MONTHLY CONTAINER SHIPPING BAROMETER

August 2023

Freight rates: the shipping companies have adapted their strategies

Faced with the fall in container shipping freight rates, MSC is continuing to chase after additional market share with support from the leading NVOCCs. Its competitors, meanwhile, have opted for a defensive strategy.

Month after month, it is becoming increasingly clear that the recovery in the Chinese economy, which had been expected after the country abandoned its Zero-Covid policy, has not taken place. China is suffering from the low level of Western demand, which has affected orderbooks, while domestic demand has been unable to make up for the shortfall in external demand. The property bubble is bursting and, in this uncertain environment, Chinese households prefer to save. **The difficulties of the Chinese economy are not good news for European container shipping companies.** MSC has opted to respond with a very offensive strategy, while most of its competitors have preferred to take up defensive positions.

Highlights of August

- ***The deterioration in the financial results of shipping companies***

TOP 3 European Container Shipping Lines H1 2023 / H1 2022						
Company	Revenue (Million US$)	H1 2023 / H1 2022	EBITDA 2023 (Million US$)	H1 2023 / H1 2022	Volume (TEU)	H2023 / H2022
MAERSK	27,195	-33.6%	6,874	-64.6%	/	/
• Incl. Ocean Segment	18,576	-43.7%	5,611	-68.5%	11,260,000	-7.7%
CMA CGM	25,011	-33.7%	6,028	-67.4%	/	/
• Incl. Ocean Segment	17,222	-44.2%	5,235	-70.4%	10,620,000	-2.7%
HAPAG LLOYD	10,839	-40.9%	3,772	-65.1%	5,807,000	-3.4%

© UPPLY - Data source : shipping companies financial publications. MSC does not figure in the table since it does not publish accounts.

The fall in freight rates, which has been in evidence since summer 2022, has naturally had an impact on shipping companies' results in the first half. The leading European companies saw their container shipping **revenues fall by 40-45%**. Their operating costs also fell but not in the same proportions, with the result that EBITDAs fell sharply. The diminution in cargo volumes remained modest, which indicates that there was big reduction in revenues per unit transported.

- ***MSC races for market share***

Against the background of this weakened market, the shipping companies have had to try resolve a complex equation involving revenues, EBITDA and market share. **Chasing market share involves a certain cunning**, since companies needs to maintain a strong presence on east-west routes to be able to claim to be a global carrier, while, at the same time, taking advantage of remunerative niches in the north-south and shortsea trades.

Allowing revenues to drop in excessive proportions means reducing the company's liquidity and its ability to win new business on a market ruled by predators. **MSC, which does not publish its financial results, has clearly opted for a highly aggressive revenue strategy.** With freight rates reduced threefold, the equation is simple. It means that the company has to transport three times more cargo by volume. To do this quickly, the only option available to the company is to turn to the big NVOCCs with offers on very attractive terms. This is what is happening. In the battle between the shipping companies which have chosen to integrate their forwarding and logistic activities and which have remained faithful to the NVOCCs, the summer round of hostilities has given a clear lead to the traditional, tripartite alliance - shipping company, NVOCC and shipper - and to MSC in particular.

To win market share, MSC is already behaving as if the 2M alliance no longer existed. Give no quarter, as the pirates used to say! **MSC is fighting for every box, offering terms which few others can match and taking advantage of the absence of reactivity on the part of its competitors**, who are finding it hard to accept the slump in their profitability which is threatening their financial stability...and individual premiums. Certainly, a good EBITDA makes it easier to obtain advantageous financing. Recent increases in interest rates have tended, however, to reduce the increase in EBITDAs and **the shipping companies, which are finding it hard to drop their EBITDA targets, are exposing themselves to the risk of a sharp fall in their market shares.** We see, moreover, that the leading European shipping companies which publish their turnovers have accepted comparable depreciations. By refusing to publish its financial results, **MSC avoids having to reveal the extent of their deterioration, but it is clear that its race for market share is costing it dear.**

