Tankcontainer MAGAZINE

Tankcontainer Magazine finds out how Yogesh Mehta, the owner of Petrochem Middle East, turned 'a hope and a prayer' into a $1.5 billion enterprise

DUBAI DREAM

Volume 8 | Issue 2 | June 2021

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Rapid growth *but operational challenges*

These are the most extreme market conditions that the global tank container market has experienced since the 2008 financial crash. Operators and lessors are stretching their resources, skills and systems to the limit to meet the rapid return of demand growth amid disrupted global supply chains, ocean freight rates that have sky-rocketed and widespread supply chain congestion.

The combination of a substantial increase in tank container demand and less shipping, port, terminal, transport and depot capacity is driving costs up. Ironically, this will lead - in time - to a profitability surge for well-managed lessors and operators as reliability, rather than cost, becomes a key purchasing criterion.

In this issue, we explore the reasons behind today's exceptional market dynamics with a number of the leading tank container operators, lessors and manufacturers. These include Stolt Tank Containers, HOYER, Bertschi, CS Leasing and Peacock. The industry is dealing with a multitude of operational difficulties as it seeks to maintain service levels in the face of capacity constraints, exceptional natural events and, in the words of a market leader, "incredibly strong demand across all geographies and all sectors".

We also consider when and how the situation might ease and consider the various initiatives that the key players are taking to meet the rapid growth in demand at a time when there are equipment imbalances, dramatically higher repositioning costs and numerous supply chain inefficiencies to manage.

More positively, from an operational perspective, the tank container industry is managing this period of turmoil well, despite the many exceptional stresses and strains. Reassuringly, this intense phase is not the 'new normal' and will pass, and - despite rising costs - profitability will soon improve markedly as customers recognise the intrinsic value of tank containers, improved fleet management squeezes out valuable cost efficiencies and freight rates ease.

Mergers and Acquisitions

Indira Gandhi, the former Prime Minister of India, once said: "There are two kinds of people - those who do the work and those who take the credit. Try to be in the first group; there is less competition there".

Tankcontainer Magazine usually 'does the work' but, for once, we are giving ourselves the credit. Last year, we published our view that 'five of the top eight lessors …… have fundamentally unstable ownership'. And so it has come to pass - Trifleet Leasing's original owner sold out to Chicago-based rail lessor GATX for €175 million - based on a reasonable EBITDA multiple - in December 2020. Arcus Infrastructure Partners then bought a majority share in February in medium-sized lessor Peacock, which operates primarily out of Singapore and Rotterdam, before completing its purchase of GEM Containers on 18 May. GEM had been majority-owned by RCOG Tank Leasing Limited, the holding company within the GEM Group structure. Rampart Leasing LP had been the majority owner of RCOG Tank Leasing since December 2016.

Meanwhile, the fate of Paris-based Ermewa, a European leader in rail freight wagon leasing and - via Eurotainer/Raffles - the world's second largest tank container lessor, is becoming clearer after it was finally put up for sale by its struggling debt-ridden parent, French State Railways (SNCF).

Following a competitive auction process, exclusive negotiations are underway with a consortium of Caisse de dépôt et placement du Québec (CDPQ) and a fund managed by DWS, an asset manager formerly part of Deutsche Bank. On completion of the transaction - possibly valued at €3 billion ($3.6 billion) - the capital of Ermewa would be held equally by CDPQ and DWS.

Only five parties were shortlisted by Ermewa, all of whom were institutional investors. GATX, the new owner of Trifleet, was not on the list. If the deal is closed - and there are no guarantees that it will - there would be a range of possible futures lying ahead for Eurotainer/Raffles.

So, the fundamentally unstable ownerships of Trifleet, Peacock, GEM, Eurotainer and Raffles have, or are, being resolved, leaving these lessors with more committed owners, greater financial security and improved competitiveness. More corporate action is inevitable among lessors but, in the short term, the spotlight may shift towards tank container operators.

In terms of M&A, it is a good time to buy and, paradoxically, a good time for some to sell. ■

Leslie McCune, *Editor*


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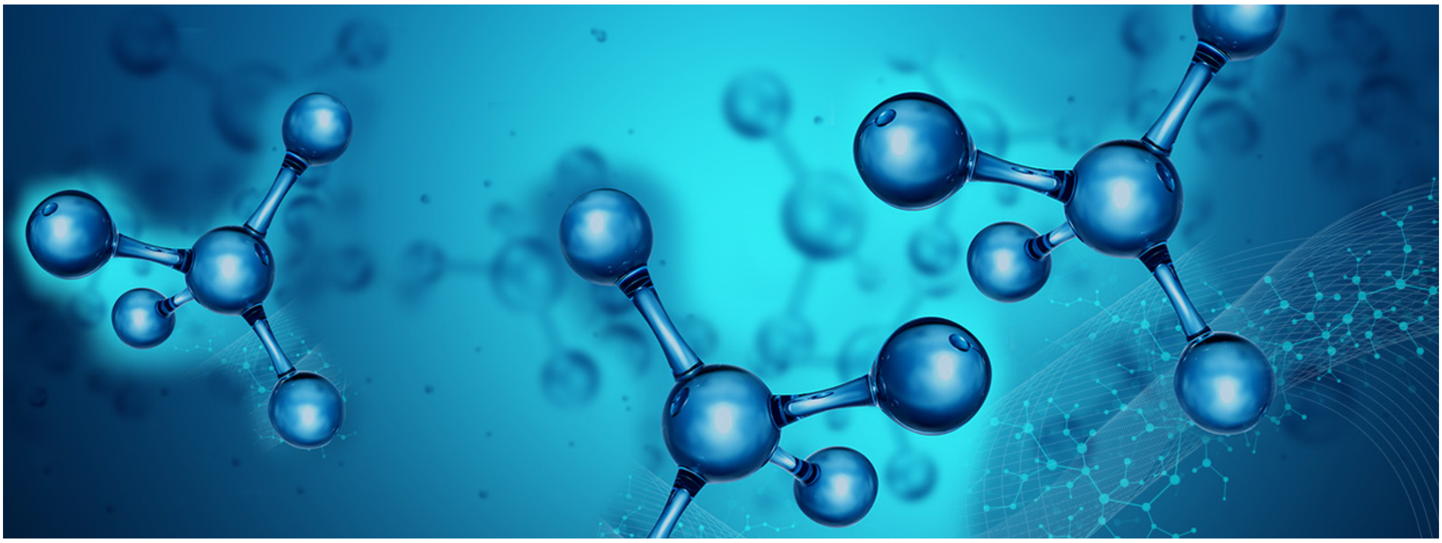

GPCA calls for modernization of World Trade Organization to support chemical trade

The Gulf Petrochemicals and Chemicals Association (GPCA) have issued a list of recommendations for the modernisation of the World Trade Organization, supporting free and fair trade and enabling the regional chemical industry's growth.

In a position paper released today GPCA praised the WTO's vital role in supporting trade in commodities and goods across the world. However, it highlighted that the organization needs to do more to achieve multilateral commitments from its members on further trade liberalization and emerging trade rules.

GPCA went on to recommend that the WTO, of which all GCC states are members, should take proactive steps towards its modernization in several key areas, including: process (reform) and substance (negotiations); regulatory cooperation on chemical substances to prevent barriers to trade; trade agendas to support sustainability; improved transparency, and effective enforcement of commitments.

GPCA estimates that regional chemical export volume declined by 15% - 20% to 66-70 million tons in 2020, due to significant demand disruptions in chemical supply markets as a result of the coronavirus pandemic. Off the back of increased demand and gradual economic recovery, regional chemical trade is expected to increase by up to 10% in terms of volume in 2021.

The chemical industry in the region still faces key barriers to trade including costly tariffs, unclear rules of origin, discrepancies between national legislations, multiple and differing standards, limited protection of trade secrets as well as trade defence measures. To realize its potential and ensure its sustainable growth, the industry requires an enabling legal framework, and free access to global markets, which means the removal of tariff and non-tariff barriers. No organization is better placed than the WTO to act as conduit of free and fair trade and enable consistent trade practices between countries.

Dr. Abdulwahab Al Sadoun, Secretary General, GPCA, commented, "Ensuring the uninterrupted supply of chemicals to the world is a key imperative for global and regional leaders, as chemicals serve as key building blocks to scores of products and materials we use every day, and cater to many end-user industries. From healthcare to food packaging, to construction, transportation, and many more, chemical trade is an important enabler for socio-economic development.

"I am pleased to announce that GPCA has joined peer associations to develop a position paper which highlights the importance of a modernized and fully functioning World Trade Organization. The paper comes at just the right time – as global free trade comes under a growing threat in countries across the world and trade protectionism is on the rise – and we call on the WTO to fulfill its mandate in supporting and prioritizing a multilateral approach to trade. I would like to thank the GPCA's International Trade Committee (ITC) for working closely with the Secretariat to develop this position paper." ■

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New director of Transport Division for Alfred Talke

André van den Broek has been appointed director of its Transport Division at Alfred Talke

Alfred Talke has appointed André van den Broek as the new director of its Transport Division; he will be responsible for transport activities from Talke's sites in Germany, Luxembourg and Poland. Van den Broek fill the role last occupied by Peter Viebig, who left the company at the end of 2020. Van den Broek worked for more than 20 years at the DHL Group and was most recently in a senior managerial role at Stute Logistics.

"I'm very much looking forward to working at a modern medium-sized company," says van den Broek. "Talke has a long and illustrious history, solid corporate values and is an acknowledged expert in the field of special logistics. One competitive advantage that Talke has is that it offers the full spectrum of supply chain logistics services under one roof – from the planning and construction of logistics facilities to their operation and international transport solutions.

We will be highlighting this advantage more clearly when implementing the measures to strengthen our customer relationships." ■

Hoover Ferguson rebrands to Hoover Circular Solutions as part of shift towards sustainability

Hoover Ferguson, a leader in the industrial container space, has renamed its organisation Hoover CS (Hoover Circular Solutions).

As part of this alignment, the company has streamlined its offering to focus on reusable dry and liquid container products, logistics and service support.

