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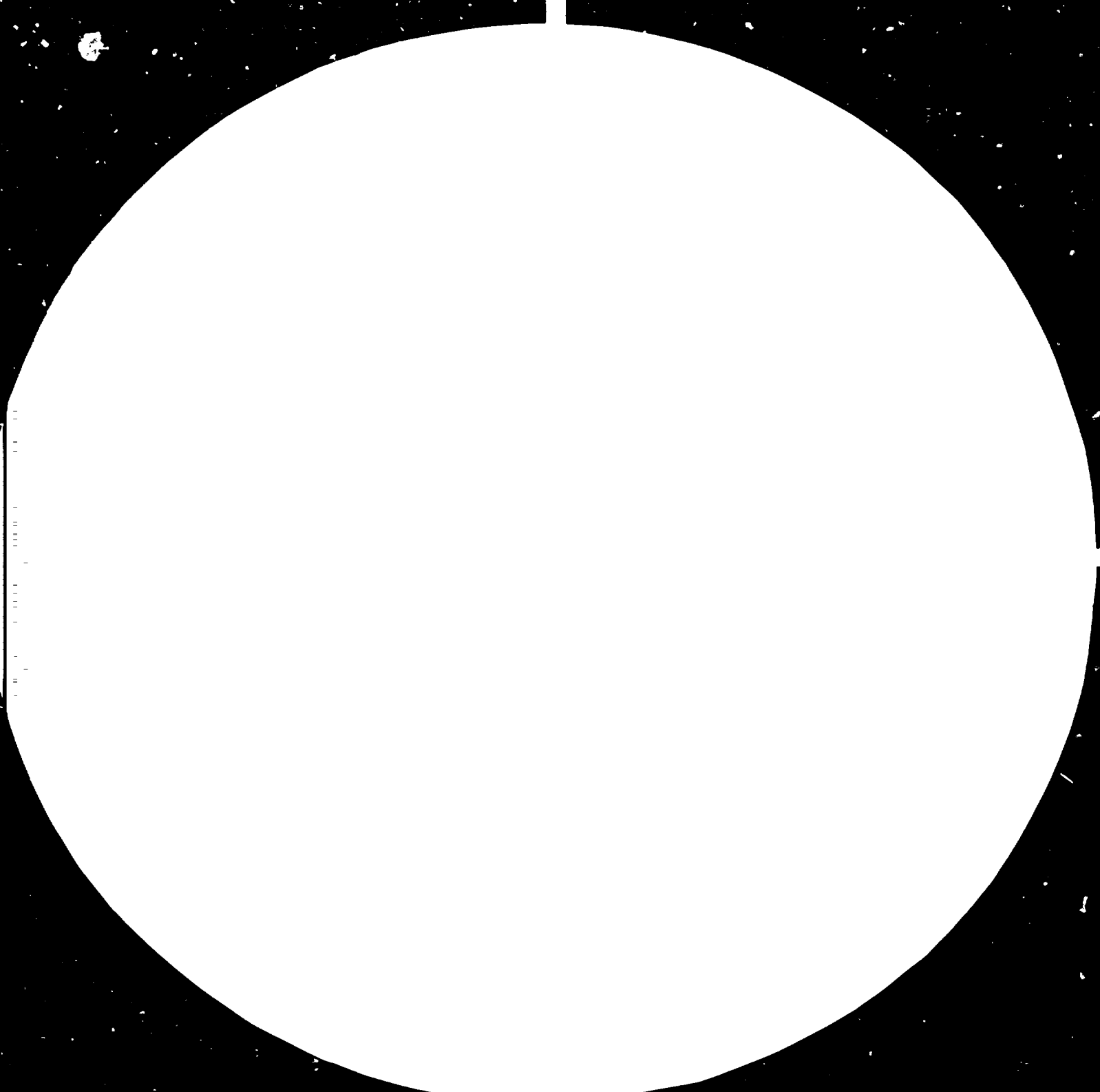
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United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.387/2
9 December 1982

ORIGINAL: ENGLISH

Global Preparatory Meeting for the
First Consultation on the Wood and
Wood Products Industry,

Vienna, Austria, 24-26 January 1983

SHIPPING PROBLEMS IN THE TRADE OF
TROPICAL TIMBER *

Discussion Paper

by

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This paper concerns itself with the shipping problems in the timber trade with the developing countries with special reference to tropical timber.

