SupplyChainDigest™
Your First Stop for Supply Chain Information

Coordinated Capacity Reduction to Stem Falling Ocean Rates Not Going to Happen, but Can Carriers Achieve Price Increases Coming Anyways?

It is Rough Seas for Ocean Carriers Right Now

SCDigest Editorial Staff

An interesting scenario is emerging in global logistics as ocean carriers, pummeled by falling rates and overcapacity, nevertheless are trying to mount a coordinated effort to pull rates back up.

Container traffic, of course, has plummeted worldwide. In Q4, container traffic in LA/Long Beach, for example, was down some 14%, overall Asia to North American volumes were down as much as 20% in January. Those drops in turn have caused rates to plummet, often down to below the carrier's actual operating costs to move the ship, especially on routes into Europe. (See **Was Ocean Shipping the Biggest Bubble of them All**?)

The Baltic Dry Index, which measures shipping costs to move bulk materials on ocean carriers, was at one point in Q4 down 90% from its peak, though it has since recovered a bit.

To deal with the rate and capacity issues, an industry trade group called the Transpacific Stabilization Agreement (TSA) had planned to lead an organized reduction in capacity across its 14 members, which include most of the largest ocean carriers. However, that plan ran into anti-trust trouble and vociferous complaints by shipper groups, leading the controlling government agency, the Federal Maritime Commission, to twice delay voting on an amendment to the TSA charter that would have allowed such coordinated capacity discussions. In most industries, such discussions between competitors in a market would not be allowed because of anti-trust laws.

Given the delay, the TSA withdrew its proposed amendment, saying the change would be of little use if it took too long to receive commission approval. It

The Transpacific Stabilization Agreement (TSA) had planned to lead an organized reduction in capacity across its 14 members, which include most of the largest ocean carriers. However, that plan ran into anti-trust trouble and vociferous complaints by shipper groups

had hoped a coordinated effort to reduce capacity would change the supply-demand balance in the carriers' favor, as now most lines are operating ships that are just 70-80% full, with more "megaships" entering the market in 2009. (See **Just as World Trade Slows, Here Come the Megaships**.) Some analysts, however, say on their own carriers did reduce Asia to North American capacity by almost 10% in the last half of 2008.

No TSA Recommended Rate Structure Yet

The terrible fourth quarter and uncertain environment for 2009 caused the TSA to miss its usual November/December timeframe for recommending a framework for rate changes for the coming contract year. Most of the members and other carriers generally use something close to that model in their negotiating stances with shippers, as well as the numbers and logic behind the recommended

Coordinated Capacity Reduction to Stem Falling Ocean Rates Not Going to Happen, but Can Carriers Achieve Price Increases Coming Anyways? (Con't)

rate changes.

In 2007, for example, the TSA laid out a strong case for increased rates and/or surcharges for 2008 based on then rapidly rising fuel costs.

Since they can't raise rates by affecting the supply-demand through coordinated capacity reduction, the TSA and individual carriers will have to try tough pricing and negotiation strategies instead. It is possible the TSA will release some unified pricing framework in the next few weeks. Until then, and even after, carriers will be on their own to try to stabilize rates for 2009.

Last month, Maersk, for example, announced small increases for shipments from Asia to Europe. Those rates had fallen much more sharply than those from Asia to North America.

This week, French carrier CMA CGM also announced a round of "rate restoration" price changes. For example, its rates for shipments from North Europe to the US will rise by $160 per 20 foot dry container and $220 per 40 foot/40 foot "High Cube."

However, at an ocean shipping conference this week, **Ron Widdows**, chairman and CEO of Neptune Orient Lines, warned it is possible desperate Asia to North America might start cutting rates to the ruinous levels (for carriers) seen on the European routes.

Copyright 2009