"Right now, reusable industrial containers are used in far less applications than they could be employed for. As a company, we are holding ourselves accountable for growing this usage, not just for Hoover CS, but for the industry at large.

"We are making it easy for customers to make a more environmentally sound choice and we are supporting them in articulating what that means in context of their sustainability goals," said Kevin Friar, chief executive officer of Hoover CS.

He added: "We all have a great deal of work to do in ensuring that we search out environmentally sustainable alternative solutions so that resources are managed responsibly, and the environment is protected for future generations. The industry has our full commitment to this end."

Hoover CS's fully integrated offerings offer further environmental benefit because of their efficient cleaning and restoration processes, refined over the course of the organisation's 110-year history. ■

Elengy starts distribution of LNG in tank containers from Marseille, France

Elengy has begun the distribution of LNG in tank containers from its Fos Cavaou terminal in Marseille, France. The first tank departed the Miramas rail terminal for a customer in Milan last week. Elengy says the service will allow large volumes of LNG to be transported, reduce transport costs and facilitate access to regions remote from coastal terminals.

"This success paves the way for the development of LNG transport logistics chains by rail to serve regions in France that are far from our terminals, as well as other neighbouring countries," says Sandra Roche-Vu Quang, CEO of Elengy.

The transport was carried out in partnership with Total, whose senior vice-president, LNG, Thomas Maurisse, adds: "This test gives Total the opportunity to participate in the development of a new LNG supply chain for northern Italy, a region where demand is growing strongly and where we are leader in supply, from the Fos Cavaou terminal. Using transport by rail will reduce the CO2 emissions associated with the delivery of LNG and will contribute to our ambition to get to net-zero emissions by 2050."

Also playing a part in the new service are the regional government and the Grand Port Maritime de Marseille. Renaud Muselier, president of the Région Provence-Alpes-Côte d'Azur, explains: "In 2017, with our regional Climate Plan, we made a commitment to take concrete actions to develop ecomobility for the well-being of the inhabitants of Provence-Alpes-Côte d'Azur. Four years later, it is a great pleasure to see that our region hosting this exceptional innovation. Through this process, which allows for better LNG transport in France and Europe, Elengy is contributing to the democratisation of this low-polluting fuel." ■

The Hoyer Group reports falling revenues for 2020

The Hoyer Group reports revenues of €1.12bn for 2020, from €1.18bn a year earlier, in what the specialist logistics operator calls "solid" final accounts "confirming a robust business portfolio and good management."

"The global economic and health crisis in 2020 confronted the economy and industry with hitherto unknown new challenges," says CFO Gerd Peters. "Increased efficiency, agile operational management, optimised utilisation of our fleet's capacity, and conscious cost management enabled altogether very good, stable liquidity and credit rating."

"The current fiscal year will also challenge us due to the limited plannability of global commercial developments," adds Björn Schniederkötter, CEO. "The situation will remain demanding, even though requirements and demands stabilised in the first quarter of 2021.

We have shown that we can respond to situations very well, and that we have established, reliable processes at our disposal and are thus well equipped. We are in a position to act quickly and flexibly." ■

Van den Bosch takes over Tankspeed Logistics activities

Logistics service provider Van den Bosch will take over the activities of Tankspeed Logistics Ltd in Newport (South Wales) from 10 April 2021. With this acquisition, Van den Bosch is strengthening its leading position in the intermodal transport of dry bulk products in Europe.

Tankspeed Logistics was founded in 2005 as Tankspeed-Fraikin by Mitzi Walker and Manfred Fraikin. Since 2015, all shares have been owned by Managing Director Mitzi Walker, with the company operating under the name Tankspeed Logistics. The core business consists of the transport of dry bulk products for the chemical industry, such as PVC powder and minerals. These activities take place in the United Kingdom and between the Benelux and the UK.

Market leader in pressurised silo containers

In recent years, Van den Bosch has invested in expanding its dry bulk activities in Europe, particularly in pressurised silo containers. Tankspeed Logistics also focuses on this specific segment. "With the acquisition of Tankspeed Logistics, we are strengthening our position as the market leader in transport with pressurised silo containers in Europe and are committed to further developing our business in the UK", says Barry Gruijters, Operations Director division Dry Bulk at Van den Bosch.

Growth ambition

The activities of Tankspeed Logistics will be continued by Van den Bosch. The takeover expands the fleet with various 30ft and 40ft pressurised silo containers. As Commercial Manager, Walker will remain closely involved in the operation. Gruijters explains: "Tankspeed Logistics is known for its high-quality service provision. Mitzi Walker's network and experience will be of great significance to the continued success and further development of the activities. With Mitzi on board, we have every confidence in the realisation of our growth ambitions in the UK market."

Ongoing relationship

Walker is equally excited about the takeover of activities by Van den Bosch. Tankspeed Logistics customers will benefit from the network, capacity and expertise of a logistics multinational. "I am delighted to be working with Van den Bosch to optimise our strengths and experience. Tankspeed Logistics and Van den Bosch have been working together for a number of years. I have seen how Van den Bosch has grown its business, especially in the UK, and have seen impressive innovations in the bulk sector. I envisage a prosperous and ongoing relationship with customers and suppliers, while supporting the ongoing development to grow our business." ■

Senior appointment for Advanced Polymer Coatings

Kenny Rogers has joined Advanced Polymer Coatings (APC) as a Business Development Consultant, for the MarineLINE® cargo tank coating system.

Captain Onur Yildirim, Global Marine Sales Manager, MarineLINE® comments, "We are very pleased to have Kenny join our organization. He has a strong background with years of experience in the Maritime industry. He will continue to solidify our niche position with our world-wide clients in understanding the value of the MarineLINE® coating system."

Prior to joining APC, Mr. Rogers worked for leading shipping companies including Aurora Tankers Management as Head of Aurora Tankers, Singapore, from 2011 to 2019. Mr. Rogers has over 30 years experience in the shipping industry including senior management positions with dynamic and profitable US public companies OMI Corp., Carnival Corporation, Seabulk International, and SEACOR, and NETCO. ■

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IMT and VTG partner to boost connectivity in rail freight

- **15,000 rail cars to be equipped with CLT20-Ex main GPS units**
- **Near real-time information on location, load status and cargo related values**
- **Transmitted data by IMT to be collated and analysed in VTG's platform**

Intermodal Telematics BV (IMT) and VTG AG have agreed on a long-term partnership to extend the digitisation of VTG's rail wagon fleet. The first step in this new arrangement will be the delivery of 15,000 of IMT's CLT20-Ex main GPS units over the next 15 months, with the potential to substantially expand that number over the coming years. The solar powered CLT20-Ex enables unlimited wireless data transfer allowing for optimal accuracy, which is an ideal match for the high requirements in quality and safety that VTG sets in the field of telematics and information provision for its customers.

"VTG selected IMT as its new additional telematics partner due to its solution-driven approach towards meeting our specific hardware requirements. The fact that IMT has its own R&D team with experienced hardware, software as well as firmware engineers and offers a high degree of flexibility thanks to full in-house production was another key factor in our decision making. We're continuing to digitize our entire VTG fleet and IMT will help us boost our goals in data integration and global connectivity," Dr. Hanno Schell, Head of Technical Innovations at VTG says.

The award winning CLT20-Ex illustrates IMT's innovative strength and scope as the leading telematics solution provider. The solar powered GPS unit enables unlimited data transfer and long-lasting operational reliability on rail wagons and other assets that do not have their own power source. As the CLT20-Ex serves as a central hub for all IMT sensors installed on a rail wagon, it forms the solid basis for near real-time information on location (worldwide), load status, and cargo related values as temperature, liquid levels and pressure.

IMT and VTG have been working together for the past three years on different projects, but the new partnership agreement will deepen the collaboration. Dethmer Drenth, IMT's founder and managing director: "We are very happy about this solid partnership with VTG, the largest private wagon hire company in Europe and one of the leading providers of rail and tank container logistics services. VTG offers its customers the highest service and transparency. Together, we want to create change through innovation and technical leadership. When it comes to transporting goods for the mineral oil, energy or chemical industry, maximum insight into and accurate monitoring of the fleet operation is essential to ensure high quality of both the goods and the transport itself. VTG connects worlds, IMT connects data and transforms data in valuable information."

IMT's solution offers better insights, enabling customers to better monitor product quality and improve the safety and efficiency of the logistics process. All collected and transmitted data about the rail wagon and its cargo by IMT will be collated in VTG's platform. "An accurate data provision, worldwide monitoring, analysis and reporting and, if necessary, timely intervention are of unprecedented value in the transport of liquids and sensitive goods. IMT's solution provides us with valuable insights and added value for our customers' daily practice. We want to deliver efficiency gains, safety improvements and a reduction of the overall environmental footprint. As such, we appreciate the close cooperation with IMT's software engineering team in order to coordinate the seamless integration of the provided data. Together, we're creating a sustainable digital environment that meets VTG's as well as our customers' information needs." Hanno Schell adds. ■


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Tanks survive intact after going overboard from containership

Two containers fell overboard – but were rescued and survived intact

In early April, the containership Baltic Tern lost five containers on its way from Saint Petersburg to Rotterdam, some 27 km north of Ameland. The ship had to deal with strong winds and 5 meter height waves.

Two of the units lost over board were tank containers which were found after floating in the sea for about 3 days before being recovered by the emergency tug services. One tank contained acetone and the other contained a small amount of spent cooking oil. Although both containers were damaged, they remained intact.

The operator said that "we are convinced that our company policy to pressure test all containers prior to filling and to fit tanktyte man-lid seals had a good effect in this incident". ■

New tank container depot at the Logistika-Terminal St Petersburg

TransContainer has opened a new tank container depot in cooperation with Russian railfreight operator Ruslinkcargo, which specialises in handling tank containers, and is sited at the Logistika-Terminal at Shushary, St Petersburg, on the Oktyabrskaya Railway.