All aspects of shipping problems shall be looked at, to see what progress has been made in reducing handling costs, and what could be done to reduce these costs further.

1. Introduction

Transport costs in general play a disproportionate part in the cost of tropical timber and ocean freight rates represent a high proportion thereof. This, alas, is an inescapable fact since timber is a bulky commodity which has to be transported over comparatively long distances to reach the consuming countries.

On solid logs from West Africa to Europe, Southern Mediterranean and USA, the freight element can come to over 50 % of the FOB value.

Some examples for instance of logs to Italy:

TIAMA	from the southern range	about	47 1/2 %	of the FOB value
	from the northern range	about	41 1/2 %	of the FOB value
SIPO	from the southern range	about	27 1/2 %	of the FOB value
	from the northern range	about	24 %	of the FOB value
FROMAGER	from the northern range	about	54 %	of the FOB value
ANEGRE	from the northern range	about	30 %	of the FOB value

To France cheap secondary species such as:

FARO etc.		about	60 %	of the FOB value
SIPO		about	27 1/2 %	of the FOB value
IROKO		about	33 %	of the FOB value
AFRORMOSIA		about	22 %	of the FOB value

From the Far East the majority of logs go to Japan, Taiwan and South Korea on chartered vessels and on an FOB value of about US\$ 100 per cubic metre from Indonesia the freight rate comes to about \$ 20 or 20 %.

In spite of the fact that in 1980 tropical logs represented about 80 % of exports against 20 % of sawn timber, this paper will deal mainly with sawn timber, as the producing countries are trying to remedy this imbalance

and the export of logs is bound to be drastically reduced through increase in sawmilling and building of plywood factories and restrictions by the exporting countries on the export of logs.

The following tables illustrate the approximate proportion of shipping costs on various species of sawn square edged lumber in a good quality and length specification.

(1) From the Far East to Europe

KERUING	about 35 %	of the FOB value
RAMIN BY LINER	about 20 %	of the FOB value
RAMIN BY CHARTER	about 16 %	of the FOB value
DARK RED MERANTI	about 18 %	of the FOB value
LAUAN	about 17 %	of the FOB value

From West Africa to Europe

SAPELE (ENTANDOPHRAGMA)	about 23 %	of the FOB value
IROKO	about 31 %	of the FOB value

South America to Europe

BRAZILIAN MAHOGANY	about 17 %	of the FOB value
VIROLA	about 29 %	of the FOB value
CHILEAN SOFTWOOD	about 94 %	of the FOB value
CHILEAN SOFTWOOD TO KUWAIT BY CHARTER	about 80 %	of the FOB value

Papua New Guinea to Europe

KAUVULA KILN DRIED BY CONTAINER	28 1/2 %	of the FOB value
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Far East to USA

LAUAN TO WEST COAST	about 15 %	of the FOB value
LAUAN TO EAST COAST	about 21 %	of the FOB value

Of interest in this connection is to mention plywood where from Malaysia/ Indonesia the freight represents about 21 % of the FOB value.

Whilst container transport will form a separate subject later in this paper, it should be shown here that a sophisticated production of sawn planned and kiln dried, free of all defects, further processed timber such as doorlippings, polythene wrapped, and packed in containers has a freight element of about 8 1/2 % and bigger components which prevent optimum filling of containers about 16 %.

It is interesting to notice the relatively low freight of 28 1/2 % on KAUVULA from Papua New Guinea which after all must be about the furthest distance timber can be carried, which without containers could not be safely or economically carried.

If exporters wish to dispose of a lower grade or a less good specification the FOB price is reduced and thus the proportion of freight costs increases further.

There have however been some cases where special lower freights could be negotiated to promote secondary species, but this was only possible with Conference Lines. Moreover some Conferences have produced different tariffs both for logs and lumber also based on weight.

