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Singapore's Port Hub Plan: Smooth Sailing Ahead?

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Synopsis

Singapore's port depends on the transshipment business, accounting for roughly 85% of overall container volume. Nevertheless, the new complexities in operations and increased cost consciousness of shippers have allowed smaller ports in the region to compete with the maritime hub.

Commentary

OVERCAPACITY AND low oil prices have driven freight rates to unprofitable levels, increasing the shipping industry's pressure to consolidate. The sheer amount of logistics needed to service ultra-large container vessels (ULVCs) and mega alliances these days requires ports to have advanced logistics to stay competitive.

So far Singapore's port has been more attractive for shippers due to the multitude of services and the comparative geographical advantage it offers. Nevertheless, to stay competitive, PSA International and Singapore authorities have committed to a two-step modernisation plan, led by a strategic shift towards transforming Tuas into a major port hub.

Gearing Up for the Future

The first step is the US$2.6 billion modernisation of Pasir Panjang terminal, raising the throughput capacity to 50 million twenty-foot equivalent units (TEUs) by the end of this year. In a second step, the Tuas port project is planned to gradually consolidate container operations from 2021, more than doubling the port's current throughput capacity to 65 million TEUs.

The Tuas port will specifically cater to ULVCs and alliances with fully automated operations. To speed up transfer and loading times, PSA and the Maritime Port Authority aim to integrate port operations with a truck platooning system.

Additionally, the authorities also want to make Singapore the future LNG hub in Asia, as the number of LNG powered vessels will grow in the coming years. This is due to the International Maritime Organisation's decision to reduce maximum sulphur limits in marine fuels from 3.5% to 0.5% from January 2020, forcing vessels to either use expensive low-sulphur fuels, scrubbers, or LNG.

The question is whether Singapore's planned investments will keep it ahead of the competition.

Singapore's Competitors

Ports in Indonesia and Malaysia are undertaking, or plan to undertake, large scale investments to compete for transshipment and bunkering business. Though not all projects can directly compete with Singapore, the number of competitors might pose problems for Singapore's port in the long-run.

Singapore's competitors are currently investing in the following projects:

- The Port of Tanjung Pelepas, west of Singapore on the Malaysian peninsular, plans to invest US$2 billion to double its capacity to 22 million TEUs by 2030. Currently the port serves 26 shipping lines and has made investments to serve Maersk's Triple-E mega vessels.

- Port Klang Authority plans to invest US$45 billion for a new sea port, west of Kuala Lumpur, with a capacity of 30 million TEUs. Additionally, Malaysia's multicargo port located in Port Klang, Westports, will raise its capacity to 16 million TEUs over the next decade, while Northport will invest in new equipment to handle ULVCs and lift its capacity to 5 million TEUs by 2018.

- At the Port of Tanjong Priok in the north of Jakarta the Indonesian government plans to consolidate the cargo services of other domestic ports.

- In Johor, east of Singapore, the refinery and petrochemical integrated development (RAPID) project, is scheduled to start operations in 2019. The US$28 billion project will comprise a variety of petrochemical facilities, including LNG regasification and import terminals, as well as a liquid bulk terminal.

New Pressure for Singapore?

The question is whether the competition's investments add pressure on Singapore's port, or whether they will have much impact.

As ambitious as these projects are, it is questionable whether the ports of Tanjung Pelepas and Klang can edge out Singapore's competitive edge. Currently both ports serve only a small number of customers and may face lower international connectivity.

This is especially true for Port Klang, as an alliance of six shipping liners including NYK Line and Hapag-Lloyd, known as The Alliance, will only make one port call on one of its 32 offered routes from April. Additionally, Port Klang's mega hub plans can only be viewed as long-term project, questioning the port's growth trajectory, as Singapore may be better positioned to fend off rivals in the transshipment business.

Singapore port has offered equity stakes to major liners, in order to win back transshipment business from its nearby competitors. For example, CMA CGM, a major customer of Westports, has entered into a joint venture with PSA to jointly operate four berths at Singapore's Pasir Panjang Terminal. Additionally, the company is planning to shift its regional HQ to Singapore, while China Cosco is also increasing its cooperation with PSA in Singapore.

The idea of a China-Malaysia port and shipping alliance has recently gained some traction, especially with Malaysia's East Coast Rail Line (ECRL) project and several port projects being backed by Chinese banks. Such an alliance would involve 11 Chinese and 6 Malaysian ports to boost the shipping and logistics industries in both countries.

Additionally, the overland rail connection from Malaysia's west coast to its east coast would allow Chinese and other bulk carriers to circumvent Singapore. Nevertheless, the growth of further port facilities in the Strait of Malacca will likely intensify the intra-Malaysian competition for transshipment business, adding pressure for Malaysian ports.

In Indonesia, officials are confident to compete with Singapore for transshipment traffic. It is questionable, however, whether the investment can be competitive, as the port of Tanjung Priok lacks size and services, and will be limited to routes towards Australia.

Smooth Sailing Ahead?

On top of all these developments, Singapore's ambition to become the leading LNG bunker hub in Asia could face some serious competition from Malaysia's RAPID project. Even though Singapore will likely continue to be the bunker hub in Asia in the near-term and is the most advanced in introducing LNG bunkering, it is questionable whether Singapore can compete with the size of the project. For now, it is not even clear whether LNG will be the fuel of choice for the future.

Overall, Singapore has invested a lot into its port to stay ahead of the competition. Due to its experience and connectivity, its service infrastructure, cooperation to bind clients long-term, and its investment in modern port facilities Singapore's port looks set to stay ahead in the short- to medium-term.

Singapore's port will have to continuously adjust to market and technological changes. Ultimately, maritime trade and shipping are tied to the state of the global economy. The ability of Singapore to provide an ecosystem of comprehensive and efficient port and bunkering services will be the key to stay ahead of the competition.

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