The new site offers repair, cleaning and washing as well as inspection and storage of tank containers. TransContainer has recently begun dispatching regular trains comprising tank containers prepared at the depot, the first running to Uren in the Nizhnyy Novgorod region, from where they carry bulk oil cargoes to South Korea and China.

"Our priority is to offer better service and expand the service range," says Dmitry Melnichuk, director of TransContainer's branch at Oktyabrskaya Railwau and general director of the terminal. "Tank containers handling at the terminal will allow our customers to enjoy the advantages of integrated service offered at one site and improve the equipment handling process." ■

DUBAI DREAM

Tankcontainer Magazine finds out how **Yogesh Mehta**, the owner of Petrochem Middle East, turned 'a hope and a prayer' into a $1.5 billion enterprise

TCM: What are the origins and ownership of Petrochem Middle East?

YM: Petrochem Middle East FZE was formed in 1995 'on a hope and a prayer' by its owner and Chief Executive Officer, Yogesh Mehta, who, together with his son, Business Development Director, Rohan Mehta, owns the business. Today, Petrochem Middle East is said by ICIS Chemical Journals to be the largest independent chemical distributor in the Middle East, with offices in the United Arab Emirates (UAE), India, Singapore, China and Taiwan. There are Associate offices in London and Amsterdam, and a state-of-the-art chemical storage terminal in the UAE.

TCM: What are Petrochem Middle East's broad business dimensions?

YM: Petrochem Middle East is a chemical distributor operating out of the Free Zone in Jebel Ali, UAE, where we have built a terminal handling more than 180 variants of chemicals with four drumming lines, 23 large bulk storage tanks with a total storage capacity of 25,650 m^3, and two tanks.

Established in 1999, the facility includes three dedicated jetty pipelines, a drumming facility, a tanker and tank container loading gantry with top loading arms and five canopies for the storage of NFPA Class 1 B & C chemicals with storage capacity for approximately 35,000 drums. The terminal exports more than 700,000 tonnes of products to all the corners of the world. The Petrochem Carless Tank Terminal was inaugurated by His Excellency Ahmed Butti Ahmed, Managing Director of the Jebel Ali Free Zone on 11 March 2002.

We acquired the new facility in Jebel Ali with a view to tripling our storage capacity for both bulk chemical and drums. The company also has storage facilities in Saudi Arabia, as well as large tanks in Adabiya, Egypt and near the Suez.

The company's turnover is over $1.5 billion and it exports over 1 million tonnes of products annually worldwide.

TCM: Why is Harvard Business School a common experience for the company's senior management?

YM: Petrochem Middle East encourages higher education for all its team - especially its directors - so that they can lead from the front and have cutting edge awareness and the latest technology.

TCM: What is the company's geographical spread?

YM: Petrochem has offices in India, Singapore, Taiwan, China, Egypt and the UK. It also has distribution and storage facilities in Saudi Arabia, Egypt and the United Arab Emirates.

TCM: What services does Petrochem Middle East offer?

YM: Our unique selling proposition is delivering top quality chemicals and just-in-time products to our consumers.

TCM: Who are your major chemical company principals?

YM: We are distributors for Eastman, Lyondell, Sipchem, and many others.

TCM: What chemicals are available from Petrochem Middle East?

YM: We have inventory of over 250 types of chemicals, from solvents to specialties. We provide these for the following applications: paints, coating products, printing inks, packaging industries, oil field chemicals, perfumery, pharmaceuticals and chemicals. The chemicals include monomers, aromatics, polymers, glycol ethers/esters, hydrocarbons, ketones, plasticisers, ethanolamines, acetates, chlorinated solvents, phenols, fatty acids, maleic anhydride, polyvinyl alcohol, phthalic anhydride, tetrahydrofuran and alcohols, among others.

TCM: How does Petrochem Middle East rank among Middle East distributors?

YM: Petrochem has been ranked the 'Number One' chemical distributor in the Middle East - and the tenth largest in the world - by ICIS Chemical Journals, a market intelligence company. It claims that Petrochem Middle East is the seventeenth largest chemical distributor in Asia and the 'Number One' chemical distributor in the Middle East and Africa combined.

TCM: What is the role of tank containers in the company's operations?

YM: Tank containers are a very important part of our business and we supply tank containers to many remote locations, especially in India and Africa. ➔

DRIVEN BY PASSION AND A NEED TO SUCCEED

***Yogesh Mehta**, Chief Executive Officer, Petrochem Middle East*

TCM: Are tank containers leased-in by Petrochem Middle East or are bulk product movements managed by tank container operators?

YM: Petrochem Middle East leases 150 tank containers, as well as 45 large trailers, to provide just-in-time cargoes to members of the Gulf Cooperation Council (Qatar, Bahrain, Kuwait, Oman, the UAE and Saudi Arabia).

TCM: What was the rationale for the joint venture with Hoyer in Saudi Arabia in 2017?

YM: We are very proud to be in a joint venture with Hoyer, who are specialists in tank container shipments and logistics. There is a synergy whereby Hoyer does the logistics and Petrochem Middle East provides the chemicals via our distribution hub in Saudi Arabia.

The joint venture with Hoyer pools the regional and international strengths of the two partners with the core competences of Hoyer as the international logistics company specialising in handling dangerous goods. Hoyer acquired 51 per cent of a Saudi Arabian company for the purpose of the joint venture. Other participants in the joint venture, trading under the name Hoyer Middle East, included Petrochem Middle East FZE and Al Fahdah Al Arabia Trading Company Ltd with equal shares.

The joint venture was Hoyer's first filling and blending business in Saudi Arabia.

TCM: What are the key trends in chemical logistics in the Middle East?

YM: Chemical logistics have become very important for just-in-time delivery. Customers are now global and require products in tank containers as well as in bulk tankers.

TCM: …….. and the key trends in the Middle East tank container market?

YM: The tank container market in the Middle East is very dynamic, especially in the UAE. It is a hub and a transit point now - movements from Saudi Arabia are often done via the Jebel Ali hub in the UAE for faster transit times.

TCM: What will be the lasting impact of COVID on the business?

YM: COVID has been a debilitating factor, both in terms of demand and supply, for the world. Many markets shut down and there has been a dearth of raw materials - timely delivery and logistics is now, more than ever, a key factor. ■

Biography

Yogesh Mehta, the Chief Executive Officer of Petrochem Middle East, was "driven by passion and a need to succeed" and established Petrochem Middle East in 1995 at the age of 34. Today, 25 years later, Yogesh Mehta has a lot to smile about, says his glowing biography.

He graduated with a Bachelor of Science in Chemistry from National College Bandra in Mumbai, India and his first job was at his father's chemical manufacturing factory in western India, where he honed his innate leadership skills and gained valuable hands-on business experience. Mehta then went on to open his own chemical trading business, which enjoyed fair success. In a bold move, he relocated to Dubai in 1990 and, within five years, he managed to establish a business by opening a state-of-the-art storage terminal for bulk and drum chemicals. Petrochem Middle East has since gone from strength to strength to become the largest independent petrochemical distributor in the Middle East and Africa combined, and the tenth largest in the world.

Mehta obtained an MBA via an Executive programme in 2003 and his success story has been widely documented by several publications including the BBC, CNN and Forbes. He strongly believes that Petrochem Middle East's success has been a result of forecasting and anticipating market and customer needs. He is an enthusiast of "the people", constantly asserting the cliché that his employees are the business's greatest assets.

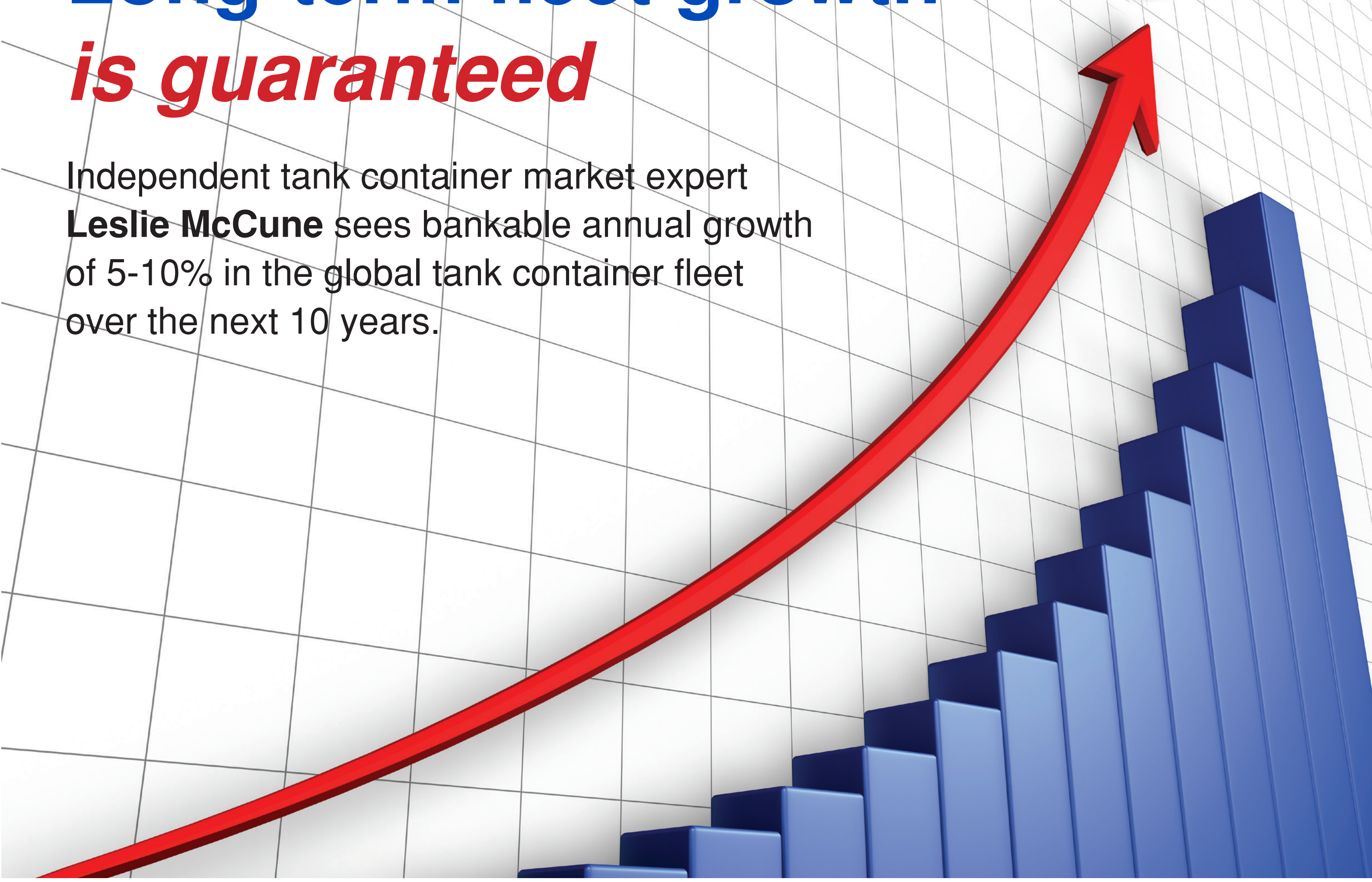
Mehta's greatest attributes are mentoring and leading by example. His grasp on the dynamics of the chemical industry, and on building a strong reputation with buyers and sellers in the fraternity, has contributed to creating the Petrochem brand and raised the company to new heights. Under his leadership, Petrochem Middle East has evolved, not only as a chemical distribution company, but also into trading and logistics. Petrochem now has offices all over the world with a turnover of over $1.5 billion. With his son Rohan having joined the business, they strive for growth and diversification into new industries and markets globally, says the biography.