Another blemish on MSC's performance is its environmental record. On 17 July, in Bremerhaven, it celebrated the baptism of its newest vessel, the MSC Michel Cappellini, which has a very low fuel consumption level, enabling the company to reduce its carbon footprint per container transported. With a length of 400 metres and a width of 61.5 metres, it can transport up to 24,346 TEU. MSC took advantage of the ceremony to sign an agreement with the cities of Bremen and Hamburg and their ports which provides for its ships to use quayside electricity at the two ports. **MSC's enormous fleet has a poor record on carbon emissions, however.** This represents a real risk for the company at a time when the European Union's emission trading system is due to come into operation next year. **Maersk, which has taken a more virtuous line, hopes to benefit from this as part of its long-term** policy of fostering direct relations with shippers. For the time being, however, virtue is rather a handicap, since it increases costs. Moreover, the big shippers have traditionally been unable or unwilling to respect to their cargo volume forecasts, or, at least, more so than the big NVOCCs, which have a greater financial interest in respecting the cargo commitments they give in their shorter contracts. MSC is taking advantage of the opening this affords to gain a significant lead over its competitors.

- ***The response of the other shipping companies***

Consolidation is one possible response to the turnabout in the market. Hapag Lloyd made a move in this direction by making an offer for South Korea's Hyundai Merchant Marine (HMM). At the end of the first phase of the selection process, however, only the three other bidders, all Korean, qualified to continue. This decision shows that countries have now accepted the idea that shipping companies are a key part of their economic sovereignty.

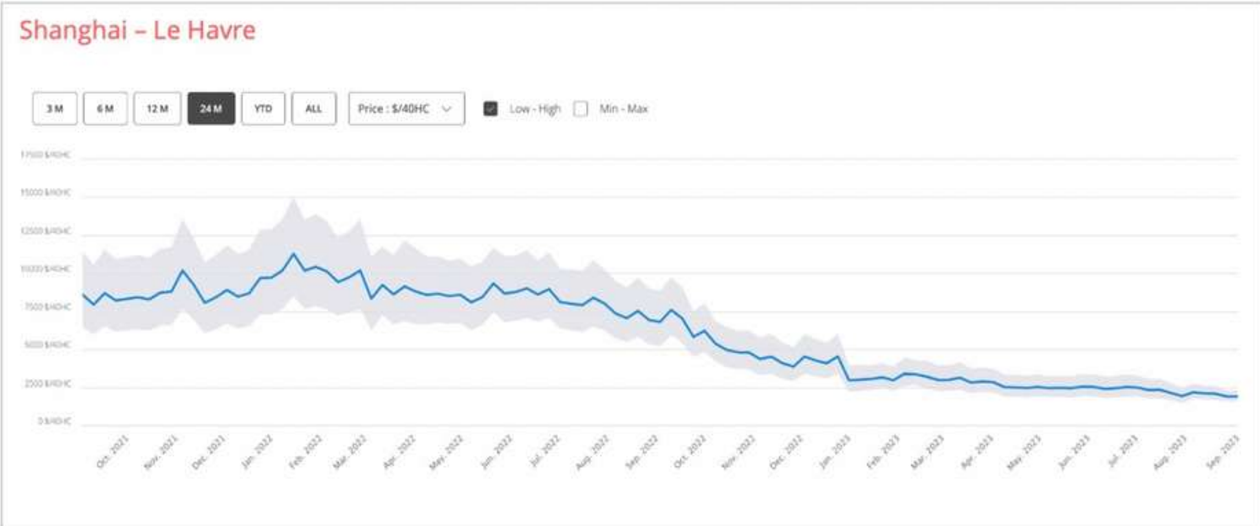
The Taiwanese companies, which are heavily exposed in the east-west trades, have been put in a dangerous position by the reversal in the direction of the market.

