

Feeder squeeze on the horizon



A feeder capacity shortage could emerge in the short to medium term, according to broker Braemar, as new regulations mix with geopolitics and the resulting economics of disruption.

Nick Savvides | Jul 01, 2024

As mainline vessels have increased in size, the demand for connecting services to cater for second line ports has also increased along with the sizes of ships that feed these ports.

Braemar research analyst Jonathon Roach argues that the orderbook for feeder vessels larger than 1,000 teu and up to 3,000 teu is insufficient to meet the demand going forward, given that there are few orders for the very small ships.

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The broker's figures show the orderbook for vessels in the 1,000-3,000 teu size range is well below the level of expected scrapping given the number of ageing ships in the fleet and the incoming environmental regulations that will impact all sectors in shipping.

"We divided the data into 1,000-1,999 and 2,000-2,999 teu, with a small variance to capture ships on the upper edges of the 2,999 teu range. For the 1,000-1,999 teu sector, 21% of the ships are aged 20 years or more. For the larger regional types 2,000-2,999 teu, 23% of the vessels are aged 20 years or more," explained Roach.

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Orderbook statistics for vessels in the 1,000-2,000 teu range are 109 vessels totalling 157,597 teu, according to consultant MDS Transmodal, and within the current fleet 1,701 vessels, 415 are over 20 years old. In the larger size range, the situation is much worse, with 240 ships from a total fleet of 875 currently over 20 years old and just 39 vessels on order.

To cope with this looming shortfall in feeder vessels, Roach said: "In the future we may see upsizing of feeders to 3,000 teu plus, but that is a long way off."

He added that operationally, the flexibility of smaller, traditional, feeders at hub ports is an advantage given that they are easier to handle and can be squeezed into quay space more easily than larger ships. Moreover, smaller ships have the flexibility to operate in ports where larger vessels are restricted by draught, turning circles and/or quay sizes.

Dynamar analyst Darron Wadey has analysed the feeder sector in detail and believes there could be significant consequences if there is a considerable shortage of the necessary feeder vessels.

Wadey, however, believes there are other solutions such as the creation of more direct mainline services to gateway ports currently served only by feeders.

“This is not only a way of employing mainline ships in times of overcapacity, as could happen if and when the Red Sea situation is solved, but also reduces the need for feeder ships. We saw the introduction of more mainline services, to an extent, around eight-10 years ago, although the other factor needed to make that work is low fuel prices, and I don’t think we’re there on that aspect,” he said.

Shifting vessels from one market to another is not really an option, said Wadey: “A shift of sorts [was] brought about by the sulphur emissions control areas in North America and North Europe. Both are stricter than the younger IMO 2020 regulations and both have led to investments in new and compliant vessels within these trades, leading to the introduction of LNG-fuelled vessels. North Europe is now even seeing other fuel types as methanol and, not too far away, ammonia.”

Roach added that slow steaming to meet CO₂ compliance will squeeze the supply further: “Regions without strict CO₂ compliance may offer an alternative to non-compliant and older ships, but this is a short-term view. Fleet renewal of ECO feeders will be required.”

Another option given the improvements in second line ports is relaying or interlining freight from hubs that are further away, according to Wadey.

“Think of how West Africa is still reliant upon interlining out of the Gibraltar hubs, the successful development of ‘in-theatre’ hubs such as Lomé, Tema and Abidjan notwithstanding. However, we believe that ‘in-theatre’ hubs with connecting spokes to local gateways are most likely more efficient from a network costings perspective at the least.”

Wadey also pointed out that building smaller vessels takes less time than their larger counterparts, around a year. A combination of these solutions would most likely be utilised in the event that shortages materialise.

Nevertheless, Wadey believes that rates, both freight and charter rates will increase: "There will always be an increase in charter rates in days of tight capacity, as we are seeing across the board now," he said.

Having said that he also pointed out: "In the same tight market context, the lifecycle of vessels can be and are extended by years, so expect the average age for scrapping to reflect that. This is one of the factors that will help in combating any impending lack of replacement capacity."

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