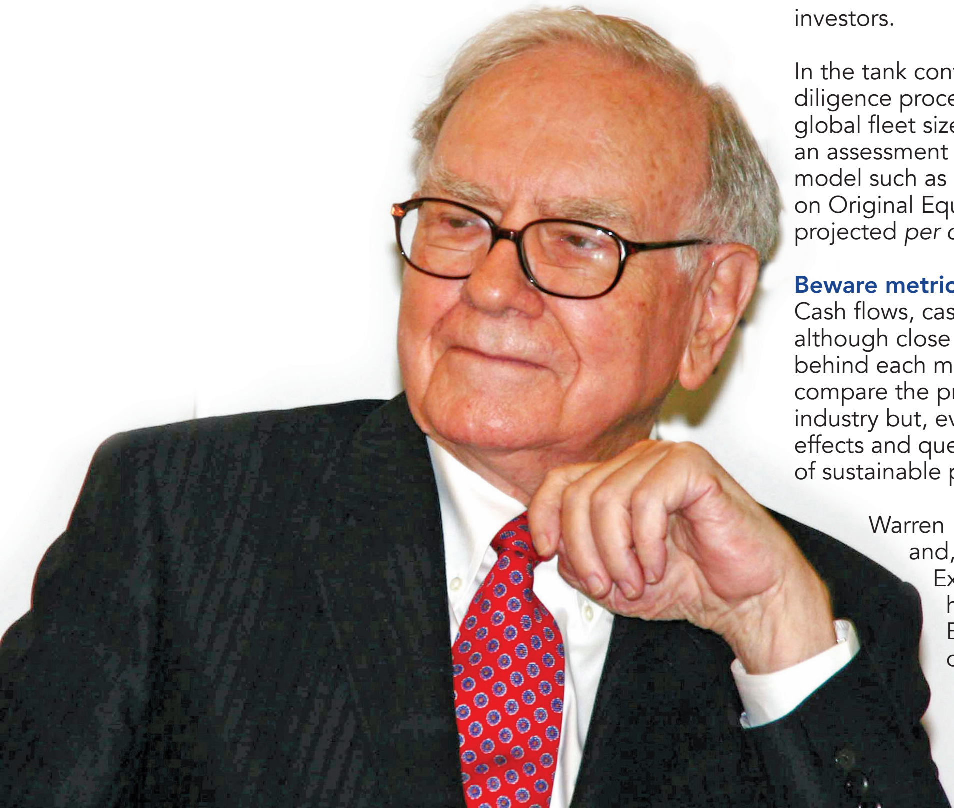
The company has now expanded in Egypt and the Kingdom of Saudi Arabia with logistics and chemical storage terminals, enlarging their portfolio as well as creating economies of scale.

Mehta is a trustee and Vice Chairman on the board of the committee responsible for the construction of the most iconic Hindu Swami Narayan Temple in Abu Dhabi. Mehta's many philanthropic initiatives include his contribution to promoting dance drama, music and theatre. ■

Long-term fleet growth *is guaranteed*

Independent tank container market expert **Leslie McCune** sees bankable annual growth of 5-10% in the global tank container fleet over the next 10 years.





U.S. investor and philanthropist ***Warren Buffet***

Economists say that the old rule of forecasting was to make as many forecasts as possible and publicise the ones you got right. The new rule, apparently, is to forecast so far into the future that no one will know you got it wrong.

Fortunately, tank container due diligence work is much more specific on its forecast horizon, with the 20-year useful economic life of the asset broadly matching the interests of long term investors.

In the tank container market analysis which forms part of the due diligence process, a key driver of the industry's attractiveness is the global fleet size and its growth prospects. Also included would be an assessment of the competitive intensity of the industry using a model such as Porter's Five Forces, and a financial analysis based on Original Equipment Costs (OEC) and, for lessors, actual and projected *per diems*.

Beware metrics

Cash flows, cash-on-cash yields and EBITDA can be calculated, although close attention needs to be paid to the assumptions behind each metric. EBITDA, for example, is widely used to compare the profitability of different companies in the same industry but, even though it can eliminate flattering financing effects and questionable accounting, it is an incomplete measure of sustainable profitability.

Warren Buffet, Chairman and CEO of Berkshire Hathaway and, via Marmon, owner of top tank container lessor Exsif Worldwide, is dismissive of EBITDA, saying that his company would not buy into companies that use EBITDA as a metric, not least because companies often change the items included in their EBITDA calculation from one reporting period to the next. ➔

Tank container lessors have a high degree of discretion with their depreciation and amortisation policy, which can be either prudent or aggressive, and which can be structured to generate a more attractive EBITDA if, for example, the company is grooming itself for sale.

Much depends on the residual, or terminal, value attributed to the tank containers in a fleet. However, there are usually differences - and different motivations - on how to define residual valves. Tank container lessors currently use residual values between a prudent 10% of Original Equipment Cost and an aggressive 45% of OEC for standard T11 tank containers.

Higher projected residual values imply that less depreciation is being forecast and, since depreciation is an important element of per diem lease rates, it offers management the freedom to undercut those competitors with more conservative accounting practices.

Unsurprisingly, those tank container lessors currently allocating high residual values to their fleet are those looking to build market share quickly by offering the lowest per diem lease rates in the market. This is an often-used strategy by private equity shareholders, who typically exit an investment within five years.

If high residuals are not achieved, an impairment must be registered as an expense in the P&L/Income Statement and the value of the impaired asset reduced on the balance sheet, reducing the value of the company.

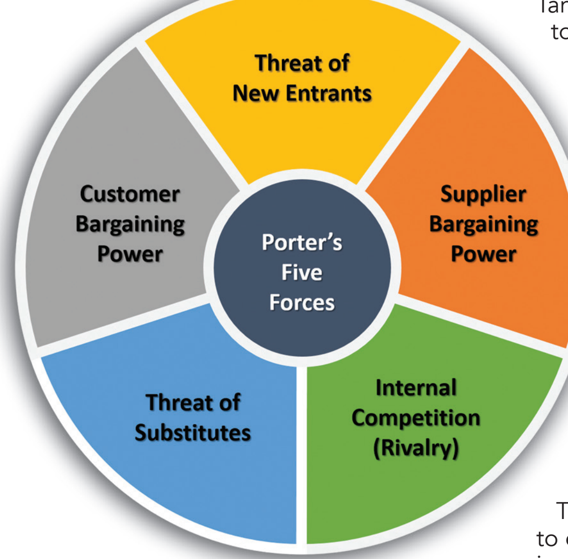
Minimum initial lease terms are being lengthened to mitigate the residual value risk lessors incur for buying higher priced new tank containers.

Why is global fleet growth guaranteed?
The tank container industry is one of the few industries where the installed base can be projected to grow over the next 10 years, with a high degree of confidence, at rates well above GDP growth.

The trends and market drivers supporting this strong growth are:

1. Momentum and strong resiliency
The global tank container fleet has delivered a compound annual growth rate of 10.7% over the past 10 years, despite a worldwide recession at the beginning of the last decade and the worst contraction in economic activity in living memory at the end of it.

Even during last year's pandemic-driven economic collapse, tank container utilisation remained unchanged at 85%, according to ITCO, and Stolt Tank Containers, the leading tank container operator, increased its shipments by 1.9% to all all-time high.



Lessors were surprised by how few of their leased tank containers were returned, indicating a highly resilient industry whose products and services are needed at the most fundamental level - one reason why longer term investors are attracted to the industry.

The global tank container fleet size has doubled in the past eight years but the global market is far from fully developed. Europe - the birthplace of the tank container concept and still the largest tank container market - can be considered to be at the 'late majority' stage, where a third of all users lie.

However, in global terms, the tank container market is still relatively immature with Asia - the world's largest market for specialty chemicals - being at its 'early adoption' stage. Within Asia, China and SE Asia are still immature - but rapidly developing - markets with the large scale penetration of tank containers into China only starting ten years ago.

2. Positive global GDP growth expectations
Tank container usage is inextricably linked to industrial production, which is closely correlated to GDP. GDP forecasts are positive with the OECD forecasting global GDP returning to its 2019 level by the end of 2021, by which time China's GDP is expected to be 9.7% larger than 2019.

Meanwhile, the IMF forecasts global GDP growth of 5.5% in 2021 - reflecting vaccine protection and US and Japanese stimulus packages - after a 3.5% fall in 2020.

