

INVESTING IN INFRASTRUCTURE ON THE MAPUTO CORRIDOR

CHALLENGES AND OPPORTUNITIES

By Ronnie Holtshausen, General Manager, Grindrod

Markets have reached record levels, the Australian Dollar and the Euro are reaching new heights against the US dollar, spot prices for gold and iron ore have shot up and all this is on the back of China's construction boom -John Garnaut.

Quote

“Huangdao was once a forgotten fishing village, a short ferry ride from the beer and beach town of Qingdao. Now, a dozen years later, it is Australia's entry point to the world's largest and fastest industrial revolution. Every 12 hours, Huangdao's waterside workers handle enough iron ore to make the steel coat hanger and support beams for the Sydney Harbour Bridge. That's 50 million tonnes of ore - 625 harbour bridges passing each year through the world's largest and most efficient iron ore unloading terminal. And yet Huangdao accounts for just one-sixteenth of China's total iron ore use.

This year China will need enough ore to make enough steel to build high-rise apartments for 19 million new urban migrants, produce 8.5 million cars, complete 17 major city airports and roll out tens of thousands of kilometres of railways, tunnels, bridges and elevated highways. As Phil Mitchell, Rio Tinto's iron ore development manager, likes to put it: "China is building from scratch a city the size of Brisbane every month."

And yet this country of 1.3 billion people is only now entering the most resource-intensive phase of its urbanisation and industrialisation - a revolution that could keep rolling on for another three decades. Car production is rising 46 per cent a year. Fixed-asset investments (such as factories and bridges) account for nearly half of China's GDP and are growing at 26 per cent.

Figures such as these explain why spot (non-contract) prices for iron ore and coal - the two core ingredients of steel - have risen 71 per cent and 38 per cent respectively this year. China's iron ore imports have risen eight-fold in just eight years. China has doubled coal consumption in five years, turning it from exporting to importing and pushing up prices paid by Australia's key coal customers in Japan and Korea. The world's 880 million tonnes of traded iron ore is governed by a quaint system of convention and tradition. When Brazil's Companhia Vale do Rio Doce, the world's largest ore exporter, strikes a deal with a major European or Japanese steel mill, it sets a benchmark annual contract price for the Japanese financial year, which begins in April.

The rising cost pressures for Chinese steel producers are in plain view down at the Huangdao. The iron ore unloading dock is serviced by a freight railway and eight-lane road, jammed with an orderly line of empty trucks waiting for their loads. On one side of the road are neat, brightly coloured 20-foot containers, stacked like Lego blocks as far as the eye can see. On the other are nearly two kilometres of neat mini-mountains

of iron ore sorted by iron content, rock size and chemical content. Some consist of the blood red lumps of the Pilbara's Mt Price, others the dustier "fines" from the Carajas region in the Amazon basin. The Chinese have also not anticipated that inadequate Australian infrastructure has forced a large portion of the world's bulk carriers to idle in queues off the coast of Newcastle and Dalrymple Bay. At Newcastle, the world's busiest coal port, the average waiting time has been 30 days this year - when the Australia-China journey takes just seven to 10 days.

While the contract price for Australian ore and Brazilian ore is roughly the same, BHP is angling for a "freight equalisation" premium because Chinese steel makers pay more for Brazilian freight costs.

The established system of buyers paying for iron ore freight was started by Japanese steel makers as a means to subsidise Brazilian producers and introduce competition against an otherwise Australian monopoly. Japanese steel makers have been relatively unaffected by this year's freight cost surge because they tend to supply their own ships. China has not been so lucky, simply because its rapidly growing fleet has not kept pace with its extraordinary demand for bulk commodities.

According to the UBS analyst Glyn Lawcock, Quote "the freight price difference between Australian and Brazilian ore has leapt from a historical average of US\$5 a tonne to US\$40. Demand for steel products is strong due to the increasing demand for infrastructure and construction in Asia, Middle East and other emerging markets," he says. The supply for steel is also increasing but not fast enough to catch demand growth." Unquote

Now what does this have to do with the Maputo corridor- everything!

The Maputo port in the early seventies handled 12 million tons of breakbulk cargo mainly because of its geographic location to Gauteng, where a large portion of South Africa's consumers and industries are located. Ports and hinterlands have since changed, and; costs of ships have escalated exponentially. Ship owners, and cargo interest no longer can afford the luxury of vessels lying idle alongside berths in ports waiting on cargo. Spot charter fees for Cape Size- TC at \$166 000 and Handy Size bulkers at \$38 600 per day is placing greater demand on the management of cargo and the entire logistics chain.

It is fast becoming a norm that all the cargo is alongside when the vessels call at terminals in ports. Also, at the mentioned freight rates, it has become increasingly important for terminals to provide world class handling equipment to keep ships at berth for the shortest possible time. To do so, terminals now have to invest in more equipment, more than would normally be required, as they can't afford for vessels to be delayed.

At the same time developments such as the Moatize terminal in Mozambique and the mineral sands project will continue to push the boundaries of existing capacities. The ability of CFM and Spoornet to gear up to meet the potential growth in cargoes such as steel, coal, magnetite and chrome and ferro chrome- all fueling the growth in China and India, will be critical.

World container port throughput has grown substantially over the last few decades and recent projections signal a continuation of this trend. Whereas direct import/export flows may be forecast in relation to forecast development of GDP, and is growing by a factor of between two/three times GDP growth, the transshipment market is determined according to the broader development of demand, and also by the policies of major shipping lines in distributing containers between deep-sea services and various regional markets.

As ship size increases and shipping line mergers and alliances continue, the economic advantage of reducing the number of port calls has become more pronounced, and this has resulted in a rapid rise in transshipment. The share of transshipment within total demand is already high, and is forecast to continue rising, as major lines endeavour to serve markets by as few direct calls as possible, thus increasing the hub-and-spoke distribution of containers. The increasing incidence of transshipment has had a massive effect on global container traffic volumes, and the average port transshipment incidence is now 47.6% as measured across key hub ports worldwide. The last 5 years have also seen a distinct shift from the traditional transshipment/natural hinterland ports to greenfield site developments whose existence is largely based on their transshipment potential. Given the underlying global trends, a positive growth outlook is anticipated for transshipments. Consequently, new port developments with a strong transshipment orientation are expected.

Against this positive background of rapidly increasing traffic volumes and the rising incidence of transshipment lies the expansion of the Maputo Container Terminal. One of the major constraints in Maputo is its ability to handle large vessels giving the restrictions of the channel with its limited draft. Dredging the channel down to at least 13 metres draft is a must if the port wishes to participate in the future export growth-particularly as larger containerships is expected to trade to South Africa in future-relegating the smaller 3500 to 4000 TEU ships to Mozambique. Increased growth will require a larger terminal with more stacking, and; in turn more land with a number of new berths and larger cranes capable of handling ships at international performance norms. It is, however, unlikely the Maputo will become a Transshipment “hub” in the near future given its proximity to Durban. It will, however, play a significant role to ensure that Mapumalanga and Gauteng cargo reaches their market destinations at the lowest possible cost.

More important is the border post link with South Africa. The border crossing will have to be upgraded and expanded and become more efficient to deal with the large volume of traffic that will be moving between South Africa and Maputo in the years to come- likened to the traffic moving between Germany/ Belgium/ Holland. A seamlessly border crossing is critical to the growth of the Maputo port. The “How” is something that that MCLI and its members must address as a matter of urgency.