return to pre-2008 market dynamics, characterized by scarcity of supply, firm demand for tonnage, and steadily rising charter rates and asset values.

AUTO ADVANCE
First in a series of three car carriers with dual-fuel Liquified Natural Gas (LNG) battery hybrid propulsion and approximately 30,600 square meters on 10 decks, equivalent to approximately 3,600 CEU with 2 hoistable decks. Delivered in November 2021 by Jiangnan Shipyard in China for United European Car Carriers (UECC) and operated by UECC.

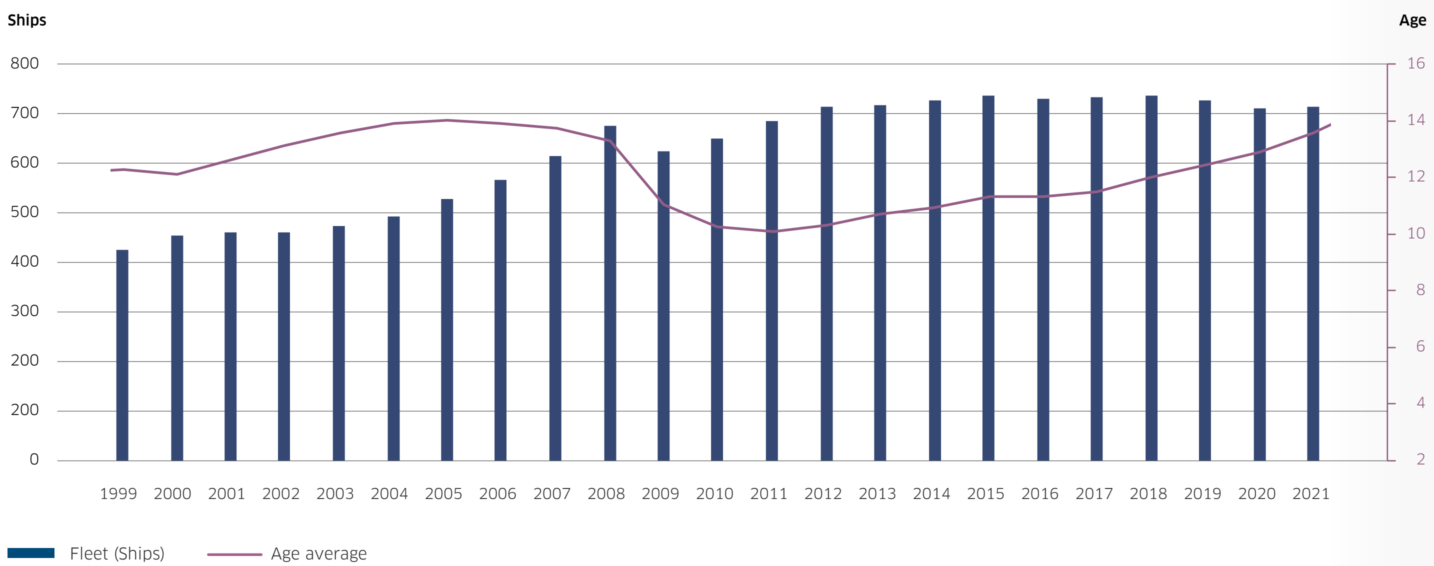
The sector, which for over a decade was under invested, marred by poor earnings and results, staged the greatest comeback in its history

CHARTERING ACTIVITY

At the end of the year, the time charter rate for a mid-size ship of 4,900 car equivalent units (CEU) had reached the mid-20s United States Dollars (USD) daily whereas that of a Panamax beam ship of 6,400 CEU was in the mid-30s USD daily. Naturally, these developments re-ignited investment appetite, first and foremost from a few of the sector's traditional tonnage providers [Eastern Pacific Shipping (EPS), Zodiac Maritime], but also from a few newcomers (SFL Corporation Ltd., H-Line Shipping), followed closely by a few of the leading operators (NYK, MOL, K Line). The sector, which for over a decade was under invested, marred by poor earnings and results, staged the greatest comeback in its history, literally rising from it's ashes like a phoenix.