Longer-term, Fortune forecasts global GDP growth of 5.7% until 2025, and 4.5% from 2025 to 2030. The global economy is therefore forecast to exceed pre-pandemic levels this year, implying a short-lived world recession and the return to normal growth rates being encouraged by pent up demand in the next two years.

3. China: the world's largest specialty chemical market
In terms of future tank container demand, China is unquestionably by far the largest opportunity. Its economy recovered early and strongly from the coronavirus pandemic and its GDP is on track to overtake that of the US in the next decade. It has, by some margin, the largest manufacturing sector in the world with Chinese factory output expanding by 9.8% in April, somewhat lower than 14.1% surge in March due to rising raw material costs and supply chain bottlenecks impacting industrial production.

It is already by far the largest country in terms of industrial production and, closer to the interests of tank container players, is the largest global market for specialty chemicals.

4. China demanding better chemical SHEQ performance
As part of China's development, the safe movement of dangerous goods is being encouraged by state and provincial authorities for both safety and environmental reasons.

The 173 people killed in the catastrophic chemical explosion at a container store in Tianjin in 2015 hardened China's resolve to raise standards to those of international norms.

Importantly, tougher state-mandated environmental practices are now being far more tightly controlled and inter-province transport restrictions have been lifted, supporting tank container growth.

New state-imposed environmental standards have led to record imports of specialty chemicals in tank containers as some small scale domestic chemical companies (and even some tank container cleaning stations) have been forced to close. This has fuelled fleet expansions at several lessors and operators.

5. New intermodal infrastructure facilitates tank growth

Tank containers can only be deployed where there is the essential infrastructure in place for their use e.g. cleaning stations, Maintenance & Repair facilities, depots, etc. The rate of growth of tank container demand therefore depends on the availability of these specific facilities, and access to intermodal corridors and capabilities. As these develop, the feasibility and viability of using tank containers increases. Transport infrastructure is one of the top priorities of China's Belt & Road Initiative and is receiving preferential state investment.

6. China's chemical industry is not integrated

Unlike in the US, Europe and the Middle East, China's refinery and chemical complexes are not integrated by pipelines or natural corridors, not least because the country's chemical industry was based on coal rather than oil or gas. Despite China accounting for nearly 30% of seaborne liquid chemical imports, domestic chemical production facilities inevitably rely more heavily on the regular movement of chemicals in the small lot sizes provided by tank containers.

7. China's domestic tank container production meets 92% of global demand

Tank container penetration of China will be encouraged by having no initial empty repositioning leg for new build tank containers, given the close proximity of many users (initial repositing costs for empty tank container can materially damage lifetime economic returns). Short manufacturing times for tank containers limit the risk of excess capacity.

8. Continued substitution of drums

In a world of heightened concerns and tighter legislation surrounding hazardous chemicals, the well-rehearsed benefits of tank container get traction. Tank containers can therefore be expected to continue their global penetration of the hazardous chemical drum and single-use flexibag markets.

The door-to-door convenience of tank containers cannot be matched by chemical

parcel tankers, which can only offer port-to-port deliveries requiring capital-intensive bulk liquid storage at load and discharge points, or by freight forwarders offering pier-to-pier deliveries.

Tank containers offer the additional flexibility of being used as intermediate bulk storage in the event of supply chain dislocation and shippers increasingly look to exploit the "Just-in-Time" flexibility offered by tank containers as patterns and volumes become more unpredictable.

9. New Dangerous Goods regulations favour tank containers

Changes to Dangerous Goods regulations have boosted demand for more specialised tank containers - the ending of the second step contained within the ADR/RID special provision TP37 in 2017 encouraged some lessors to acquire ASME U2 stamp T20 and T22 tank containers for the US.

In general, new regulations favour the wider use of tank containers, enabling new products to be moved for the first time. Packaging options have narrowed for some products - Germany, for example, no longer accepts imports of Used Cooking Oil (UCO) in drums, increasing demand for UCO imports in tank containers.

In another example, the harmonisation of regulations governing the carriage of Dangerous Goods in the South American Mercosur trading bloc has made the wider use of tank containers much more straightforward. Increased demand for tank containers is forecast, benefitting operators like Houston-based ITT, which has a strong position in Latin America.

10. Outsourcing continues

The long-term outsourcing trend among shippers/producers has slowed but is irreversible as in-house logistics expertise is quickly lost once outsourced. Producers benefit most from outsourcing where there is complexity in the production process and/or the supply chain - common characteristics of specialty chemical producers.

11. Speciality chemicals will grow

As specialty chemical growth expands, so too does demand for tank containers, driven both by organic growth and the penetration of newer markets requiring tank containers (e.g. hydrochloric acid to clear cement debris remaining in the well bore in isolated shale oil drilling operations).

Specialty chemicals - the sort most often moved in tank containers - have a greater demand certainty than commodity chemicals as they are used in more technically-defined applications.

Meanwhile, tank containers are becoming increasingly more economically viable for non-hazardous products due to new light weight designs offering high load capacities.

12. SOPs increasingly depend on tanks

Changes to the Standard Operating Procedures of petrochemical producers and refineries are stimulating demand for tank containers. The flaring of out-of-spec material, for example, is increasingly problematic for refiners, who increasing use tank containers to move large volumes of off-spec streams in relatively small lot sizes for reprocessing elsewhere. Pyrolysis oil and rust treatment products are regular cargoes from these complexes, often moving in large, intermittent flows.

13. ESG considerations support tank containers

Environmental, Social and Governance pressures on the major corporate users of tank containers - and the operators/lessors themselves - echo the strong ESG credentials of tank containers.

14. Cash flow benefits

More regular flows of smaller lot size cargoes in tank containers smooth cash flow, compared with the large, but less frequent, cash flows associated with product movements in chemical parcel tankers. Low interest rates will help keep lease rates affordable for tank containers in the next five years, stimulating demand.

15. Strong reputation and ongoing build-out

The tank container sector has maintained its credentials as the safest, most reliable and most sustainable transport mode for small lot sizes of hazardous and high purity products. Ever increasing familiarisation, an effective trade association, training and greater customer purchasing expertise are all stimulating tank container demand.

Conclusion

Growth of the global tank container fleet over the next 10 year is guaranteed, with a minimum annual growth expectation of 5% and a realistic expectation of 5-10%. ■

Contact: lm@chemicalmanagement.co.uk

Turbulent times: *a leader's view*

Mike Kramer is the long-term President of market-leading operator Stolt Tank Containers. *Tankcontainer Magazine* asked him to share his thoughts on how Stolt Tank Containers is navigating today's unusually volatile and dislocated tank container market. In the following pages, we explore the views of a cross-section of other tank container operators, lessors and manufacturers.

TCM: *What are the biggest difficulties tank container operators are currently facing?*

MK: There are both good and bad challenges that tank operators face today. First, the good - we are seeing incredibly strong demand across all geographies and sectors of the market as economies begin to rebound from COVID and consumer confidence improves. This is driving our customers to restock and restart, or increase, production to full capacity. We are also seeing very strong growth in demand as cargo moves from unsustainable flexibags back into tank containers, because of both the global dry box shortage and a renewed focus by customers on sustainable supply chains.

The negative challenges are more closely related to unexpected events, vendor availability and unreliable infrastructure. In addition to managing extremely volatile swings in demand caused by COVID, production and supply chains have been disrupted by unusual events such as the Texas freeze which closed many production plants for an extended period. The Suez Canal closure also negatively impacted supply chains. These events are coupled with massive port congestion, capacity constraints of carriers, blank sailings and declining levels of service from many vendors, including the ocean carriers that our industry relies on. These situations combine to produce rising costs and increasing service challenges for tank container operators. The availability of quality drivers and trucks is also becoming a much larger challenge too!

To meet customer demands - and the challenging market conditions - operators have been required to add both tank containers and manpower to their operations to compensate for the additional tank container moves and delays caused by the capacity constraints and congestion. The challenge now is to pass these cost increases on to customers in a timely fashion.

TCM: *What has caused each individual difficulty?*

MK: Changes in many aspects of global logistics and changing supply and demand patterns caused by COVID, coupled with infrastructure issues and rising - and very tight - ocean freight and trucking markets.

TCM: *How will they be resolved?*

MK: We are working with both customers and vendors to improve the way we forecast, plan and deliver our services in a more agile and efficient way. We must improve two-way communication and collaboration, both up and down supply chains, to ensure goods are delivered with the highest levels of service at the lowest cost to customers.

TCM: *As a leading operator, what actions are you taking to ease the situation (e.g. booking space further ahead, booking more slots, trading slots, changing routes, passing on increased costs via surcharges, focusing less on deep sea customers, avoiding lower margin deep sea business, accessing more chassis/transporters, etc)?*

MK: To combat or ease issues within customer supply chains, we have renegotiated rates and space allocations with carriers while increasing the breadth of the carriers that we work with. We continue to evaluate routings and work to keep costs low, but the reality is that we

***Mike Kramer**, President, Stolt Tank Containers* are being forced to pass costs on to customers, including those necessary for repositioning as these have in some cases more than doubled.Customers are understandably not happy with the increases, but we have no choice, and they know we are doing everything we can to keep costs low. We are proud of our longstanding relationships with carriers which helps us to expand our service offering while maintaining the lowest cost for our customers.

TCM: *What are the prospects for rates, per diems and demurrage revenues?*

MK: With the market so volatile right now, we are finding that delays are caused by many different factors, both on the origin and destination side of shipments. We have increased our demurrage rates and have reduced the number of free days being offered. The reality is that tank container costs are continuing to rise while demurrage has remained on a low or downward trend since the late 1980s, which is unsustainable. By increasing demurrage rates we hope to incentivise faster tank container returns to meet the rising demand.

TCM: *Which problems are temporary (i.e. likely to be resolved in the next 6 months), which are medium term challenges and which look likely to be structural (lasting >24 months)?*

MK: I think all of the current market issues are either short or medium term challenges. We expect port congestion to ease, the backlog caused by the Suez Canal closure will pass and carriers are already ordering new ships. Demand, I believe, will continue to be strong, so it is a matter of working effectively to meet this.

