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Financial Crisis Hits Ocean Shipping Too, as Rates Plummet

$2800 to just $700? Regretting the Megaship Boom

SCDigest Editorial Staff

The global financial crisis is taking its toll across almost every sector, including some far away from Wall Street. The once booming ocean shipping industry, benefitting from several years of torrid shipping volumes and building ever larger ships to meet seemingly never ending demand for international container moves, are suddenly hurting as bad as any industry as shipping demand substantially softens.

How bad is it?

Some reports say that the cost to ship a container from Asia to Europe has recently plunged from $2800 just a few months ago to just $700 today.

While ocean carriers were making great profits over the last few years, the incredible reversal in rates has totally changed market dynamics, to the benefit of shippers but to the financial peril of ocean carriers.

Eivind Kolding, chief executive of Maersk, the world's largest ocean carrier, says that spot market rates for container moves are simply "unsustainable," according to a recent story in the Wall Street Journal.

The dramatic drop in rates is the result of several factors. Volumes of ocean shipping have slowed, but not that dramatically. For example, London's Drewry Shipping Consultants Ltd., a respected research and consulting firm, expects container volumes from Asia to the US to shrink by about 5% in 2009, after years of double digit annual gains.

But the modest container volume decreases are coming as the industry has been ramping up capacity as if the double digit increases in container volumes would continue forever. Indeed, perhaps the biggest news in the industry over the past few years was the arrival of the newest generation of "megaships," with capacity for as many as 11,000 20-foot containers. (See **Giant Cargo Ships Keep Coming**.)

Until conditions improve, ocean carriers are likely to keep this new capacity in mothballs even when the ships become ready. Global shipping analysts say companies also will try to cancel their orders, sell the ships, or even convert them to tankers or cruise vessels.

Several such ships have already gone on-line, with many more in various stages of production. Maersk received 15 vessels in the first half of 2008, and has 48 ships on order for delivery by 2012. Other carriers have even more ships in various stages of delivery.

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The decrease in shipping rates, especially in this

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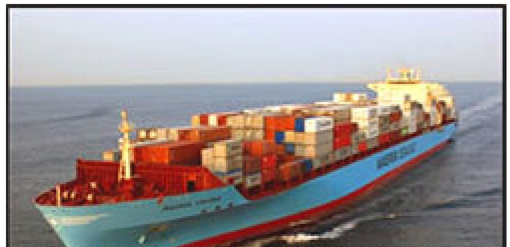
short of a time frame, is unprecedented. Because there are fewer available ports in the US, container shipping price erosion has been lower here than in Europe, but the US market has also seen sharp price decreases. Prices in the spot market for the smaller ships docking in West and East coast ports are currently around $1,500 per container, which still gives carriers a small profit, if the rates hold.

In addition to dealing with the ships they have on order, carriers are taking other steps to reduce costs and take capacity off-line. A Maersk spokesperson recently said the company plans to run fewer ships in some lanes to try to get a more favorable supply-demand equation, and may also drop some routes altogether.


Maersk Plans to Reduce Capacity in the Face of Sharply Lower Rates

Given the resilience of global trade, it is likely that volumes and rates will rebound before long. But for now, importers should take the bargains while they are there – and lock in low rates for the long term if they can.