Equally from the Amazonas Region in Northern Brazil, the Conference Lines to Europe agreed to charge a lower freight on timber of an FOB value below US\$ 330 per cubic metre to assist in the promotion of secondary species.

2. Structure of freight rates, according to distances and degree of processing

That distances of voyages should play a big part in arriving at a freight rate, is a logical conclusion, but where Lines are being used for transport this structure has been thrown overboard. Looking at the tables under (1) it will be seen that Dark Red Meranti on its long voyage with a FOB value in the range of Sapele, carries a proportion of about 18 % for freight, where as Sapele from the so much shorter distance carries 23 %. A good many reasons such as port facilities, outward cargo, etc. have been put forward as arguments by the Lines but in the end, it is competition which really brings about freight reductions.

In the Far East there is much freight competition. Large quantities of cargo go outward and on the whole ports are good and efficient. This unfortunately is not the case throughout West Africa.

In the Far East there is now no conference on timber and the Far Eastern Lines work independently and have become realistic in meeting competition, but one must be aware that this may only continue until such time as it proves to be uneconomic.

When chartering for one specific voyage then of course the distance plays a vital part in the cost of the charter.

In a few cases freight rates increase with the value of the cargo but not in all areas and mainly by those Conference Lines who are asked as previously mentioned to reduce rates for promotion of secondary species.

3. Conference Lines versus chartered ships, advantages and disadvantages

To the above heading we must today add Lines outside the Conferences, a development which has brought great benefit to the trade and covers mainly the Far East. These Lines own or charter vessels and try to provide in competition to each other a regular service.

Some of these Lines are financially strong, others not, and there is always the danger that if economics force them to give up, the few remaining ones will try to form a Conference.

Conference Lines were thought to charge what they thought the traffic would bear. Now that there is no Conference in the Far East the freight rates are lower.

Some of the Lines from the Far East were previously in the Far East Conference but were wise enough to see the danger and realistically disbanded the Conference. There are about six Lines today which call regularly from the Far East to Western Europe and a few outside Lines which call from time to time, the same applies to the Mediterranean. Each of these lines issue their own freight rates which vary by something to the order of 10 % but are in practice negotiable. Equally, discounts on volume are not unusual.

Chartering

If the volume is available, when needed, this is on paper the best method, but some of the drawbacks will be pointed out hereafter.

There are for the receiver or exporter two methods of chartering.

(a) A vessel can be chartered for one specific voyage at a lump sum which allows an agreed time for loading; this usually excludes time lost through weather hazzards.

Equally, there is an agreed time for unloading. The best charter is obtained covering one stipulated port of loading to one of discharge. If more than one port either way is required, the cost increases. To get the optimum one must ensure that all the cargo to fill the ship is ready for loading at the agreed estimated vessels arrival time and as most charters are on a free in and out basis, it is important that an experienced and efficient work force is available to lift the cargo to ships tackle and the same at the unloading port or ports. Otherwise demurrage costs are incurred.

If the ship receives less cargo than foreseen, dead freight is an additional cost to the charterer as it increases the freight cost of the cargo.

(b) Alternatively, a time charter can be entered into, which puts the charterer more or less into the position of being for the agreed period a ship owner. This allows free movements during a given time but does not alter the fact that full cargoes are needed and speedy loading and unloading is important. Experienced advice is necessary in order to be properly protected in the Time Charter contract against extraneous happenings to the ship.

To arrange full cargoes for chartered ships in the tropical hardwood trade one has to rely by and large on logs and good port facilities do help. Logs are also in many places rafted, but safe anchorages will be looked for.

With sawn lumber, which today has to be bundled, there are less areas where sufficient sawn lumber can be concentrated at one/two loading points to fill a complete vessel and there are not many buyers who can take a mixed cargo of logs and lumber.

To take advantage and get the best benefit of chartering this should be done by the exporter who has better control of the loading and who can through selling to various receivers combine cargo and ship both logs and lumber to various buyers.