COSCO and CMA CGM, who are partners in the Ocean Alliance, are restructuring as they wait for economic recovery and paying attention to their carbon footprints. Inevitably, services to the BRICS countries (Brazil, Russia, India, China, South Africa) is on the post-summer holiday agenda. COSCO, in particular, has plans to set up new lines to the bloc's new members. At their 15th summit in Johannesburg on 23 and 24 August, the BRICS countries approved applications from six countries to join the organisation in January 2024. They are Saudi Arabia, Argentina, Egypt, the United Arab Emirates, Ethiopia and Iran. The five existing members already represent 42% of the population of the world and 23% of global GDP. The new members will boost these shares to 46.5% and close to 30%.

China, which currently accounts for 70% of the BRICS countries' GDP, is playing a major role in the organisation's expansions since it cannot allow itself the luxury of standing still. The Chinese economic system needs to constantly conquer new markets to avoid collapse, which is ultimately in no one's interest. But the path of expansion is not without obstacles. The BRICS countries have interests and world views which are sometimes contradictory. This is the case particularly for the two leading countries, China and India. It has to be accepted, however, that **the planetary influence map is changing at great speed and is taking no Western ports are being bypassed.** The key objective will be to ensure that the cargo generated by these new trade flows continues to be carried, at least partially, by the European shipping companies.

