MONTHLY **CONTAINER** **SHIPPING** BAROMETER

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Fall in container freight rates gains ground

With economic conditions still unfavourable and a tense social climate, the container shipping sector is still in the woes. The fall in freight rates has now spread to the transatlantic trades.

A page was turned in the month of March. Despite the fact that the virus is still very much present, the pandemic is no longer a topic of conversation. It has been replaced by the war in Ukraine, cost of living problems and, most recently, the threat to the banking system.

The Covid episode will nevertheless be seen as having been at **the origin of the first doubts about the myth that globalisarion would bring prosperity everywhere thanks to the growth of international trade.** The consumerist model of the 1990s is running out of steam. The climate emergency is blowing up in our faces and geopolitics has become a permanent feature of the supply chain universe.

"For too long, we have allowed logistics chains to drift abroad and particularly towards China." This verdict, which was arrived at in the Wall Street Journal by John Podesta, President Biden's senior renewable energy adviser, confirms, if there was any need, the extent to which **control of logistics chains has become a strategic concern at the highest level.** The speech pronounced by European Commission president Ursula Von der Leyen on 30 March on relations between China and Europe was another indication that the age of naivety is over...

Latest developments

- **The impact of the 24,000 TEU container ships**

In just three weeks in March, two new giant 24,000 TEU container ships, the *MSC Tessa* and the *MSC Celestino*, came into the fleet of the global container shipping market leader, MSC. It has now five such ships of this type in this fleet and is not the only company to have started using ships of this size.

Sad to say, **the 24,000 TEU ships are not suited to the current sluggish economic conditions in European countries**, with their high inflation, increased interest rates and close-to-zero growth. There are already too many of them on the market and more are due to arrive in 2024 and 2025. They carry containers in huge quantities when demand is positive but become a millstone when they become hard to fall and revenues are low.

In the current state of the market, they are exacerbating the irregularity of the shipping services by calling too frequently in Chinese ports which are unable to adequately fill them. As a result, vessels are left waiting outside port, departures are postponed, longer passages are made via the Cape of Good Hope and very low sailing speeds are adopted.

These giant ships also suffer from intrinsic weaknesses:

- **They lack operational**, since they can only be deployed on specific trade lanes, essentially Asia-Europe
- **They can create major risks when they run into problems.** Everyone remembers the congestion caused by the grounding of the Ever Given in the Suez Canal.

We can say, therefore, that the increase in the number of these giant ships at this precise time **contributes directly to ongoing lack of resilience in international supply chains.**

- **Supply chain managers take control again**

With an abundant supply of shipping capacity and low demand, we are seeing a post-pandemic reversal of the status quo, with **the end of "just in case" and a gradual return to "just in time"**, which has been a key feature of logistic "normality" over the last 30 years. Taking account of the lessons learned during the crisis, however, the time has come to invent a new kind of just-in-time.

Supply chain managers are retaking control after three years, in which their task was essentially to avoid supply breakdowns at any cost. During the pandemic, when freight rates were soaring, shippers began to set up alternative, less distant sourcing systems. Today, China has abandoned its Zero-Covid policy and freight rates for sailings to Europe and the United States have returned to their pre-crisis levels. Nevertheless, **the long-term deterioration in the quality of shipping services and the risks inherent to the use of big ships could keep alive shippers' interest in finding closer supply sources**, which may be more costly but which offer them shorter transit times and greater degree of control over their supply chains.

