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Import Transit Times Taking Longer? Ships Take Foot off Pedal, Use the Slow Path, to Reduce Costs

Facing Double Digit Drops in Volumes, Ocean Carriers do what they Can to Weather the Storm, Cruising at Half Speed

SCDigest Editorial Staff

If you find your import shipments from Asia are taking even longer via ocean freight these days, you can blame that on the recession too.

Amidst a dramatic drop in global trade, much steeper than the drop in overall economic activity, the ocean carriers are taking a financial beating, and finding any way they can to save money – including dramatically slowing speeds, and forsaking the Suez Canal.

Global trade is expected to fall 9% in value this year, according to a recent estimate by the World Trade Organization. Container volumes in many ports are down by double digits over the previous year. Shipping giant Maersk says its container volumes will be down more than 12% in 2009.

With a glut of capacity, rates have fallen to levels in some cases below variable operating costs. According to the analysts at Drewry Shipping Consultants Ltd., rates have fallen especially hard between Asia and Europe, down 69% from a year ago. As a result, shipping lines have removed hundreds of ships from service and cut back on existing shipping schedules.

But most carriers need to do much more to improve their financial situations – and in some cases that means lengthening the supply chain.

"We cannot go on doing business as we have done," Maersk Chief Executive **Nils Andersen** recently said.

The Wall Street Journal, for example, recently reported that the Eugen Maersk was recently cruising the Atlantic Ocean after a stop in Rotterdam at just 10 knots or so, well below her top speed of 26-knots.

At roughly half speed, fuel consumption drops to 100-150 tons per day from 350 tons - saving as much as $5,000 an hour in operating costs.

Why? Because the fuel savings are dramatic. At roughly half speed, fuel consumption drops to 100-150 tons per day from 350 tons - saving as much as $5,000 an hour in operating costs.

Reductions in speed aren't the only moves that are lengthening transit times. Many carriers are now bypassing the Suez Canal – and its more than $500,000 fee for large ships – and instead sailing around the Africa's Cape of Good Hope, even at the price of two weeks of additional sailing time and that much more fuel usage. But at today's deflated oil prices, the financial equation says skip the canal.

That's especially true on the return trip from Europe to Asia, where not long ago many ships operated at something near full capacity, but now struggle to fill half their container capacity.

The Suez Canal Authority says traffic is down 20% this year and projects canal revenue will fall 20%-30% from last year's $4.5 billion. The authority says it plans to maintain rates through year-end, according to the Wall Street Journal.

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Like other suffering companies, the ocean carriers are cutting back on everything from use of napkins and electricity on board the ships to corporate travel and other overhead costs. Though most carriers are trying hard to cancel new ship deliveries, existing contracts mean many are still accepting new vessels even during this devastating slump – Maersk says it has 49 new ships on order, for example – orders placed in far better economic times.

Many Ships are Avoiding the Suez Canal on the Return Trip to Asia to Save Costs

Source: Maersk/Wall Street Journal