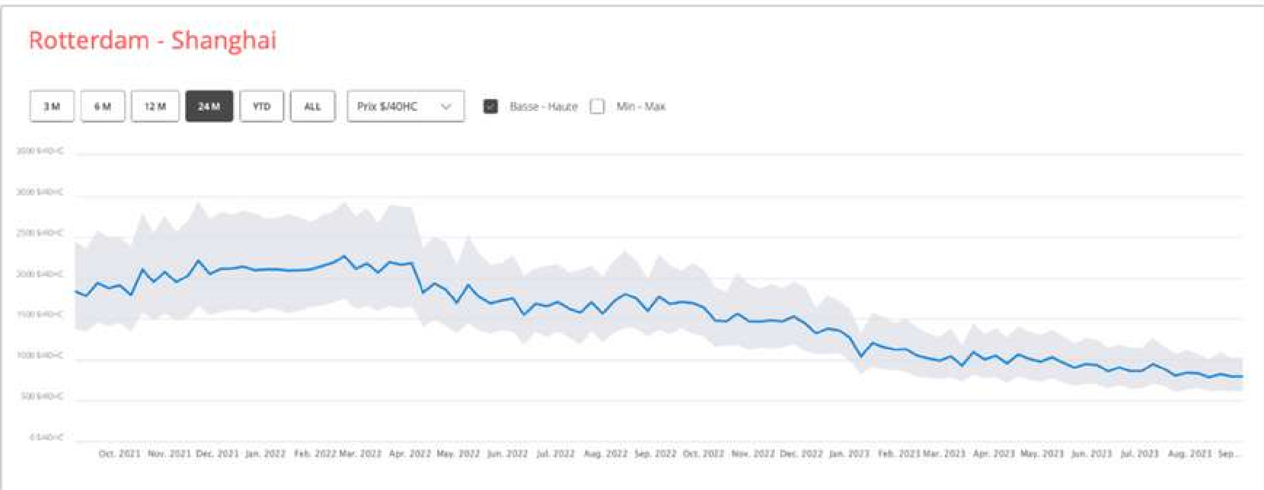
1. PRICES

• Asia - Europe



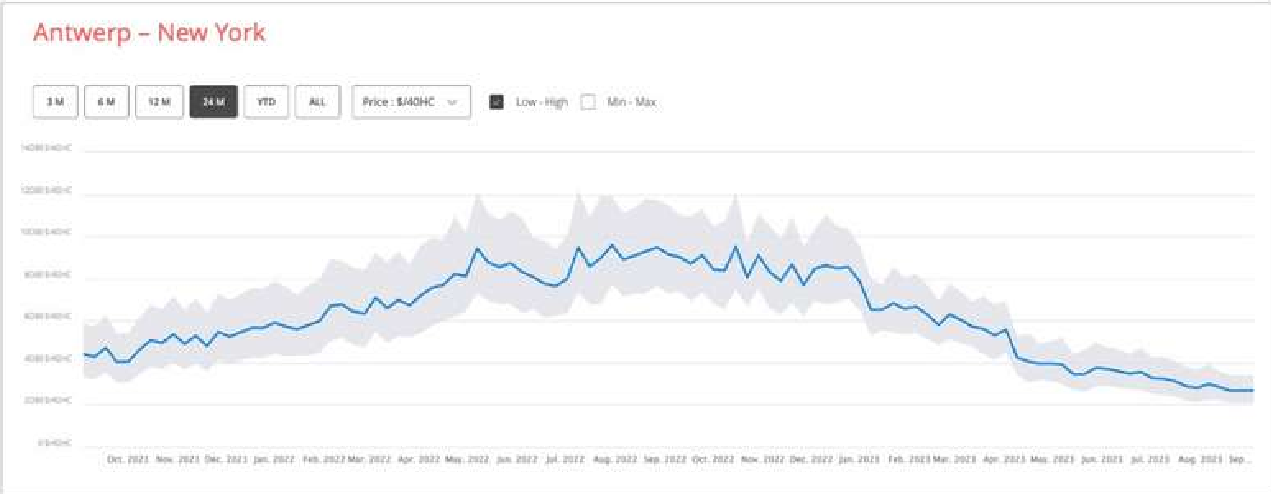
Port-to-port rates (spot and contract combined) billed for sailings from Shanghai to Le Havre, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply

• Europe - Asia



Port-to-port rates (spot and contract combined) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply

- **Europe - USA**



Port-to-port rates (spot and contract combined) billed for sailings from Antwerp to New York, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply

Prices are dangerously low in most east-west trades in both directions. **From Europe to Asia, they are reaching record low levels**, not far from "better than empty" prices, while the shipping companies are already facing e**xcessive supplies of empty containers in China.** This double phenomenon can lead to occasional refusals to take new bookings on the grounds that rates are unprofitable.

Ex-China, some analysts relayed claims that FAK spot rates were rising above the contract rates offered direct shippers. Was this a passing phenomenon or a real trend? It would seem at this stage that it was the former. **These attempts to talk rates up have not been accepted by the market**, which is continuing to load cargoes at very low rates with some big shipping companies. It should be kept in mind too that there are several FAK rates at each company operating on the same route, depending on the level of business represented by different clients. The difference in rates can quickly reach USD300-400 for a 40' container, to the great frustration of small forwarders and small direct shippers. Public FAK rates should, therefore, be treated with caution.

This is exactly the problem faced by independent medium and small-sized forwarders at present. They took the Covid "lift" with their fellows and made profits in 2021 and 2022 which were beyond their wildest dreams. The reversal of the rate trend has been particularly painful for them. **They find themselves unable to make competitive purchases because of the pressure exercised on the market by the big NVOCCs.** This is happening in a market which lacks cargo and is tending in any case to send more freight proportionally to the big NVOCCs, which are able to negotiate large quantities of freight in the short term with shipping companies which are looking for market share.

At the same time, in the general current rate slump, in which the major east-west routes are prominent, there are some nuggets to be had for the big short sea or specialist niche operators.

On the Pacific, Matson will be able to take full advantage of reconstruction work in Hawai following the dramatic fires which ravaged the island of Mauwi. In the **intra West Med trades,** prices remain acceptable, while, **in the intra-Asian and Indo-Pacific trades,** regional operators like PIL, the last surviving Singaporean container shipping company, is holding its own and showing its agility by adapting its capacity to the demand level of the moment.