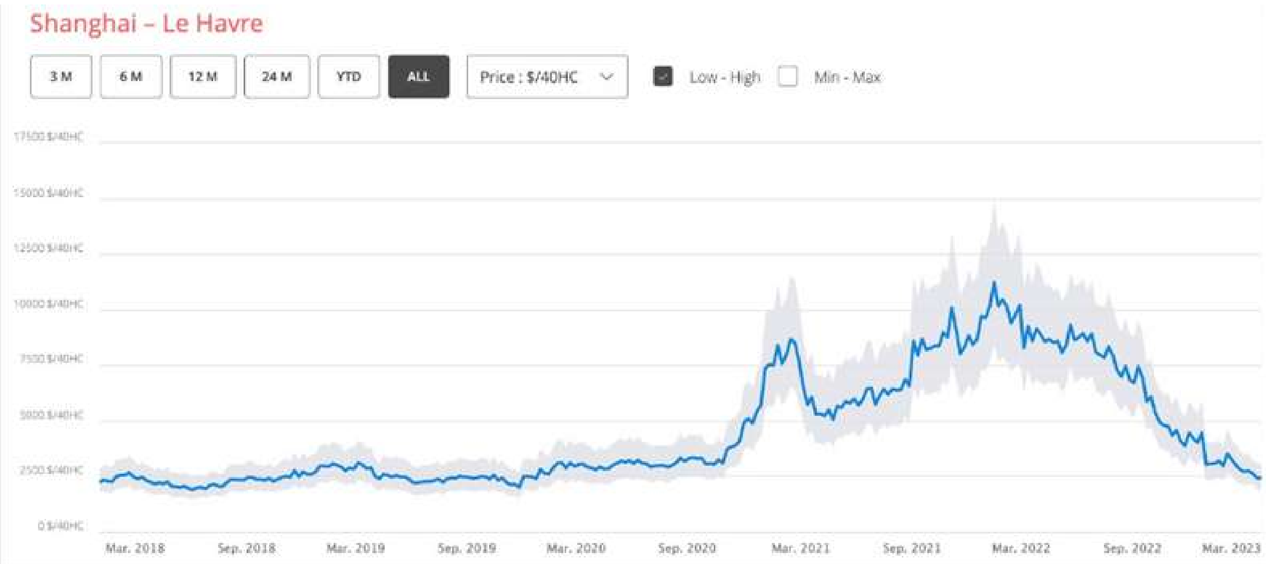
1. PRICES

- **Asia - Europe**

On China-Europe routes to the North Continent, **the four-figure floor on the spot market is holding good for the time being. Contract rates, on the other hand, which apply until the end of the year, have settled at under $2,000 per 40' container** (free in free out, BAF included but not THCs). This low level will make it difficult for the shipping companies to earn money in these trades, particularly with the level of cargo volumes currently available.

For sailings from China to the West Med, lower capacity levels and markedly better transit times mean that **spot rates are $700-1,000 higher than those on routes to the North Continent.** The difference is even greater for contract rates.

The freight rates which currently apply on sailings from China have clearly raised the spectre of Hanjin-style company collapses. The markets seem to have short memories.