Conference Lines quote generally the higher freight rates but offer better protection to the cargo owners; they give a regular and continuous service and call by and large at many ports according to a schedule laid down. Except for

some special ports, where a minimum inducement is required and this in itself is relatively small, they combine their calls with other cargo to pick up and or outward general cargo to discharge. Conference Lines have established agents in most loading ports, they do try and charge the maximum freight rates they think the trade can afford, but in some areas like in West Africa they cannot vary their rates without consultation and agreement with the various Government Authorities.

It is hoped that the Office Africain de Bois in Libreville sits in on these discussions and effectively helps the timber trade as the Government Authorities in West Africa have to consider various aspects and are being lobbied by their own shipping lines particularly when they form part of the Conference.

The normal logic of distance, as has been said before, does not appear to play the part that would be expected from it, and this is particularly evident with West Africa as previously pointed out. One reason often put forward is that certain commodities from West Africa are being carried at a lower freight rate than is economic, and Conference Lines are under pressure to do so. The result is that when the revenue shipping lines obtain is deducted from the total cost of an average voyage, freight rates are then worked out for all the other cargo such as timber; thus timber may pay a higher freight rate than strictly necessary and subsidises some of the bulk cargoes like sometimes Cacao, sometimes Palm Oil or others. The result is an anomaly in freight rates which after all should be based on the number of days a voyage lasts, wages, fuel amortisation of vessel, food, etc.

This is not properly reflected in the West Africa Conference rates.

Other factors to be considered such as loading and unloading time, port and other contributions are more carefully studied.

From the above short outlines it is understandable where possible and practical chartering is aimed at. Obviously on paper this represents a big saving. On the other hand the receiver can be faced with unknown extras and has the added problem of having to pay for a very large cargo involving handling complications and high interest costs. Logs can and are usually left in the open and thus be easily accumulated to await a chartered vessel, sawn lumber on the other hand, if sufficient quantities can be got together, needs careful protection. If this is available, then advantage can be gained from

chartering as has been done in sawn Ramin from Indonesia to Italy and Brazilian Mahogany and other hardwoods from Brazil to USA, to mention two examples.

It should be re-emphasized that the best people to charter for sawn timber are the shippers themselves, who control production and transport to the vessel and have various contracts to buyers in one country. This has happened in the Philippines with success. Shippers from the Philippines on other occasions negotiated with Lines a special freight on a quantity inducement reducing the freight by more than 10 % by combining shipment on one vessel to various receivers. It is the usual question of supply and demand. In times of recession good bargains can be struck and in better times bad loading and bad unloading ports as well as congested ports will not be well served and equally subjected to higher freights or surcharges.

4. The problem of handling methods

To achieve some saving on transport and handling, different bundling rules have been studied and today all sawn lumber is bundled along certain Lines by consultation with shippers, shipping lines, receivers, etc.

Sawn timber shipped loose is a thing of the past. The so called ideal large package, flush in widths and lengths is rarely possible, but the solutions found worked well to speed up loading, waste as little freight space as possible and could be arranged by the sawmill/exporter and handled by lorries at the port of arrival. Some years ago the Timber Research and Development Association of the United Kingdom undertook a comprehensive study in West Africa and elsewhere and its report was enthusiastically accepted and acted upon. Other areas and shipping lines based themselves with some variations on those recommendations.

5. Development of new transport and cost saving methods

To develop new transport cost saving methods for sawn/or further processed lumber we shall have to revert to the use of containers which in the case of tropical timber is still in its infancy, but it must be the future method of transport. Once in a container the risk of damage in transit has more or less gone, the cargo can safely be transhipped and the insurance risk of losses through pilfering etc., on a warehouse to warehouse basis is practically eliminated. To this end shipping ports must be able to handle containers in addition to other problems.

For instance, if sawn timber is stacked in a container for any length of time it must be very well seasoned to avoid deterioration. If timber can be kiln dried then this problem is eliminated. Extension of kiln drying facilities in the producing countries is very important and well recognised by most. Great headway has already been made in building kilns in Malaysia, Brazil, Philippines, Papua New Guinea, but not enough in West Africa.

Processed dimension stock from Malaysia is mainly kilned and shipped by containers.

