

Global Logistics News: Will Ocean Carriers be able to Make Aggressive Rate Hikes Stick?

Maersk, Others, Set Fall Rates Hikes, but Can Carriers Hold Rank? Avoiding the Appearance of Price Collusion

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Amid the virtual depression conditions in the ocean shipping industry, with rates plummeting to below variable costs to run the ships and literally hundreds of vessels being taken off-line, many carriers are making moves to get back to profitability and "sustainable" shipping rates.

Faced with the twin blows of plummeting volumes and dramatically falling rates that threaten their survival, many ocean carriers raised prices modestly in July and then again at the beginning of August – and found in general they were able to hold the new rates.

Now, many carriers are introducing further rate hikes starting September 1 and then still more into October.

For example, after a modest across the board rate hike in July, Maersk Line will raise freight rates for cargo moving from Northern Europe to the United States and Canada by \$400 for a 20-foot equivalent unit and \$500 for 40-foot equivalent units and 45 foot boxes, effective September 1.

Maersk also announced rate hikes on other routes. Effective October 1, the rates for freight shipped from Mediterranean and North Africa to the United States and Canada will increase by \$300 per container, the Denmark-based Maersk said this week. The increases are for both dry and reefer cargo.

The share price of A.P. Moller-Maersk, parent company of Maersk Lines, rose 4.5 percent in trading on the Copenhagen exchange, on new of the planned rate hikes. That announcement came in parallel with

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the news the company had lost just over \$700 million in the first six months of 2009, pummeled by the cargo depression.

The losses would have been worse if not for an aggressive cost cutting program, which has included everything from layoffs to reducing ship speeds to cutting back on napkins used on-board. (See [Import Transit Times Taking Longer? Ships Take Foot off Pedal, Use the Slow Path, to Reduce Costs](#).) Maersk says it has reduced costs by some \$1.5 billion in the past year.

While Maersk CEO **Nils Smedegaard Andersen** said he sees signs the overall economy is improving, "It's likely that the shipping cycle will be somewhat slower in improving," meaning rates and volumes are less likely to show a rapid turnaround.

But rates have to increase to enable the ocean carriers to stay in business, Andersen said this week.

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"The trading conditions for the carriers operating in these markets are still subject to unacceptable rate levels and the situation is unsustainable in the long term," he stated.

Will the New Hikes Stick?

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The announced rate hikes are simply the opening gambit for negotiations between carriers and shippers – and virtually all the carriers must hold rank for the increases to stick.

Like any "cartel," if even 1-2 carriers break rank either because they are scared of losing what volume they currently have or in a strategy to grab market share, prices are likely to quickly go the other way again.



Maersk itself has warned other carriers that it would not lose customers and market share through being undercut in rate prices. Whether this acts to deter its competition from trying that tactic is not clear.

A challenge, however, is that European regulators are keeping a close eye to ensure there isn't price collusion among the carriers. Some say that is why the start dates of various pricing increases have been staggered by the carriers, and the amount of the increases are slightly different.