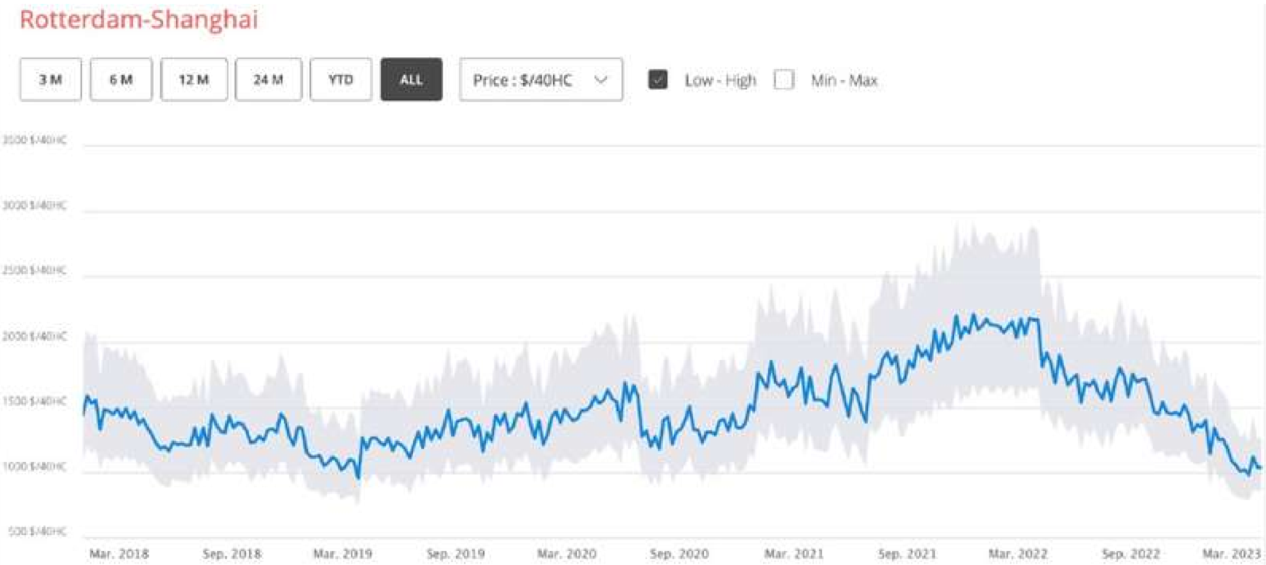


Port-to-port rates (spot and contract) billed for sailings from Shanghai to Le Havre, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply
Source : Upply.

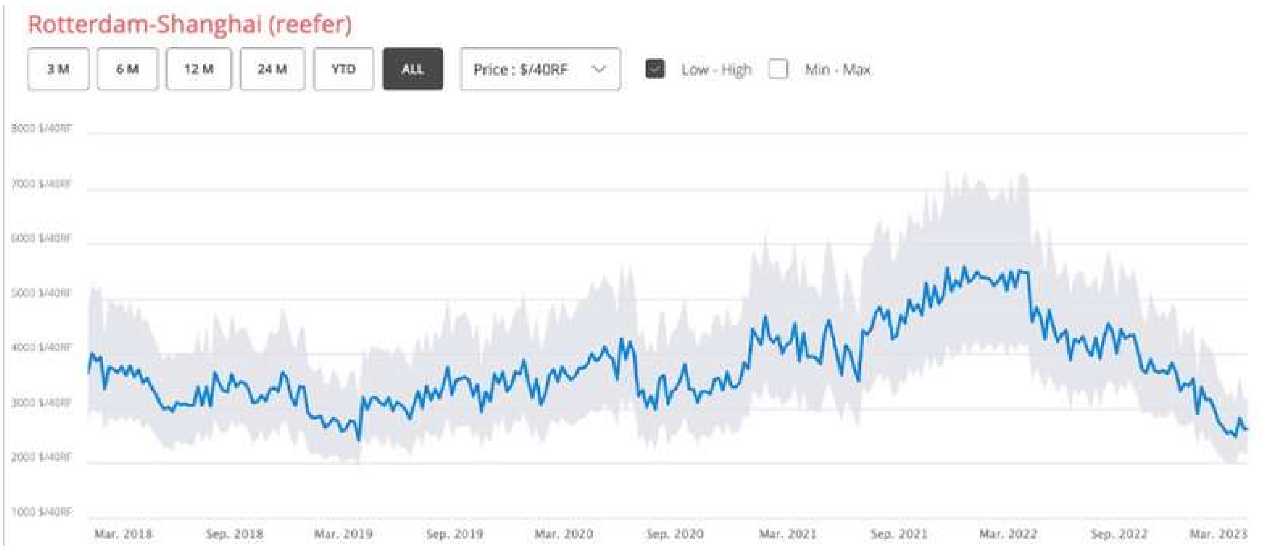
In passing, we cannot resist highlighting the excessive claims made by the major retailers who claimed in 2021 that the rates charged by the shipping companies were the major cause of inflation. Today, after nine months of plunging freight rates, they are predicting an inevitable increase in retail price inflation this spring. **They are clearly not interested in passing on the drop in ocean freight rates to compensate for the increases in prices seen in other areas...**

- ## Europe - Asia

We are not seeing **any major change on this export market, which remains as depressed as ever.** Freight is not having to fight for space and is controlled by a few forwarders and shippers, who know they are in a position of strength. Even reefer rates are continuing to fall even though demand currently exceeds capacity in this segment of the market.