Whilst our subject is dealing with tropical hardwoods, it should be mentioned here that the majority of temperate hardwoods shipped out of Canada and the United States comes kiln dried in containers.

It is very much hoped that all others will follow as this is the future for transport. Most tropical hardwoods are finally used kiln dried to an agreed moisture content, which may vary, but about 15 % would be satisfactory for transport by containers.

The extra cost of kilning can be recouped from the buyers. Kiln drying also shortens the seasoning time at the mill who otherwise have to wait to get the timber from fresh off-saw to shipping dry.

Another problem with containers is very similar to the one of the charter vessel. A 20' or 40' container costs a lump sum thus it has to be filled to a maximum capacity; otherwise unoccupied space is paid for and the cost per cubic metre goes up. The width problem is easier to overcome than the length, and it requires study and experience to get maximum volume loaded. Loading of containers must be done to facilitate unloading by forklift. There are three types of containers, sideloaders, endloaders and open ended containers. The latter are not usually accepted by receivers, the other two are accepted by most receivers but this must also be established beforehand. Another great advantage of containers is the fact that they can easily be transhipped and this increases the scope of sales, as transhipment of timber by conventional methods is for obvious reasons not popular.

There are of course certain hardwoods such as Sapele from Africa and Keruing from the Far East which like some other hard and heavy woods can travel in containers without being kiln dried. Research into these problems is very important and the sooner we get access to unified research by the various research stations in the world, the better for all concerned, as this will increase the possibility of shipping by container. The comparison of container freight rates to conventional

freight rates is difficult as the former is Ex Container Base and thus includes port handling and some inland transport savings on arrival.

On today's depressed conventional freight market container freights would appear to be higher though handling and discharging costs lower. Example, doorlippings from Malaysia:

The freight per container works out at equivalent US\$ 79 per cubic metre, as against the bulk freight of US\$ 69 per cubic metre, but with a saving of about US\$ 13 per cubic metre handling costs on discharge. This will show a nett saving of about US\$ 3 per cubic metre and it will be seen that this shows an advantage and bulk freight rates are officially more in line of US\$ 72 - US\$ 75 though today one can negotiate them down to US\$ 69. Bigger components from Manila have been freighted at US\$ 67,44 by container against US\$ 65 the lowest bulk carrier freight, but again the US\$ 13 saving on port handling needs to be stressed and the general freight of bulk carriers is quoted as US\$ 72 - US\$ 83 to which it may well revert one day from the US\$ 65 mentioned.

Conclusions

Timber is and will remain a very important commodity and all parties will have to study continuously to find cost saving methods to keep the costs competitive for the user against substitutes. It is a vital export and revenue for most developing countries, but its exploitation and handling is still often wasteful.

Most of the Government Authorities in the timber exporting countries are fully aware of the problems. There is, however, a need for shippers and sawmillers to form a federation committee to liaison with their Government departments on transport and shipping questions. This, it is hoped, will help to make port facilities efficient and to have good inland access to the port if by road or rail and, last but not least, to train good and efficient stevedores and port labour. Quick turnover of ships helps to obtain lower freights.

The changeover to bulk carriers by many Conference Lines and some Ex Conference Lines which makes the use of stowage facilities less wasteful for timber carrying has already helped towards keeping freight increases down.

No appreciable saving on log freights can be envisaged. This trade depends largely on the world freight market, it is mainly a charter cargo and likely

to decline in volume. Containerization on the other hand, with its many advantages to the consumers and ship owners, should be in the forefront of everybody's thoughts in the exporting countries.

Good and close relations should be maintained with all shipping agents so as to be aware of the general freight market. To remain on good speaking terms with the shipping lines is advisable as in the long run they may well prove to be useful carriers; many of them are also interested in the container transport. It should be borne in mind that some of the smaller lines which today quote lower freights, may find the traffic eventually uneconomic and fold up. Financial loss and other inconvenience could result therefore for consignor or consignees and there have already been such cases. Conference Lines have in the past tried by all sort of means, such as loyalty rebates etc., to control the market, but on timber this today really applies only to West Africa and is no more really effective.