If they want to maintain some pluralism in the future container shipping market, it is in the interest of shippers to give some support to regional niche companies and small and medium-sized forwarders. It is always difficult not to succumb to the siren calls of low rates, but shipping capacity is continuing to be reduced. This is a fact. **In a badly damaged market, forging long-term relations with smaller operators has a major bearing on the ability of companies to choose their carriers independently in the future.**

2. SERVICES

The shipping companies are anticipating Golden Week, which starts with the national holiday on October 1 and provokes a drop in production which can last beyond the week itself. Each year, the companies reduce their capacities for this event but, this year, the capacity reductions should be less extensive than in previous years. **Sea Intelligence expects capacities to contract by 3%, compared to 12.4% in 2019, for example**. On the Pacific, the reduction should be higher than the general average at 3.7%, while, on Asia-Europe routes, it should be 2.2%. Overall, these reductions are lower than they were during the pandemic. According to Sea Intelligence, 10-13 Transpacific voyages and 6-10 Asia-Europe voyages would need to be cancelled to get down to 2019 levels.

Service regularity can still be improved. In July, reliability was estimated to be 64.2%. Among the most regular carriers, MSC was the only one to be able to claim that 71.5% of services were operated in line with forecasts. Maersk, Wan Hai, GMA CGM, Hapag Lloyd and Zim were close behind, however. **In the weeks to come, service regularity could come under threat from the disruption seen in the Panama Canal during the drought period.** By way of example, the Ever Max, which was making its first passage through the canal, was obliged to disembark some of its containers in Balboa before re-embarking them in Colon. They were transported between the two ports by road. These conditions could result in further capacity reductions which could disrupt services.

- ***Europe***

ZIM and **MSC** are understood to have signed cooperation agreements for their services between the Middle East and North Europe. The information was reported by Loadstar but was not confirmed by either shipping company. It is believed that the two companies will supply ships and share capacity on services calling at Ashdod, Haifa, Damietta, Valencia, London, Rotterdam, Hamburg, Antwerp and Le Havre.

- ***Europe - Asia***

MSC has reviewed the itinerary of its Swan service and reduced the number of port calls. Calls at Tanjung Pelepas, Singapore, Antwerp and Klaipeda, while a call at Felixstowe has been added. The service now takes the following itinerary: Ningbo, Shenzhen, Felixstowe, Gdansk, Gdynia, Bremerhaven, King Abdullah and back to Ningbo. Originally, the service was operated by 10,000-14,000 TEU ships but, because of the fall in demand, MSC has decided to reduce capacity by bringing in 4,700-6,700 TEU vessels. For the same reason, a fall in the number of rotations can be expected between weeks 39 and 41 (from 25 September to 15 October).

CU Lines has dropped out of the market for good after ending its Asia-Mediterranean service. It had already ended its Asia-Europe and Transpacific services in the first half.

- ***Transpacific***

Just a few months after deciding to split its Asia-Indian sub-continent service into two separate ones, the Sentosa and Shikra, **MSC** has reversed its position. The two services will be reunited again into a single service. Its itinerary will take in Port Klang, Singapore, Laem Chabang, Ho Chi Minh, Busan, Long Beach, Oakland, Busan, Qingdao, Shanghai, Ningbo, Shenzhen, Singapore, Colombo, Mundra, Nhava Sheva, and Colombo.

MSC is also reviewing its Santana service between Asia and the east coast of the United States. It has cancelled its calls at Port Everglades and Houston and added calls in Norfolk and New York. The new itinerary will take in Shenzhen, Ningbo, Shanghai, Busan, Manzanillo, Colon, Caucedo, New York, Norfolk before returning to China.

- ***Indian sub-continent***

Mærsk and **Xpress Feeders** have decided to join forces between China and the Indian sub-continent. Both will market a service which Maersk is calling Safina and Xpress Feeders has named CJX. It will be operated with six 4,000-5,000 TEU vessels and will call in Ningbo, Shanghai, Shenzhen, Tanjung Pelepas, Port Klang, Dubai, Colombo et Singapore.