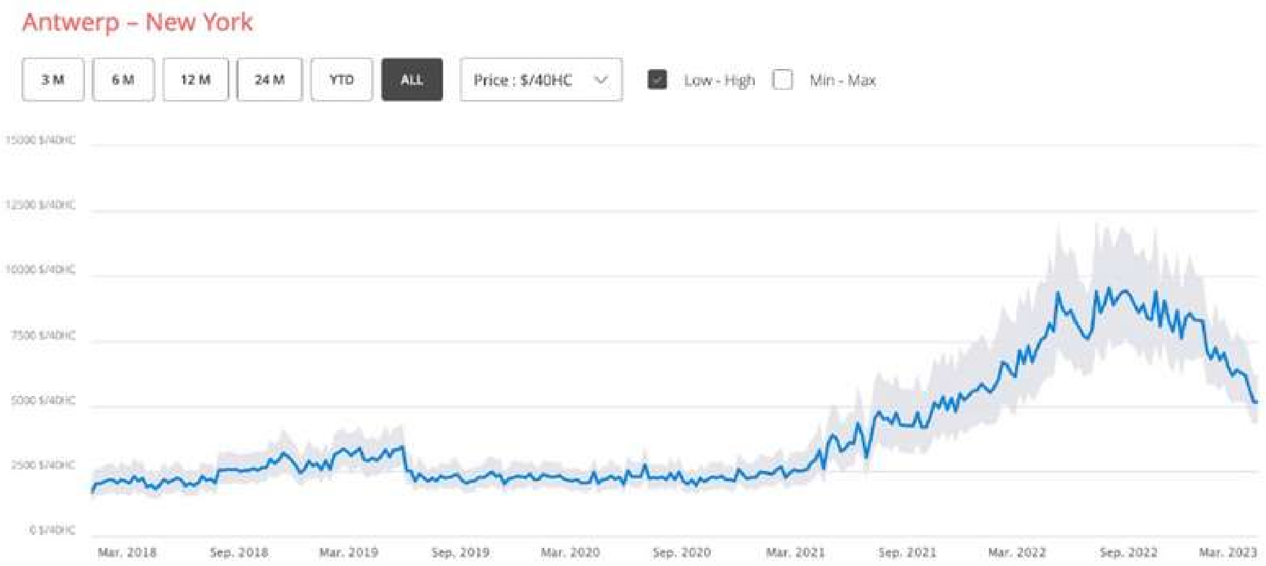
Port-to-port rates (spot and contract) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods.
Source : Upply



Port-to-port rates (spot and contract) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' reefer.
Source : Upply

- **Europe - USA**

The transatlantic trades, which had been a last line of defence, seems to have yielded in their turn to overcapacity and insufficient demand. This moment had been feared, since, if the trend is confirmed, it can only be bad news for the profitability of the shipping companies.



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

2. SERVICES

Capacity adjusts to demand

The end of the Chinese New Year has not affected demand. Shipowners hoped for a revival of new orders, but it did not happen. As the market contracts, they are having to constantly adjust their services.
Even though the number of blank sailings announced is falling from one month to the next, cancellations still stood at 9% in April, according to British consultancy Drewry. Of a total 665 sailings announced between 27 March and 30 April, 62 cancellations are expected. By way of a reminder, in February, we were predicting that 10% of sailings would be cancelled. Analysis of these figures alliance by alliance indicates that The Alliance registered 36 cancellations, compared to 17 for Ocean Alliance and 3 for 2M. The remaining six cancellations concerned companies outside these alliances.

