



## MARKET UPDATE

### Container shortage in China

Currently, the container industry faces a container shortage in China. There are a number of reasons for this shortage. From April this year, all new-built containers in China need to be painted using waterborne paint. Some 95 percent of the world's container production takes place in China and the industry is a substantial contributor to the high level of air pollution, so joint action was necessary to tackle the problem. This new Chinese regulation is slowing container production. Due to this change, some companies were reluctant to place orders for containers. This is a good indication of the resistance of the industry when it comes to change.

Recognising that the cost of manufacturing containers using waterborne paint is higher than solvent-based paint and that container buyers would suffer a price penalty by nominating waterborne paint this is a win for the environment. Waterborne paint will initially be more expensive than solvent borne and the application and drying of the paint on the containers will add cost, so it is anticipated that the price of containers will rise but the exact premium is difficult to forecast as it will depend upon commercial considerations as well.

Shipping lines suffered increased problems with the repositioning of empty containers to China, mainly due to the start of new Alliances in April. These alliances have created a lot of uncertainty for the shipping lines, as

they do not know how much space is available on ships. The same is true for the availability of containers. Shippers foresee problems due to this shortage. As a response to this, they have started earlier with the transport of goods to Europe before the traditional peak season starts in August, September and October.

The bankruptcy of Hanjin is still felt in the container industry, especially by leasing companies. Hanjin containers are still being held by depots and terminals all over the world. Leasing companies focus on moving these containers back and are not investing in new containers. So at this time less containers are available. With the use of 4FOLD shortages can be avoided. The repositioning of bundles of 4FOLD instead of standard containers creates space as well as saving costs. 4FOLD is a win-win and generates a faster turnaround time for equipment as well as flexibility in repositioning.

Due to above reasons, there is a

container shortage in China. Currently all leasing containers returned by shipping lines in China are immediately booked by others. Even containers that were targeted for sale are again put into normal lease. This means that less containers are available for sale, leading to an increase in container price. This is confirmed by container manufacturers as they are reporting much higher container prices. The per diem rates of lease containers are rising as well and these are expected to continue to rise for the rest of the year.

This increase in the price of the standard container in combination with the container shortage creating higher purchase and lease prices is not bad for the container industry. It also proves to be beneficial for HCI's efforts to reduce the cost price of 4FOLD. The cost gap between 4FOLD and standard containers becomes smaller, not only due to HCI's effort, but also in a more organic way. The cost of painting has



now seen an increase in the price of materials (paint) and also an increase in labour. The paint process of HCI was already more labour intensive than for a standard box and is actually expected to be less influenced by the higher material and labour costs, as it fits well in the new system.

The increasing price for standard containers, while the cost of 4FOLD is coming down, lowers the financial threshold for adoption.

## CLIENTS

### Pan Ocean

Pan Ocean recently started a trial with 4FOLD. HCI provided a folding training and demonstration in Qingdao as kick start of the trial. Thanks to our sales agent BJ Chun, Pan Ocean came on the 4FOLD radar. Pan Ocean operates 4FOLD between Qingdao and Incheon, a route well-known for its imbalance. Currently, boxes are on their way back to Qingdao. Pan Ocean is very satisfied with the economic savings and has already inquired for more boxes. Their aim is to increase the number of 4FOLDs and benefit from the economic savings and the increased flexibility provided by operating 4FOLD.

### Emirates

Emirates Shipping Line uses 4FOLD between Shanghai and Jebel Ali. In a growing world of standardization, Emirates Shipping Line prides itself as a responsive organization with individually adapted solutions. Emirates struggles with empty repositioning on some of their routes, especially between U.A.E. and China. This is why they are investigating the use of 4FOLD there first. They are looking into other routes where 4FOLD can be deployed as well and they see great opportunities in efficiency and cost savings.

### Transworld Group

Transworld completed their second roundtrip with 4FOLD between Mundra and Tuticorin, both located in India. Transworld is now analysing the roundtrips. Transworld has big plans to become successful with 4FOLD and they would like to increase the number of 4FOLDs in their fleet when the savings have been proven. In parallel, Transworld is checking out other routes where 4FOLD would be beneficial, for example in their international routes.

