

GLOBAL SUPPLY CHAIN FOCUS

The travails of nearly every freight transportation sector (railroads partially excepted) is one of the most powerful reminders of how deep and painful the global economic downturn has been.

Now comes another sign of the **changing dynamics and "new normal"** of the global supply chain, as giant ocean carrier Maersk finishes up on **mothballing then "fastest ships on the seas."** It shows not only how the global shipping industry continues to suffer on the collapse of global trade (though some numbers are finally starting to point up)

Six years ago, Maersk ordered and then later commissioned a new set of ships that were capable of reaching speeds above 30 knots – at the price of being able to hold only about 33% **of the cargo of the industry's largest ships**, which normally go about 20 knots. Even those speeds are now falling to reduce costs.

With global trade volumes soaring in the mid-2000s, Maersk ordered seven **of the fast ships, which it calls "B Class" vessels, primarily to work lanes from China to the US west coast.**

The simple idea: some companies would be willing to pay higher rates for faster service on those routes, either as part of an overall plan to reduce inventory levels or to get expedited service via ocean versus the much more expensive air freight option.

The first bumps in the strategy came from soaring bunker fuel prices. When the ships were first ordered by



For Shipping Giant Maersk,
**Speed Doesn't Pay, as
World's Fastest Ocean Ships
Are Put to Dock**

**Ships Capable of 30 Knots Lost Market in Face of Rising Bunker Fuel,
Focus on Cost over Speed**

SCDigest Editorial Staff

Maersk, bunker fuel was running about \$200 a ton; now it is more than two times that (at approximately \$450), having soared even higher in the peak period in 2008. The B Class ships achieve their speed at the cost of much higher proportionate fuel usage, using about as much fuel per voyage as ships with three times the container capacity.

As the financial crisis hit and volumes collapsed, ships of all kinds have been put to dock – between 10-15% of total industry capacity, depending on the estimates. Still today, despite modestly rising volumes from the depths of the crisis, the sea just outside the port of Singapore it said to resemble a giant parking lot of

idle container ships.

Cost has become king. Even the large ships have started slowing down their speeds to save fuel – in hopes the carriers can eke out some profit in the face of collapsing rate structures. Many of the larger ships are moving across the ocean at speeds of just 14-15 knots – down 25% or more from normal cruising speeds before the crash.

With over-capacity industry wide and an extreme focus on cost reduction rather than supply chain velocity by both shippers and carriers, the market for the fast B Class ships simply collapsed.

So now five of the Maersk B Class vessels are docked off Scotland, and two more are laid up in Taiwan.

London's Financial Times reports Maersk is considering modifying the vessels, possibly by shortening them, to suit them to the new, lower-speed environment and reduce fuel usage.

It also says the US navy is also considering buying the B Class vessels, which cost Maersk about \$50 million each, and converting them into supply ships.

Meanwhile, there are signs of some recovery in global trade and container movement. The most recent Port Tracker report from the National Retail Federation and Hackett Associates says container volumes grew in December on a year-over-year basis for thirteenth time in an astounding 28 months, though barely (with a 2.6% gain).

More encouraging, the report predicts container volumes in the first half of the year may be up as much as 25% over the dismal levels seen in 2009.

While that may ultimately mean high rates for ocean shippers, most would



probably gladly trade that for a more vibrant economy.

What's your take on the shuttering of Maersk's B Class ships? Was there ever really a market for them, do you think? Will the market have any interest in this type of service for the foreseeable future? Let us know your thoughts at the Feedback button below.

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