In this situation, the market is still tight. Shipping companies are deciding from one day to the next whether to withdraw ships or reduce speed. Faced with congestion in certain Asian ports, owners like ONE and COSCO are delaying each of their services by several days. If a single ship may lose just two or three days but, when this is multiplied by the total number of services and the total number of ships, it results, in a few weeks, in the cancellation of a whole east-west service. According to Sea Intelligence, capacity in the transpacific market was much less than had been announced. On Europe-Asia links, on the other hand, the capacity deployed was in line what had been announced. On the Asia-Mediterranean market, on the other hand, shipowners had to increase capacity after it turned out to below requirements.

- **Transpacific**

Between Asia and North America, **ZIM** announced that it was closing the eCommerce Xpress service it started in July 2020. **Hapag Lloyd**, meanwhile, decided to join the AA7 service operated by **Wan Hai**, which is not in an alliance. The German company will add four vessels to this service, taking the total to eight, with average capacity per ship ranging from 7,500 TEU to 11,500 TEU. The AA7 service calls at Ningbo, Taipei, Xiamen, Shenzhen, Ho Chi Minh, Singapore, New York, Norfolk and Savannah. This is perhaps a first sign of a reorganisation of the alliances away from those which currently exist. At the same time, Wan Hai has ended its AA9 service.
Also between Asia and North America, **MSC** is revising its service between Asia and the US East Coast by dropping Singapore and replacing it with Ningbo, Busan, Balboa (Panama), Caucedo (Dominican Republic) and Miami. This extension is part of a strategy to use the same service to cover the great possible number of markets.

- **Europe - Asia**

Tailwind Shipping, Lidl's shipping arm, is extending its service between China and North Europe by adding the port of Qingdao. It is also bringing in five additional ships, which will enable it to offer fortnightly calls at Qingdao, Ningbo, Shenzhen, Koper and Barcelona.
At 2M, MSC's Shogun service and Maersk's AE1 service have been suspended definitively. The port of Rotterdam will now be served from central China by Maersk's AE5 service and MSC's Griffin service, while Xiamen will be served by Maersk's AE10 service and MSC's Silk service.
The Alliance (Hapag Lloyd, HMM, ONE and Yang Ming) has cancelled the calls of its FE4 service in Ningbo, which will be replaced by a call in Tianjin. Ningbo will be served by the F3 service, while Wilhelmshaven will now be called art by the FE2 service and Singapore by the FE3 service.

- **Mediterranean-North America**

MSC has announced that it is extending its California Express service between the Mediterranean and West Coast North America. According to Alphaliner, the service will call directly at the port of Vancouver. Previously, MSC covered the Canadian port via the Pacific North West Feeder.

- **Transatlantic**

Freight rates in the transatlantic trades remain high even though the fall in rates has now begun on this trade, too. To take greater market share, shipowners are consolidating their services. **MSC** has added calls at Felixstowe, Antwerp and Le Havre to its Scan Baltic service between Europe and North America. The service now calls in Klaipeda, Gdynia, Gothenburg, Bremerhaven, Felixstowe, Antwerp and Le Havre before going on to New York, Philadelphia and Norfolk.
Meanwhile, **Hapag Lloyd and OOCL** have added a new 4,000 TEU vessel to their Saint Laurent Seaway Service between Europe and Montreal. Hapag Lloyd has also decided to add a call in the Canadian port of Saint-John to its Europe-Caribbean service to enable it to cover the maximum number of markets. The service will now call at London, Rotterdam, Hamburg, Antwerp, Saint-John, Norfolk, Santa Marta (Colombia), Puerto Limon (Coast Rica), Caucedo (Dominican Republic) before returning to Britain.

Owners return to Russia

Since February, we have seen that some shipowners have opened new services to Russian ports. Initially concerned were Baltic services to Saint Petersburg. Today, Russian operators are generating this activity. **Ruscon**, the shipping subsidiary of Russian cargo-handling group Delo, opened a monthly service between Istanbul's Ambarli terminal and Saint Petersburg, using a 700 TEU ship. Hong Kong-based **OVP Shipping** has also opened a fortnightly service linking the Chinese ports of Qingdao, Shanghai, Ningbo and Guangzhou to Saint Petersburg. It is also opening a service linking the same Chinese ports to the Russian Black Sea port of Novorossiysk. Finally, **Reel Shipping**, which is based in the United Arab Emirates, has started a service from the Egyptian port of Damietta to Saint Petersburg, using five 1,700-2,700 TEU ships, according to Dutch consulting firm Dynamar.