TCM: *Will the reduced availability of tank containers increase fleet utilisations, or will fleet growth mean that utilisation rates remain broadly unchanged?*

MK: We will, in the short term, see rising utilisation of fleets as transits are longer and delays or rolled bookings extend transit times and strengthen demand. Depot capacity in many markets may offset some of these gains but, overall, fleet utilisation should firm and rise.

TCM: *Have customers moved some movements away from tank containers to parcel tankers to avoid ocean carrier problems?*

MK: I am sure this happens, but we have not seen a huge shift. I don't expect this to become a major trend due to the costs associated with shifting to this mode. The cost of capital and availability of capacity both onboard ships and at storage facilities, as well as other factors, are prohibitive for many. Of course, if we did see a move, we'd like to think our customers would choose to work with our sister company Stolt Tankers! However, it is easier to move from parcel tankers and flexibags into tank containers, which is good for our industry's longer term prospects.

TCM: *Which regions or trade lanes are worst affected? Where are the bottlenecks?*

MK: Every region has been impacted to some extent, but I would say the North American market - followed by Europe - has been hardest hit. That said, every region and country where we operate has been severely impacted.

TCM: *How will the global tank container fleet increase be affected this year and next?*

MK: It's difficult to say for certain but I expect to see continued growth. This will depend on multiple factors. These include consolidation of leasing companies and, potentially, operators, the rate of demand as economies reopen and the price of steel and tank containers as other sectors pick up. Another factor that will play an important role in future growth is the impact of sustainability on our trade and the flow of cargo from flexibags back into tank containers. This is a real trend right now but the total impact is not yet known.

TCM: *What positives will come out of today's problems?*

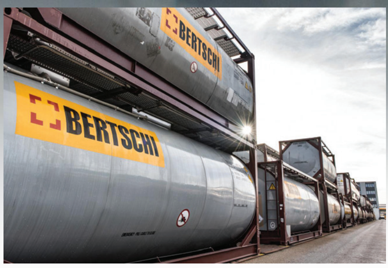
MK: I hope the positives from the current challenges are improved profits and returns for our business and industry. The last time we saw market conditions that came anywhere near those we face today was prior to the economic crash of 2008. Since then, we have seen a market that was marked with overcapacity in both tank containers and ships, and fluctuating - if not falling - demand in many markets at a time when customers were expanding production. Today, there is rising demand, less capacity on ships, trucks, tank containers and container depots. That all points to rising prices and firm terms for items such as demurrage.

TCM: *... any other observations or comments on today's market difficulties?*

MK: Yes. Sustainability and the continued push to digitalise our industry is critical for the future. We have begun our sustainability journey and are focused on improving our efforts, with solid goals outlined for both our depots and main fleets. This will be a requirement for our industry in the future. In regard to digitalisation, our web-based applications and platforms - such as stolt tankcontainers.com - are saving our customers both money and time, as are our direct integrations with vendors and customers.

Lastly, there is the question of whether recent consolidation in the leasing sector will carry over to operators and will this subsequently lead to higher barriers of entry. An interesting question to consider. ■

TURBULENT TIMES: THE



Measures to contain the global coronavirus pandemic led to a dramatic fall in demand for most tank container cargoes in 2020, partly compensated by a demand spike for sanitising products. The temporary suspension of much economic activity led to COVID-related labour shortages, blanked sailings and capacity cutbacks. But demand began to rebound sharply in Q3 2020 and accelerated in Q4, driven by China's strong domestic growth and export boom.

China's rapid demand surge created supply chain disruptions and imbalances in many global supply chains, leading to vessel and equipment shortages. These were made worse by the restocking stimulated by the partial recovery of economic activity in the US and Europe, extreme weather events and, for a period, the impact on liner schedules of the temporary closure of the Suez Canal.

Cut-and-run policies by ocean carriers left empties on the dock, creating structural imbalances and higher repositioning costs for empty tank containers, especially for operators and lessors with long haul repositioning needs. Port congestion - together with intense competition for capacity allocations on vessels - disrupted flows and dramatically increased ocean freight rates (Shanghai-Rotterdam rates soared to a record high of $9,865/40' container in May, a 530% year-on-year increase). Transit times through port terminals to vessels slowed and became complicated.

However, the tank container market is currently exceptionally strong, not least because of the ability of tank containers to compensate for other inefficiencies and turbulence in extended liquid supply chains. But the disruptions have created operational complexity and acute uncertainty, made worse by changing trade flows.

Today's major operational difficulties
Capacity management by shipping companies has led to tightened shipping availability, increased port congestion, carrier delays and limited space allocations on vessels. Tank container operators are being forced to compete aggressively for the available slots on shipping lines, which allocate slots preferentially to their global 3PL partners such as DHL and Kuehne+Nagel.

Inevitably, this has led to dramatically higher ocean freight costs, although these will eventually be passed through to tank container customers who now, more positively, have a greater tolerance and understanding of these exceptional costs. While the global fleet size might suggest adequate tank container availability, many are not in

INDUSTRY'S PERSPECTIVE

> Reduced capacity from shipping lines has forced repo rates to double
>
> ***Kevin Singh**, Vice President Europe of CS Leasing*

the right location, not the right type or not clean. Most operators have badly disrupted fleet triangulation patterns, causing inefficient fleet management that quickly erodes profitability. One operator splits their fleet into separately-operated European and global fleets, adding to operational complexity.

Tank container supplies have tightened, not least for food grade equipment. The same is true for dry box containers, where production is now at record levels while container availability remains tight. According to Kevin Singh, Vice President Europe of CS Leasing: "Reduced capacity from shipping lines has forced repo rates to double".

Heiko Rumfeld, Director of HOYER's Business Unit Netlog, notes: "There are two main challenges at the moment: vessel space shortage and the extreme geographical dynamics of global customer demands. The global tank container shortage is being created by insufficient newbuild orders - a result of overcapacities in previous years and the uncertainties of the pandemic - and different customer behaviours, which now prioritise increased buffer stocks and earlier bookings".

Hans-Jörg Bertschi at Bertschi Group says the most significant operational difficulty is booking container spaces. The mismatch between supply and demand for shipping spaces has multiple negative implications, of which the financial and operational aspects are only two. It is financially damaging because it is simply not possible to pass on every new cost to the customer, and operationally damaging because of the repetitive human effort and management time involved in keeping customers informed of constantly fluctuating rates, as well as extra effort needed for every booking.

Jan Arnet, CEO of Bertschi Group, observes: "Strong freight rates have fed through to robust profitability for shipowners, a result of the strong commercial management actions taken by them - in particular the pooling of resources by alliances - after years of overcapacity and poor profitability".

Exceptionally high ocean freight costs, and the limited availability of slots on vessels to reposition leased units, occasionally makes it impossible to provide equipment, says one major lessor. High shipping rates from Asia, for example, can make T75 cryogenics prohibitively expensive for European customers, benefiting European manufacturers such as Van Hool.

One Nantong-based tank container manufacturer speculated that the costlier and more complex repositioning of tank containers has led to some operators preferring to order newbuilds, with a view to rationalising their fleet at a later date. As newbuild prices increase, so too will used equipment prices. Leasing-in equipment is another option for operators looking to conserve capital or meet short term demand surges.

One major lessor commented: "The commodity price increases driving tank container prices up are making depot-based leased tanks more attractive than capital expenditure on newbuilds, at least until per diems catch up with higher tank prices. Leased tank containers are also usually more immediately available to meet surge demand and, of course, operating leases are off balance sheet expenses".

Depot constraints

Another difficulty, says Dr Bertschi, is the supply/demand mismatch that is developing with depot capacities. Global fleet growth has accelerated significantly during the past decade but few new safe and professional depots have been opened. Capacity has actually dropped in some geographies, particularly in some regions of China, where good environmental enforcement has caused the closure of lesser depots, without higher quality replacements.

Lessors are also facing difficulties getting tank containers repaired and tested due to reduced working hours at many depots due to COVID restrictions and the sudden surge in demand.

How temporary are today's problems?

The issues surrounding vessel capacities and freight rates show no immediate signs of easing. Heiko Rumfeld of HOYER says: "Forecasted new vessel capacity entering the global trade will ease the situation but we do not expect a real improvement before 2022, when we expect more stable global markets as vaccination roll-out continues. The number of shipping lines and shipping alliances has reduced a lot over the past two decades so we will have to deal, longer term, with tighter management of global vessel capacity. Customers now appreciate that the global availability of tank containers is not a natural given."

Bertschi's Jan Arnet believes that the problems may persist until at least the year-end, when the economic cycle cools and previously ordered newbuild vessels expand shipping capacity towards the end of 2022. ➔

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One small factor easing the availability of shipping slots is the rise in average sailing speeds for container ships, which have increased by 5.5% to 17 knots over the past 12-months.

"Capacity constraints at tank container depots should improve as COVID restrictions ease in the next 6-12 months as more equipment is leased out. However, there will then be more leased tank containers to repair and clean in-service, putting more pressure on depots," says a leading lessor.

How to ease the pressures?
Tank container players are adopting a range of initiatives to ease the pressures on them, including booking more slots further ahead; trading slots; changing routes; passing on increased costs via surcharges; focusing less on deep sea customers if margins are low; booking more chassis/transporters; and leveraging digital systems. Lessors are busy trying to more accurately forecast supply/demand balances.

Heiko Rumfeld of HOYER adds: "Our extremely high fleet utilisation is challenging us to focus on operational excellence. More centrally-managed procurement activities are being pushed to regional markets to enable us to react faster. Well-developed partnerships with shipping lines over the past years help us today, as does having good relations with customers, who accept that we are passing on surcharges and extreme increases in freight rates to them. Communications with our global customers has at least doubled".

Hans-Jörg Bertschi remarks: "When demand for containers and freight services exceeds supply, it makes sense for us to target our resources on the areas where we can add most value for our customers and where our combined offerings can benefit them the most. We see the most value in door-to-door traffic which involves our value-added services along the container's journey. These include using our warehouse and terminal network, which offers laden storage near customers' sites for short-term call-off, or re-packaging cargoes into drums or IBCs.