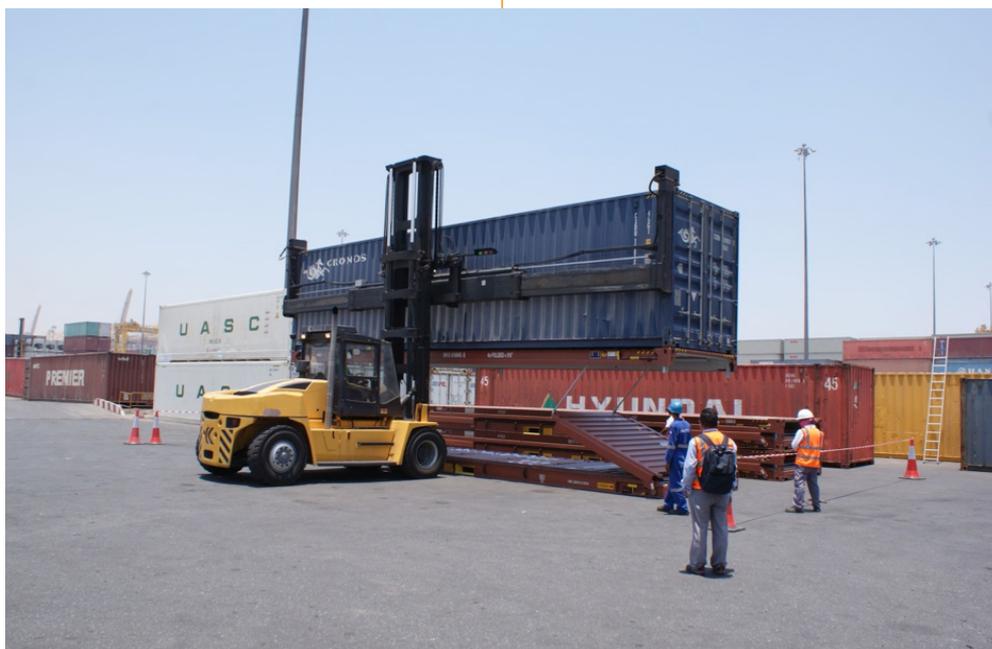


### Sinotrans

The necessary discussions with China Rail are close to being concluded, so Sinotrans will soon be ready to start the trial of 4FOLD from Dongguan, China to Almaty, Kazakhstan. The expectation is that the first full 4FOLD container will be transported July. Sometime later all four 4FOLD containers should have arrived in Kazakhstan. After the return of a folded bundle to Urumqi in China the savings will be reviewed and the next step will be planned.

### Multimodal Container Services

HCI notices a strong market demand from rail operators/forwarders to start using 4FOLD containers, specifically in combination with the resurgence of the Silk Route. China is investing USD 40 billion over the next five years in the railway connection between China and Europe. Containers are used for expensive goods, like laptops or car parts, and need to be transhipped two additional times because of the difference in track gauge between China, Russia, Kazakhstan and Europe. The train mostly drives back empty wagons because of the imbalance between Europe and China. It is not a coincidence that besides Sinotrans, MCS is also using 4FOLD on the rail. This Russian logistic operator is the first company that operates 4FOLD on Russian rail. 4FOLD is transported between Vadivostok and Moscow. In Moscow the container was demonstrated to the MCS management at the Tetris Container Terminal. MCS is very enthusiastic about 4FOLD and next to the current



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### Transport and Logistic Munich

HCI visited the Transport & Logistics fair in Munich. At this fair HCI had some fruitful meetings with some very interesting rail operators and shipping lines. Soon new clients are expected to be contracted based on these meetings.

### Press

The previous quarterly update generated significant attention from the press. 4FOLD is becoming more and more well-known within the container industry. The growing number of operators is recognized by the press as they are spreading the word that 4FOLD is growing. For example, HCI was mentioned in World Cargo news, Hansa and Europort Kringen.

Articles are accessible through this link:

<http://hcinovations.nl/category/press-2017/>

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### AGENDA

#### Q3 2017

##### Ongoing

- Oct 2016 – Sep 2017 / Visit the 'Maritiem Museum' in Rotterdam for an historical overview of shipping in Holland. Innovation is also covered, with a large display for 4FOLD and HCI

route between Shanghai, Vladivostok and Moscow, MCS is looking for other routes to expand their 4FOLD fleet.

### COMPANY

#### Sales Agents

HCI has formed, or is in negotiation for, strategic partnerships with several sales agents around the world. This gives HCI multiple sales offices around the world, allowing HCI to serve a growing number of clients, including many of the largest shipping lines in the world. HCI will also actively sell 4FOLD through their sales force. Sales agents have local contacts and knowledge, which is too time consuming and costly to gain for HCI by itself.

With the help of these sales agents, it is also possible to market the 4FOLD for applications outside the shipping

market. Entering the foldable container market for local uses (per country) and special uses (military units, United Nations, temporary housing, disaster recovery units, aircraft parts shipping, etc.) are financially very attractive.

HCI is proud to announce that it has expanded their network with Mission Line as sales agent in South America:

<http://missionline.com.ar/en>

and Stroomi for the Russian market:

<https://www.linkedin.com/in/irinatskiti/>

Please find the new webpage for 4FOLD Sales Agents here:

<http://hcinovations.nl/4fold-sales-agents/>



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