Looking ahead, it is clear that – eventually – the logistical and supply chain disruptions will ease and return to normal. This should in turn release some pressure from the sector's current market dynamics, but not too much, since the bulk of the order book is scheduled for delivery in 2024 and until then the fleet is expected to shrink. In other words, space is due to remain tight for the next few years. During this time, the sector's next challenge on the road to sustainability is ensuring that the rise in charter rates is transferred to the shippers, namely the Original Equipment Manufacturers (OEMs), which for too long have dictated terms and benefited from rock bottom freight rates to transport their vehicles. On the demand side, downside triggers remain high with continued geopolitical tensions, inflationary pressures, recurring climate-related natural disasters, plus the possibility of another "black swan" event. With a bit of luck, however, this demand side volatility could be offset by the tight supply side.

Fleet and Average Age Evolutions



The Ongoing Anti-Trust Investigation

The sweeping investigation into the global car carrier price fixing scandal that has been ongoing since 2012 saw few developments last year. In February, Wallenius Wilhelmsen Ocean (WWO) was fined Australian Dollars (AUD) 24 million for criminal cartel conduct in Australia, a charge to which it had pleaded guilty a year earlier, marking an end to the investigation.

After nine years of penalties and convictions, we wonder whether we have seen the end of this unfortunate chapter.

It is clear that – eventually – the logistical and supply chain disruptions will ease and return to normal

*Pictures: **AN JI 32** ,car carrier with approximately 19,500 square meters on 9 decks, including 1 hoistable, equivalent to approximately 2,300 CEU. Delivered in September 2021 by CSSC Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd. in China and operated by Shanghai Ansheng Automotive Shipping.*

A staggering 44 units, equivalent to approximately 98% of this orderbook, are endowed with dual fuel liquified natural gas (LNG) propulsion

THE FLEET

Based on a capacity of 1,000 CEU and above, at the turn of the year, the fleet counted 713 vessels equal to just under 4.0 million CEU, with an average age of 14.2 years. It marks the second time in five years that the 4.0 million CEU threshold has not been breached – see graph *Fleet and Average Age Evolutions* (p142). Compared with 2020, the fleet eked out a rise of 0.6% year-on-year (Y-O-Y), capacity expanded by a mere 1.0% Y-O-Y, and the average age rose by approximately 13% Y-O-Y. This is the first annual growth over the past four years and only the second in the past five years, bringing the average over the past five years down by approximately -1.1% – see graph *Fleet Evolution* (p145). The overall orderbook ended the year at a whopping 45 units, representing approximately 6.3% of the current fleet, stretching out to 2025, and accounting for a total of approximately 309,000 CEU. The orderbook to fleet ratio almost trebled compared with 2020, attaining a level last seen in 2016 (6.8%). 42 units, or approximately 93% of this orderbook, are post-Panamax beam vessels, accounting for approximately 294,000 CEU, equivalent to approximately 95% of the CEU capacity on order. Most importantly, a staggering 44 units, equivalent to approximately 98% of this orderbook, are endowed with dual fuel liquified natural gas (LNG) propulsion, underlying the sector's embracing of this technology to cut greenhouse gas (GHG) emissions and to decarbonization. The single exception is the hull 514 (ex Siem Ashanti) from Uljanik Shipyard equipped with scrubbers, which was purchased by Neptune Lines, but was originally ordered by the Siem Group in 2014. Last but not least, 15 units are without committed employment upon delivery and are split between EPS with 9 units and Zodiac Maritime with 6 units.

A massive 41 new orders were placed during 2021, equivalent to approximately 274,000 CEU with an average intake of 7,000 CEU. This marks a 1,200% surge Y-O-Y. All 41 units are endowed with dual-fuel LNG propulsion. Spurred by a rapidly firming charter market, tonnage providers returned to shipyards around springtime and thereafter were quickly joined by operators. SFL, EPS, Wallenius Lines, MOL, K Line, H-Line Shipping, Shanghai Ansheng, Zodiac Maritime and NYK all placed orders respectively for four, nine, two, four, eight, two, two, six and two units. It marks an incredible turnaround from 12 months ago when speculative orders were a chimera. Of note is the order by Shanghai Ansheng, the first one by a Chinese operator for post-Panamax beam vessels.

*Picture: **GRANDE TEXAS**, car carrier with post-Panamax beam and with approximately 63,000 square meters on 13 decks equivalent to approximately 7,700 CEU with 4 hoistable decks. Delivered in January 2021 by Yangfan Shipyard in China to the Grimaldi Group and operated by Grimaldi Euromed.*

11 units were delivered during the year, accounting for approximately 61,000 CEU, with an average capacity of 5,500 CEU. While deliveries and CEU capacity increased by approximately 57% Y-O-Y and approximately 15% Y-O-Y, respectively, average capacity shrank by approximately 27% Y-O-Y because five units delivered were medium size capacity and two were small size capacity.

