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SHIPPING

Containers fill gap as China stretches shipping capacity

With shortage of bulk carriers, suppliers of raw materials are forced to adapt

ERIC NG

China's ferocious appetite for steel has not only pushed the prices of international iron ore and scrap steel to record highs, it also contributed to a shortage of bulk vessel capacity and stretched ports' handling capacity to their limits.

According to Nathan Frankel, president of California-based scrap steel trader Advanced Steel Recovery, it costs about US$55 to ship a tonne of scrap steel from the west coast of the United States to China, up from US$25 two years ago.

"The price of scrap steel [arriving at Chinese ports] from the US has risen four times since 2000 and doubled last year to around US$300 a tonne currently, and US steel firms are fighting to keep more of it for domestic production," he said.

Iron ore and scrap steel are used in the steel production process. Depending on the type of furnace and the products produced, the amount of scrap used in steel production ranges from 25 per cent to 100 per cent.

To get around the shortage of bulk carriers, some traders have been filling containers - normally used to ship merchandise - with scrap steel and send them to China.

The shipping cost by containers from Los Angeles to China ranges from US$10 to US$20 a tonne, much lower than the US$55 via bulk vessels, Mr Frankel said.

The relatively low container shipping charge is partly due to the fact that of the 6.6 million 20-foot equivalent unit (teu) containers that come into Los Angeles from Asia, about 4.3 million containers return empty due to the size of the trade deficit between the US and China.

However, the cost advantage of shipping by containers is eroded substantially by the costs incurred in loading them, as it takes three workers three to four hours to load a container using forklifts, and the container cannot be fully loaded due to limitations of the forklifts.

Mr Frankel said his company had commissioned a machine that could fully fill a container with scrap steel in less than 20 minutes, and required only one worker to operate it.

While it will need about US$250,000 to make the prototype, he hopes to lower the cost by producing 30 machines and licensing them to shipping companies.

Although bulk vessels' capacity may increase and freight may fall in the future if the growth of China's raw material demand slows, Mr Frankel believes container shipping fees will not be higher than bulk rates and the machine will still have a market.

Mainland demand for ferrous scrap imports is forecast to jump 27 per cent to 13 million tonnes this year, according to the China Iron and Steel Association.

China is the No1 destination for US ferrous scrap. Its 2.97 million tonnes of imports last year accounted for 25 per cent of the 11.76 million tonnes exported by the US.

Given China's higher than expected 9.5 per cent gross domestic product growth and a 23.2 per cent surge in steel production in the first quarter, demand for ferrous scrap has hardly eased despite the central government's macroeconomic measures to cool the overheating steel sector.