# FREIGHT RATES

## WHERE IS THE CONTAINER INDUSTRY HEADED?

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Containerships continue to grow in size, as evidenced by MOL's recent order for 22,000 TEU megaships, carriers, shippers, ports, and governments are beginning to ramp-up orders to deal with the financial, logistical and legal ramifications of such ships.

Much as carriers and shippers need to work as partners in moving cargo so each side earns a profit and reliability of vessel schedules remains a joint priority, ports and port operators also need to be brought into the same equation. The larger vessels employed today bring an incredibly complex choreography with them into each port; just last week in the Port of Los Angeles, the Maersk Evora loaded and unloaded a record total of 24,846 TEUs between October 17-22, 2017 which Maersk is claiming is a new world record for a single port call. It's more than just loading and unloading boxes: One needs to visualize the planning needed to coordinate the rail, trucking, chassis availabilities and customs documentation.

Worth noting is the Maersk Evora, rated at only 13,492 TEUs, imagine what megaports such as Hamburg or Rotterdam might accomplish with an 18,000-20,000 TEU vessel.

Questions are rising about market growth, the importance of scale, the evolving industry structure, and how to drive productivity continue to loom as large as they did in the 1960s when containerization became the new shipping standard for non-bulk cargo.

### UPCOMING LEGAL ISSUES

The United Nations Conference on Trade & Development (UNCTAD) released its *Review of Maritime Transport 2017* on October 25, 2017. With over 80% of global trade by volume and more than 70% of its value being carried on board ships and handled by seaports worldwide, the importance of maritime transport for trade and development is vital to world economic growth and stability – and UNCTAD is worried about its future. The writers of the *Review* believe the recent spate of mergers and takeovers within the container industry, and then further reduction of competition due to the current group of alliances. Its report states there are risks to shippers and ports and the current economic expansion due to the recent mergers and subsequent alliances.

Continued investment in ever-larger ships does not create demand, the report says, and in fact UNCTAD Director of Technology and Logistics. Shamika Sirimanne has said that "the risk is that growing market concentration in container shipping may lead to oligopolistic structures."

The OECD is already aware of the growing market concentration of the remaining carriers, Olaf Merk, the Ports and Shipping expert at the July

International Transport Forum, noted how the top four carriers control 53.8% of the global container market.

UNCTAD is concerned that the takeover of Chinse container shipping company Orient Overseas Container Line (OOCL) by COSCO and the upcoming merger of the three big Japanese box carriers will leave only seven global carriers by the end of 2018 – which is half of the number of global carriers only ten years ago. Equally ominous is that there are now only three alliances on the major east-west trade lanes, down from four only a year ago.

There are now only three or even fewer shipping companies per market, and recommended that regulators monitor developments in container shipping mergers and alliances to ensure there is competition in the market.

In view of the UNCTAD report, its Director said that it would be worth watching the Chinese, EU, and US regulators to see if they consider new regulations governing consortiums and alliances in order to prevent rate abuses, and to balance the interests of shippers, ports and carriers.

## LARGER SHIPS NEED LARGER PORTS

Ports are under pressure from megaships, as well as vessels of 10,000 TEU capacity or larger. As the megaships displace 7,000-10,000 TEU vessels, larger ships fill the routes taken by the 5,000 TEU Panamaxes. The problem however, is there is not sufficient cargo for the larger ships to bring into the smaller ports, which makes rates drop.

Although increased investment is necessary for ports to improve their ability to service the larger ships now arriving, the amount of money needed to accommodate the larger ships may not be worth the extra cost, unless the bigger vessels guarantee more cargo. Otherwise, ports will have invested in larger yards and additional equipment to handle the same total volume.

Between 2000 and 2016, a total of US$68.8 billion in private investment was committed to 292 port projects aimed at improving port infrastructure and superstructures. Private operators not only improve port infrastructure and services, but also contribute to better port sustainability and competitiveness, bringing new technologies and improving supply chain management, as well as up-country access and connectivity.