"The ability to include all these activities under one invoice is attractive for customers. It is one reason why we invested in depot, Dangerous Goods tank container storage, warehousing and repackaging infrastructure in the fast-growing Asia Pacific region, in Singapore and the Yangtze River Chemical Park in Zhangjiagang, China".

William Leigh-Pemberton, Chairman of the Operators' Division at ITCO believes that trans-continental rail along the new Silk Road will become a more routine choice for many European and Chinese shippers. The price gap between rail and ocean freight has narrowed, while the transit time is cut in half.

Equipment prices, per diems, rates, demurrage
Tank container prices have already increased significantly since 2020 due to rises in raw materials such as nickel, 'chrome moly' (chromium molybdenum) stainless steel, carbon steel, GRP and aluminium for cladding. The RMB/$ exchange rate and cost increases in stainless steel - partly due to capacity shortages at steel mills - have also driven up Chinese tank container prices significantly. These commodity prices will increase further, driven by the post-pandemic recovery of economic activity. "Depots are being depleted of tank containers; any cheaper tanks have been used," says Kevin Singh of CS Leasing.

Volatile freight rates are making it difficult to price freight costs into per diem lease rates but lessors are already reflecting higher repositioning costs in their per diems. The elimination of GEM as a competitor, following its acquisition by Peacock's new owner Arcus Infrastructure Partners, has, according to another lessor, "removed one of the sources of unsustainably low lease rates". Jesse Vermeijden, Managing Director of Peacock, notes: "Many lessors now require a minimum 8-year initial lease to mitigate the residual value risk they incur for buying higher priced new tank containers".

Operator Stolt Tank Containers' President Mike Kramer adds: "We have increased our demurrage rates and have reduced the number of free days being offered, to incentivise faster tank container returns to meet the rising demand" while HOYER's

Many lessors now require a min 8-year initial lease to mitigate the residual value risk they incur buying higher priced new tank containers

***Jesse Vermeijden**, Managing Director, Peacock*

Heiko Rumfeld observes: "Reliability is actually more important than rate levels for many customers".

Are fleet utilisations increasing?
"Overall fleet utilisations are rising, with local operators making the largest gains. The far higher freight costs for 'dead' repositioning legs - which generate no revenue - mean that global operators may struggle to supply tank containers to the right location cost effectively, offering opportunities for local or regional operators," says a leading lessor.

HOYER's Heiko Rumfeld comments: "Fleet utilisation will not increase much further mid-term, looking at the high levels achieved already. We see a more responsible development of the global tank container fleet than previously". Meanwhile, lessors are getting more disciplined, becoming less preoccupied with the age profile of their fleets and more focused on returns.

Sharply increased tank container demand has arisen just at the point when global fleet expansion is at its slowest for three years, comments ITCO's William Leigh-Pemberton. "In 2018, production stood at 59,700 tank containers, dropping to 35,800 in 2020 - the lowest figure for more than 10 years. The overcapacity which vexed operators and lessors alike - with constant flows of new tank containers depressing rates - has somewhat disappeared. Utilisation rates are the highest for some years."

Which regions or trade lanes are worst affected?
Nils Thater, Head of BU Global Isotanks at Bertschi Group remarks: "For once, there appears to be a simultaneous boost in demand in all markets. This breaks the traditional curse of the tank container market where one geography experiences excellent export demand while reloads are poor in the receiving markets, leading to the accumulation of equipment in one area but shortages in another."

However, the massive influx of laden containers from China and Asia to meet European lockdown demand - and the strong rebound within China - created equipment imbalances in the supply of empty containers and worsened port delays on the US west coast. One major lessor confirmed that there were bottlenecks in all regions with container ship availability currently extremely tight in China and the Middle East. Another cites the US as the worst in terms of space availability, with the US and Europe having the worst-affected repo costs.

Conclusion
Operationally, the tank container industry is managing this period of turmoil well, despite the stressed market. However, this intense phase is not the 'new normal' and will pass, and - despite rising costs - profitability will soon improve markedly as customers recognise the intrinsic value of tank containers, improved fleet management squeezes out valuable cost efficiencies and freight rates ease. ■

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A Legend is born

Asian tank container operator **Legend Logistics** continues to broaden its international scope with the opening of a new European office in the **Netherlands.**

Anyone regularly shipping product in tank containers around Asia is probably well aware of Singapore-headquartered Legend Logistics. Founded in 2012, Legend currently operates a tank container fleet of around 5,000 units and maintains a growing network of locations stretching from Australia to India. To date, though, the company has remained relatively unknown in Europe. That will change with the opening in March of the company's new European arm in the Netherlands.

"If you look at Legend, we are an asset-based company and our goal is to really focus on having services in house," says Ruben Hofland, general manager of Legend Logistics (Europe), noting that in Asia the company not only operates its own tank container depots, but also its own cleaning facilities and transport services, including its own fleet of barges and maritime vessels. However, while Legend will likely pursue a similar strategy in Europe, a complete roll-out will probably not be immediate. "For this first coming year, it's more like setting a foot on the ground, making the business stable, making sure that there is a solid customer base that we can work with and then, from there, make the next step," he explains.

Total package

Legend's European arm is already offering transports in company-owned tank containers and will initially work with suitably approved partners where needed to fulfil the logistics chain. "We have agreements with different suppliers, so we can work with third-party depots, third-party trucking companies, third-party cleaning facilities and third-party inland logistics service providers," he reports. "With their help, we can supply our customers with a total package."

The company intends to only work with reputable firms able to demonstrate a clear commitment to quality and safety. "In Europe, there's a number of certifications that show that you comply to the [applicable] safety standards and what we do is demand that our partners have those security measures and certificates in place," Hofland says.

Stating that such a requirement "is mandatory", Hofland also praises the Safety & Quality Assessment for Sustainability (SQAS) initiative managed by the European Chemical Industry Council (Cefic) for making the selection of appropriate partners more straightforward and transparent. In line with its commitment to safety, Legend's new European arm is itself currently undergoing the final stages of SQAS assessment, he reveals.

Meeting the need

Legend's responsible approach to safety is obviously good news to the chemical shippers that comprise the European target customer base. While the company's fleet primarily consists of 25,000-litre tank container designs for the transport, storage and handling of general chemicals, the company is well positioned to provide more specialist equipment should the need and economics arise. "Our strategy is to increase our fleet by 1,500 tanks-a-year and what we can do is adjust the specifications of those tank containers before they are built based on the customer's requirements," Hofland says.



While it will initially focus on spot business, Legend's new European entity is ultimately looking to service more longer-term and larger-volume contractual arrangements with blue-chip chemical companies. However, rather than specialising in the provision of intra-European transports, something already well catered for by an array of big-name players, Legend's vision lies elsewhere, with Hofland describing the company's primary focus as "deep-sea shipments from Europe to Asia, the Middle East and Oceania."

And thanks to its extensive network and knowhow in those regions, Legend can furnish shippers with an array of pier-to-pier, pier-to-door and door-to-door services, with Hofland stating that the company "can be very competitive in those locations". What's more, having previously served this market via an agent, Legend is confident that there is significant "potential for growth", something that will be made greatly more attainable by the establishment of its new European arm.

COVID challenges

Establishing a new presence in any market is never easy at the best of times. Doing so in the midst of a global pandemic is, understandably, even tougher. With travel curtailed and people working remotely from home, being able to meet clients on a face-to-face basis to develop trust and rapport has simply not been viable. And while digital technologies have come to the fore to get around this, it is nevertheless "much more difficult to build interpersonal relationships from behind a screen".

Fortunately, there are signs that the situation may be easing. Either way, Legend's decision to open an office in Papendrecht, next door to Rotterdam, makes excellent sense from a geographical point of view. The Netherlands, after all, is not only "the port of Europe", but it also commands ready access to world-scale chemical clusters and other key industrial centres. As Hofland observes, the country also boasts a well-established chemical logistics culture and is home to a wealth of talent on which the company can draw for future expansion.

Onward expansion

When it comes to expansion, Legend has been active. At the start of the year, for instance, the company unveiled a new office in Bangkok intended to enhance both its tank and box container businesses in Thailand while further bolstering its physical presence in Asia. This followed similar office openings in 2020 that saw Legend establishing operations in Medan, Indonesia and Ho Chi Minh City, Vietnam.

Shortly after the opening of the new Netherlands office, Legend landed the Special Award for Internationalisation at the Enterprise 50 2020 Awards in Singapore. Organised by The Business Times and KPMG and supported by Enterprise Singapore, the Singapore Business Federation and the Singapore Exchange, the E50 Awards recognise the country's 50 most enterprising privately-owned companies to have contributed to the economic development of Singapore both domestically and overseas over the past year.

"It is a great honour to be receiving this prestigious award from E50 and to be recognised as a top homegrown business in 2020 despite the challenges posed by COVID-19," group CEO C K Than said at the time. "We believe that this recognition will strengthen our brand and create more opportunities as we continue to expand our footprints globally. This award also further motivates us to achieve greater heights through our innovative strategies and business models."

New depot

But the company's ongoing expansion has gone beyond broadening its physical reach. Legend has also been busy vertically integrating its business upstream and downstream with the addition of inter alia marine and land logistics and warehousing services. The company, which also won the SMEs Excellence Growth Award at the ASEAN Business Awards last year, has also now ramped up its capabilities in India through the opening of a new tank container depot at Nhava Sheva.

Strategically located in close proximity to Mumbai's Jawaharlal Nehru Port (JNPT), the country's largest container port, the 20,000 m2 facility operates around-the-clock to provide customers with a host of key services. These include tank cleaning and empty unit storage as well as periodic testing and maintenance and repair work. Meanwhile, the new depot is also fully equipped to undertake unit modifications as required by customers.

Global vision

"If you look at our vision, we want to become a global operator," Hofland says. It therefore seems a safe bet that more Legend locations will open elsewhere in the not-too-distant future, with a North American arm seen as a definite likelihood. Exactly when that might happen, though, may in part depend on the how soon the planet can shake off the current COVID-19 pandemic.