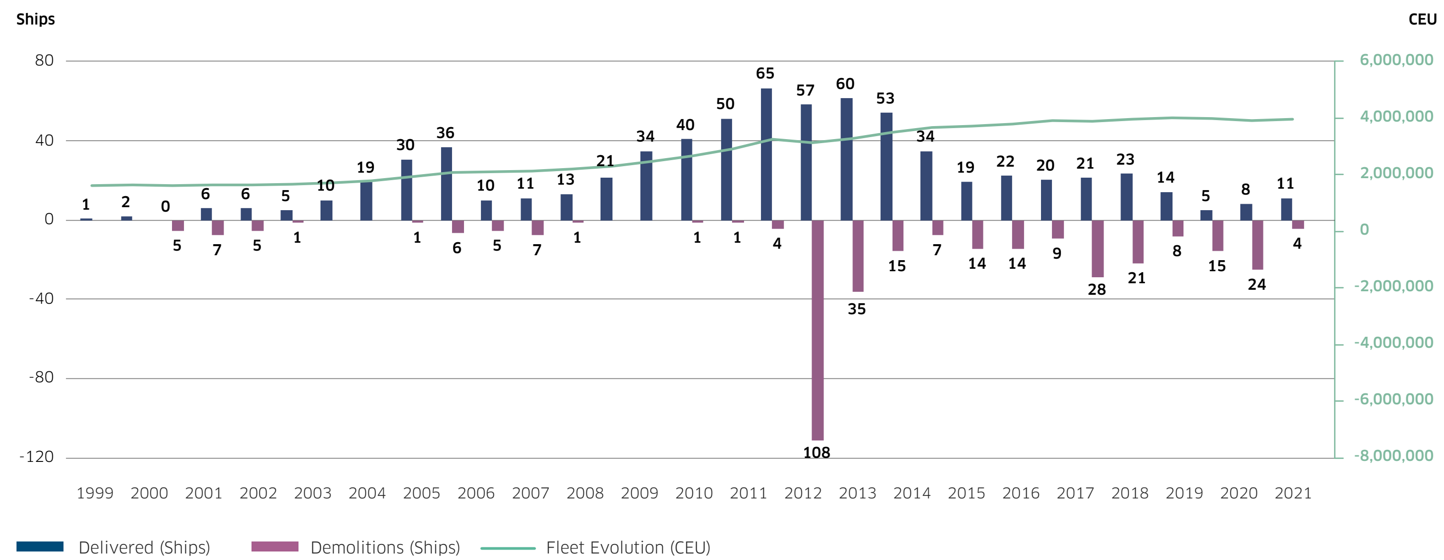
Two units saw their delivery dates deferred beyond 2021, accounting for approximately 7,200 CEU.

As the charter market reached pre-2008 levels and new orders exploded, demolition activity slumped with only 4 units plus 2 casualties, accounting for approximately 17,000 CEU. This was down approximately 75% Y-O-Y in terms of fleet and approximately 85% Y-O-Y in terms of capacity. The average age was approximately 21 years compared with last year's 23.

Looking ahead, 15 ships, or approximately 52,000 CEU, representing 2.1% of the current fleet, will be 28 years old and above in 2022. In 2023, 21 ships, or approximately 83,000 CEU, representing approximately 3.0% of the current fleet, will be 28 years old and above. If the prevailing market dynamics endure, it is likely that owners and operators will hold on to these vintage units as long as possible. However, the coming into effect on 1 January 2023 of the Energy Efficiency Existing Ships Index (EEXI) and Carbon Intensity Indicator (CII) could spoil such plans and force some owners and operators to opt for demolition rather than incur costly technical modification works as well as adopt painful operational changes to comply with these new regulations.

Sale & purchase activity surged for the second year in a row with 32 transactions, up 88% Y-O-Y. The average age was 14 years, and the average size was 4,800 CEU, for a total of approximately 152,000 CEU. The activity was dominated by arms' length sales, underlying a dramatic shift in investment appetite for the sector.

Fleet Evolution



New Orders vs. Average Demolition Age