- ***Russia***

Dynamar has indicated that a new Dubai-based company has come into the market. **Cstartline**'s shareholders are still unknown, but the company will be headed by Hungarian national Zsolt Katona, who previously worked for Maersk in different managerial capacities. The company is believed to have chartered 18 ships with a combined capacity of 23,000 TEU. According to Netherlands-based Dynamar, all of this capacity will be used to serve the Russian market.

The company offers several services. One will link Istanbul, Kaliningrad and Saint Petersburg. Another will sail from Alexandria and Haifa to Novorossiysk. Another again will take in Novorossiysk, Istanbul and Izmit. Another is planned between Ningbo, Rizhao and Vostochny, another between Busan and Vostochny and a last one between Busan, Dalian and Vostochny. The company has also been allocated space by Global Feeder Shipping and Mountain Air Shipping on services to India and Turkey (Istanbul). An agreement is thought to have been signed with OVP Shipping to enable it to provide a service from China to Istanbul and, finally, space allocation agreements with Inteco Lines and OVP Shipping will allow it to offer services to Nansha, Shenzhen, Xiamen, Shanghai and Vostochny.

3. OPERATIONS

On the industrial relations front, US West Coast ports can now see the end of the tunnel. **The main dockers' union, the ILWU, has ratified agreements** in the US and Canada which should open the way to a period of greater calm.

Activity, nevertheless, remains weak. Most of the world's major ports are looking for traffic rather than struggling with saturation. **In China, we are seeing space problems, however, in container yards filled with empty** containers and this has started to pose operating problems for the terminals.

Market operators have indicated, moreover, **that exports from Turkish ports are suffering from congestion** because of strong demand and operational difficulties caused by a fire which disrupted traffic in the Dardanelles. Nearshoring is started to have a real impact, moreover. The Romanian **port of Constanta** is also facing congestion problems as it handles traffic from Odessa, which is caught up in the war between Russia and Ukraine.

Another cause for concern is the Panama Canal, where navigation is restricted because of drought conditions. Although draught problems mainly concern bulk carriers, container traffic has also been affected by the restrictions. The use of smaller container carriers has resulted in higher freight rates, offering a little relief to shipping companies in current market conditions. More importantly perhaps, it would seem that water levels have become a structural problem. So acute is the problem that the canal authority does not see the situation improving before mid-2024.

Another consequence of climatic conditions is reduced demand on the shipping companies to bring large numbers of 14,000 TEU container vessels into service between Asia and the US East Coast. This had been envisaged as a major solution to traffic growth during the mad Covid years.

In the meantime, the terminal operators are increasingly taking up position. In the early summer, Filipino operator ICTSI looks set to break into the South African cargo-handling market after becoming the preferred bidder to operate the Durban container terminal.

This would be a first, since national port operator Transnet has always been the first choice provider of cargo-handling services at the country's ports.

In northern Europe, **Evergreen** has acquired Hutchison's shares in Rotterdam's Euromax terminal. According to the maritime website, Splash, this acquisition represented a €72.5 million investment for Evergreen, which now has a 20% stake in the terminal, alongside COSCO with 80%.

The Taiwanese company has also extended its network in Taiwan. It has moved into terminal 7 in Kaoshiung, a fully automatised terminal where it is the sole operator. The terminal has five berths and a quay length of 2,415 metres, served by 24 gantries.

In India, **DP World** has signed a deal with the Kandla port authority for the construction and operation of a new terminal. It will invest $500m in the terminal, which is due to come into service in 2027 and will have a total annual capacity of 2.2 million TEU.

On the east coast of the United States, finally, **CMA CGM** has completed the acquisition of Global Container Terminals' Bayonne and New York terminals at the port of New York. Following this acquisition, the French group now has seven terminals in the US.

AUTHOR

Jérôme De Ricqlès
Ocean Shipping Expert at Upply

The "Services" section of this barometer is produced in collaboration with Hervé Deiss, who is a journalist specialized in maritime transport and port issues.