Certainly, though, Legend is not a company that seems content with standing still. "We have a very strong network, which means we can offer quick turnarounds at very competitive rates. We don't only have tank containers but we also have box containers, reefer containers and we also do heavy haulage shipments. We also have other modes of transport that we can offer, which allows us to be a one-stop shop for all the logistics needs [a customer may] have," he states.

But there's more to it than just that. "If you look at the people working for Legend and the experience they have in the tank container industry, these people know what they are talking about," Hofland continues. Moreover, he observes, when doing business with someone you need to quickly ascertain whether they are trustworthy, knowledgeable and will actually deliver on what they promise. Such qualities are not only essential, he says, but "also something Legend is strong in". ■

Russian tank container market *ready for growth*

Russia's tank container industry is steadily developing in response to ever-growing local demand and the recovery of the country's economy from the pandemic, according to recent statements made by representatives of some leading Russian tank container operators and market analysts.

Unlike other sectors of the Russian economy, the pandemic has not had a catastrophic effect on the Russian tank container industry and the current situation remains stable.

According to official state data, tank container transportation in Russia fell by only 2% in 2020, slightly less than the 2.7% decline in overall rail cargo transportations in Russia.

According to Argus data, tank container transportation in Russia was 5.09 million tonnes in 2020, with exports having biggest decline, falling by 231,500 tonnes to 1.64 million tonnes. However, tank container transportation within Russia grew by 143,200 tonnes, year-on-year, to 3.45 million tonnes.

Predictions for the current year are cautious - despite a generally good situation with the COVID in Russia, and the rapid recovery of the country's economy, most local analysts do not expect a significant growth of tank container transportations in Russia this year, as the majority of local operators have no plans for significant expansions of their fleets and operations this year.

Last year, the Russian tank container fleet increased by up to 24,100 units, the largest domestic fleet owners being SG-Trans (6,600 units) and Infotech-Baltika M (approximately 5,300 units). The fleet of another operator, Synthesis Rail (a subsidiary of the transport group Globaltrans) is more than 2,000 tank containers. Dmitri Kamyshnikov, Vice President of tank containers at Baltica-Trans Logistics, said the decrease in Russian commodity exports was the main negative impact of the pandemic on the domestic tank container industry. ➔

Dmitri Kamyshnikov commented: "Domestic transportations in tank containers has been affected by a significant decrease in the transportation of liquid fertilizers and LPG, which were partly compensated by increasing volumes of deliveries of petroleum products, chemicals and foodstuffs. A significant growth was only observed in the transit of tank containers".

Analysts expect a further recovery of the Russian economy from the pandemic will stimulate demand for chemical products in the domestic market and lead to the growth of demand for tank containers. According to them, this year the market may grow by 5%.

But the growth could be even higher thanks to the tariff policy, which is currently implemented by the Russian railway monopoly RZD in regard of tank containers. This gives tank containers a considerable price advantage over rail tank cars, due to the use of a pricing method per 1 unit instead of per tonne, as in the case of rail tank cars).

According to Kirill Nikoda, director of the economic forecasting center of Gazprombank JSC and a well-known Russian transport analyst, the transport of Russian paper and acids (primarily sulphuric acid) currently remains the most transported chemical cargo in Russia, which movements growing by at least 8% in 2020. Positive market dynamics are expected for caustic soda, phenol and styrene shipments, which increased by more than 20% last year due to the growth of polymer production in Russia. Negoda and other interviewed analysts expect these cargoes will continue to dominate the Russian tank container market this year. Liquefied petroleum gas (LPG) is expected to be another promising cargo this year.

The volume of transportation by rail transport in Russia is estimated to be 17 million tons-a-year, of which no more than 0.7-0.8 million tons are transported in tank containers. This suggests the segment has a large potential for further growth.

So far, most of the transportation of LPG in Russia has been carried out in rail tank wagons, which are a lower price than tank containers. However, as the popularity of tank containers in Russia is growing, there is a possibility such a situation may change soon.

Much depends on the development of the petrochemical industry in Russia this year, and the new large-scale investment projects that could be implemented.

According to some analysts' forecasts, the domestic fleet of LPG tank containers may grow by 2-3 times by 2025.

According to Kamyshnikov, while the pandemic has shuffled the cards for the majority of leading local players, it also provided some unexpected opportunities for them "by changing trade routes and supply schemes".

Kamyshnikov says: "All those players who managed to respond to the drastically changing environment did so by swiftly switching to remote working - without the loss of communication and performance – and by providing their equipment to niches. Those that have succeeded have become stronger".

He added: "In 2019, Russian tank container operators were struggling to reduce their idle fleets by decreasing margins and offering unprecedented preferential terms to the customers. This year, however, the situation has changed".

Russian tank containers have traditionally been used as a substitute for rail tank cars but there is a possibility that this may change as the popularity of tank containers among local shippers and carriers is steadily growing.

Amid the ever-recovering global demand for commodities, Russia has good chances to significantly increase its tank container transportation for exports this year, and in the long term.
In the meantime, most interviewed operators remain optimistic regarding the future prospects of the market.

Andreas Essinger, Director Sales & Business Development of Hoyer Chemilog said: "The main positive result, which was achieved by the company in the Russian market, is the maintenance of stable traffic volumes both for imports and exports".

Andreas Essinger comments: "HRU, as part of the Hoyer Group, expanded the area of doing business in the CIS region. For example, in March 2021 we began shipping to Kazakhstan. We are also successfully conducting new projects related to the gas business in the Far East and are also focusing on local Russian tank container transportation in the domestic market".

According to Essinger, the pandemic had a negative impact on all markets in general. However, Hoyer is successfully coping with this, remaining in close contact with its customers in the region, which implies regular calls about the development of the customer's business and their forecasts.

As the demand for tank containers in Russia grows steadily, analysts expect a further increase in Russian domestic manufacturing this year.

This has been recently confirmed by Vasily Varenov, an advisor to JSC Altayvagon, one of Russia's leading wagon manufacturers. Since the beginning of 2021, the domestic wagon manufacturing industry has grown by more than 13%, compared to 2020, with growth in the majority of the market segments, including tank containers. Varenov also added: "The growth is ongoing despite high global prices for the metal".

According to Varenov, the rise in metal prices currently remains the biggest problem for domestic manufacturers of rail cars and open wagons. This significantly restricts a further increase of their output and the supplies of their finished products both to domestic market and for exports. Prior to 2015-2017, most of the Russian fleet of tank containers was made up of imported units, which was also due to the lack of production of stainless steel in the country (although in recent years the situation has changed).

Varenov believes tank containers currently remain one of the most promising sectors of the Russian open wagon-building industry, in terms of a further growth.

Most of interviewed analysts also believe one of the most important tasks for the industry this year should be the further development of infrastructure for the technical maintainance and repair of tank containers. This would contribute to the growth of laden tank container exports.

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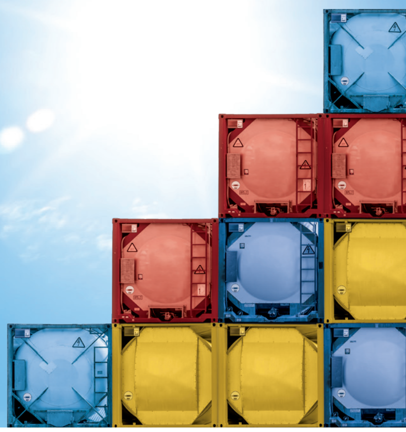
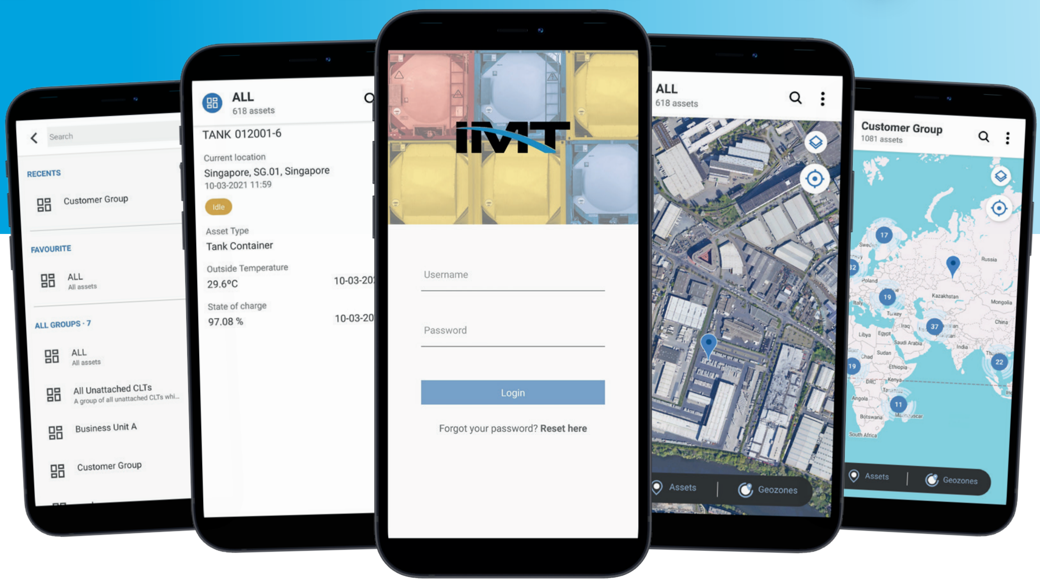


IMT Fleets App unlocks fleet data worldwide via a mobile experience



Intermodal Telematics (IMT) is expanding its telematics applications with the IMT Fleets App. The app will allow customers to have an easy overview of the fleet they are managing on a mobile device (tablet or mobile phone). The IMT Fleets App provides quick information about the whereabouts of assets as well as the temperature and pressure of the cargo when the relevant IMT sensors (e.g. Temperature Sensor, Pressure Sensor, ...) are installed. Every customer will have round-the-clock visibility over every asset anywhere in the world right on their mobile device, making fleet management even more optimised and transparent.

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