According to Dynamar, all owners except MSC suspended their services to Russia in February 2022 because of the conflict in Ukraine. **The interest in returning to these Russian ports can be put down above all to the wish to benefit from high freight rates.** The FAK rate between China and the Russian ports currently stands at about $4,000, compared to $900 on services to other North European ports.

Attracted by these high freight rates for sailings from Asia, some operators are moving into this new market. Among them is **Hainan Yangpu Newnew Shipping**, which is owned by Chinese forwarder Torgmoll and offers sailings from Qingdao, Shanghai, Guangzhou to Saint Peterburg. **Russia's Transit LLC** is also opening a fortnightly service between China, South Korea and Russia, using five 2,100 TEU ships, according to Dynamar.

At the same time, more services are being offered to Black Sea ports, mainly Novorossiysk. **FESCO**, a Russian shipping company in which CMA CGM has a stake, opened a fortnightly service between India and Novorossiysk. The service calls at Mundra, Nhava Sheva, Istanbul and Novorossiysk. Ruscon is also improving its service between India and the Black Sea, adding calls in Istanbul and Jeddah to those it already makes in Nhava Sheva and Mundra.

3. OPERATIONS

Industrial relations remain tense in Hamburg and Los Angeles but **March was also marked by industrial action in French ports.** There was a palpable increase in tensions at French ports, including Dunkirk, where there have been no strikes for decades.

Apart from the dockers' wish to show solidarity with trade union action over the French government's planned pension reform, it should be pointed out that French dockers do not have a special retirement scheme, as is sometimes claimed. They have only normal early retirement rights, which, as in other professional branches, take account of the arduous nature of their work. If the legal retirement age is increased, this could have an impact on these early retirement rights.

Impact of industrial action in France

On the French Atlantic and Channel seaboard, **many port calls have been lost to the Benelux countries and the United Kingdom**. This time, CMA CGM has not been able to count on Dunkirk as much as it would have wished. This turned out to be a real bonus for the Benelux ports, which are facing a sharp reduction in cargo volumes on their own account.

For shippers, this industrial action means extra delays and costs, since the shipping companies have pleaded that the delays were a case of force majeure. Container transport apart, the situation is almost worse for ships carrying liquid and solid bulks, which, at best, have to wait to enter port, or, in the worst case, switch to other ports and other clients. The impact on the French economy has been great.

At the port of Marseilles-Fos, the situation is different in the eastern docks, where short sea shipping has been disrupted by the enormous problems facing hauliers, and the western docks, where deep-sea container ships are generally opting to wait to come into port.

Why are the shipping companies more ready to skip a call in Le Havre rather than Fos? This is essentially because they do not have alternative options at Fos rather than because they feel any particular loyalty to the port of Marseilles. From an operational point of view, the Benelux ports can easily replace Le Havre, which cannot be said of the ports of Genoa and Barcelona in relation to Marseilles, since they are city ports which have less reception space and, therefore, cannot easily deal with a sudden increase in throughput.

Another consequence of the industrial unrest is that **it causes extra detention and demurrage charges for containers stuck on the quayside** because clients cannot remove them while strike action is on. The French forwarders' federation, Union TLF Overseas, called on shipping companies operating in France to accord additional time in such instances, so as to avoid further penalising cargo interests which are already bearing the brunt of the disruption to shipping services in French ports. The shipping companies point out that the strikes are also costing them money **but have not ruled out commercial arrangements with clients on a case by case basis.**

For all shipping professionals, the current period is a particularly difficult one. The March port traffic figures likely to be particularly catastrophic.

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

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