## MEGASHIP RATES

Ocean freight rates have indeed in recent months taken a dip. You can wonder what in 2018 might serve to reverse this trend. Yes, box rates remain higher than those ugly pre-Hanjin lows, but the tidal wave of new mega-ships now in service, or arriving in 2018-2019, may have some effect.

The problem of too many boxes and too little cargo was felt in particular by the container shipping market, which last year experienced a collective operating loss of $3.5 billion.

Slower demand than earlier projected, coupled with a large influx of vessels, led to a continued oversupply of shipping capacity, as UNCTAD Secretary-General Mukhisa Kituyi, explained.

Increased consolidation among carriers could bring some order to a market in need of better supply management and improved efficiency, and the pooling of cargo could improve economies of scale and reduce operating costs.

Risks may be associated with the recent mergers and mega-alliances among container carriers. If all the newbuilds are delivered according to schedule, by 2019 some 125 vessels on the Asia-North Europe trade would be 18,000 TEU capacity or larger. Alliances and mergers are window-dressing a rate problem set to be exacerbated by the upcoming tidal wave of 18,000–22,000 TEU megaships; outside of the few ports on the east-west China-Europe lanes, the only ports in the US that can handle a megaship are Los Angeles, New York, Norfolk and Savannah – and surprisingly, there are no megaships assigned to the profitable China – US West Coast or China-US East Coast lanes.

Perhaps the carriers realize that adding megaships would cause the rates to drop on the otherwise profitable China-US lanes, as currently, despite slow-steaming and phantom voyages, the megaships basically only serve the China-Europe lanes.

This concentration of containers looking for cargo could serve to knock down those rates, then the law of unintended consequences kicks in, and the weakness in the China-Europe lanes infects other lanes with their newly cascaded vessels also lowering rates in order to attract cargo.

Naturally and in most cases, shippers do hope that rates will continue to slump and they can call a "win". This is especially if the recent General Rate Increases (GRIs), or temporary freight price increases observed across the US, don't stick. That still remains to be seen. However, it is the ports who will lose out as they are stretched financially in order to make the investments necessary to service the larger ships cascading into their berths. In addition, as carriers buy each other and competition lessens, as UNCTAD fears, have the shippers in fact 'won' if rates rise?

One only needs to look at the American airline industry to see what happens to rates when the carriers buy each other and competition disappears: higher rates. Re-jigging alliances does nothing substantial to address the imbalance of cargo versus containers on the China-European ports that can handle the megaships.

## WHAT DOES THE FUTURE BRING?

Although rates are up from their post-Hanjin 2016 lows, they have been dropping consistently through the summer and early autumn until October, 2017.

However, despite the continued rise in trade due to the global economic revival, the upcoming tsunami of over-20,000 TEU capacity megaships threatens to upend this fragile rate recovery, as they overwhelm the China-Europe lanes, and as carriers move their ships into the smaller ports. A cascade of new ship deliveries may be marked by cascading rates. Who knew the ancient Chinese sage who said 'may you live in interesting times' was talking about the container rates and the box ship industry.


## ABOUT THE AUTHOR

Patrik Berglund is the CEO and Co-Founder of Oslo-based Xeneta, the leading price comparison platform for containerized freight transforming the shipping and logistics industry with data analytics. Berglund, a logistics and tech-enthusiast, possesses a true passion for modernizing business processes related to logistics procurement and the supply chain. He has in-depth logistics and transportation experience from several years at Kuehne + Nagel in various roles and also as Co-Founder of Nordilog, a logistics consultancy firm. Berglund was the 2016 recipient of the prestigious Lloyd's List Next Generation in Shipping award.


## ABOUT THE ORGANIZATION

Xeneta is the leading ocean freight rate benchmarking and market intelligence platform. It's easy-to-use yet powerful reporting and analytics platform provides shippers and freight forwarders the data needed to compare their shipping prices against the world's largest database of contracted rates – reporting live on market average and low/high movements. Xeneta reports on over 35 million contracted rates and covers over 160,000 global trade routes optimizing companies' container rates procurement. Xeneta is a privately held company and is headquartered in Oslo, Norway.

## ENQUIRIES

Website: www.xeneta.com