CRISIS IN THE CONTAINER MARITIME TRANSPORT

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ABSTRACT

In the article the authors presents the trends in the container maritime transport as the impact of the global financial crisis and the prospects of container fleet development after the global recession will come to an end.

Key words: shipping market, containership fleet

1 GLOBAL FINANCIAL AND MARKET CRISIS

The global financial crisis is causing havoc on shipping market. In terms of volume, about 80 percent of world trade is carried by sea. US imports decreased about 10% in 2008-2009 years and for Europe, the continent's imports were decreased 11%. And despite US imports rose 13% year-on-year in the fourth quarter of 2009, retail sales in the same period expanded by a mere 1%. Europe imports up to 3% goods, but retail sales rose solely to 1%. As global trade slowed down during the global economic crisis in the last years, freight rates plunged and 11% of the world's container shipping fleet, or about 500 vessels, had to be parked in the end of 2009 [1] [8].

The cellular containership fleet grown only by 6% in 2009 and it was the slowest growth rate during the last 10 years. The number of unemployed large containerships was 72 ships in January 2010, and was to fall down 10 units from a peak of 82 idle units in March 2009. In this same time, about 12% of the world container fleet is idled. The idle fleet as at 1st March 2010 stood at 1.24 Mteu (million 20-foot equivalent units) or 9.4% of the cellular containership fleet, the lowest level since July 2009, according to Alphaliner [2]. As global trade slowed down during the global economic crisis in last two years, freight rates plunged and more then 510 vessels had to be parked in the summer 2009. It is 11% of the world's container shipping fleet.

The unemployment fleet is not only a consequence of the global crisis in the world economy. The very important factor was a fast growing containership market.

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For the comparison: containerships growth peaked at 16.1% in 2006 before easing to 13.9% in 2007 and 13.2% in 2008. In this situation shipowners canceled about 140 container ship orders since the global trade crisis erupted after the financial crisis in the mid-2008. Total canceled ships, with a combined capacity of 436,000 TEU (20-foot equivalent units), represent 6.7% of the 6.51 Mteu order book in the end of 2008. Cancellation includes 27 container ships. The number of the cancellations do not include vessels which have been built but not delivered because their owners have been unable to make full payments, as CMA CGM and others. Ships of 1,000 TEU to 1,999 TEU account for the biggest share of cancellations with 54 contracts cancelled. Eleven ships above 7,500 TEU and six of 5,100 TEU to 7,499 TEU also have been canceled [3].

2 SUPPLY ON THE CONTAINERSHIP MARKET

Maritime container shipping market has declined in comparison with previous years and in 2009 reached the level of 120 million TEU. In the Europe - North America services 28.7% fewer containers came from Europe continent comparing to 2008 and 19.8% fewer containers were sent to Europe. In the Asia – Europe container market, despite a significant decrease, by 32.3%, in the number of containers coming to Europe, 11.4% more containers reached the Far East than in 2008. The future looks more optimistic.

A number of Asian and European carriers reduced exposure to fragile liner shipping markets. The major Asian operators disposed of ships with capacity of 282,000 TEU during the 2008 and 2009, representing 16% of their combined fleet. This includes 155,000 TEU capacity that these carriers sold for a scrap and another 127,000 TEU capacity that was sold in the second-hand market – informed Alphaliner[8]. In Europe major shipowners (CMA CGM, Mediterranean Shipping Company and Maersk Line) have also taken steps to dispose of parts of their fleets [4]. The number of containers transported by Maersk Line (A.P. Møller-Maersk Group) and Safmarine, a subsidiary focusing on the South African liner trades, fell to 13.8 million TEU from 14 million TEU in 2008, a 1% decline compared with a 13% drop in the global market. A.P. Møller-Maersk (546 cellular ships, capacity 2 mln TEU) shipping segment loses $2.1 billion, pulling parent to $1 billion loss for 2009. A.P. Møller-Maersk first full year net loss of $1.02 billion in 2009 and its core container shipping business decline in $2.1 billion [5] .

Marseilles-based CMA CGM, the world's third-largest container shipping line, has reported that it lost $515 million in the first half of 2009 on $4.8 billion sales. CMA CGM has a fleet of 91 owned and 272 chartered ships with a combined capacity of more than 1 billion TEU. The company ordered 40 containerships with 369,500 TEU capacity worth $5.1 billion at Asian shipyards, and amassed an estimated $5.6 billion in debt. The company is facing a cash crunch because it has to find $1.2 billion in upfront payments for newbuildings in the end of 2009. CMA CGM owned by the family interests of Lebanese-born Jacques Saadé, is seeking capital from outside investors for the first time in an attempt to tackle a liquidity crisis that has dragged on for months and left it unable to complete payments for new ships. CMA CGM has held talks with Louis Dreyfus Group, France's only other large ship-owner, Goldman Sachs and Butler Capital Partners. The company has also been talking with France’s FSI strategic investment fund about an investment. [6].

In this difficult situation in shipping industry European governments supported shipowners. Germany’s government has supported Hamburg-based Hapag-Lloyd (119 ships, 498,000 TEU) through the shipping crisis in 2009. France’s government would organize a rescue package for CMA CGM in the same way as Germany. In first quarter (Q1) of 2009 Hapag-Lloyd made a loss of US $302 million, compared with the company's Q108's profit of US$24.5 million. Hapag-Lloyd's revenue, as posted by TUI, has fallen 23% y-o-y for Q109, and this has been attributed to the fact that the company's container traffic has shrunk by 15% to 1.12 million TEU and that the company's freight rates fell by 14% on the same period a year ago. The company's operations have been hit hard, with American Shipper reporting that the largest declines in container transport were on Hapag-Lloyd's transatlantic routes, where volumes decreased by 19.2%, followed by operations in Asia-Pacific, where TEU volumes fell by 17.8% [7].

3 CONTAINER CARIERS STRATEGY IN 2010

Companies can reduce capacity by cutting costs, decommissioning old vessels and slow-steaming (shipping goods more slowly to save fuel costs and use up spare capacity). All major lines cuts their fleets. European shipping companies have also taken steps to dispose of parts of their fleets. The disposal of ships by CMA CGM and MSC were offset by the delivery of new ships and new charter hires. The active capacity of the world's 20 largest ocean container carriers shrunk by 2.4% over the past year, but there was relatively little change in their global market shares. As part of an effort to conserve cash, CMA CGM said it will continue to try to renegotiate and in some cases cancel “certain ship deliveries” [6] [15].

The top 20 lines actually boosted their combined fleets by 1.6% in the year to Jan. 1, 2010, but their effective capacity declined as they idled more vessels in response to lower cargo volume [8]. The combined capacity of the top 20 reached 10.81 million TEU on Jan. 1, 2010, compared with 10.63 million TEU a year ago. The leading carriers idled capacity currently stands at 743,000 TEU, equivalent to 6.9% of their operating fleet. This is more than double the 328,000 TEU of idled capacity, or some 3.1% of the fleet, on Jan. 1, 2009. Maersk Line retained its overall lead with capacity of 2,045,183 TEU, despite its global market share shrinking from 15.6% to 15%. Mediterranean Shipping Co. remained in second place with 1,488,196 TEU and a 10.9% market share, followed by France's CMA CGM with a 7.6% market share and capacity of 1,031,303 TEU. APL, a unit of Singapore's Neptune Orient Lines, jumped from seventh to fifth, overtaking German carrier Hapag-Lloyd and China's COSCO Container Line. Hanjin of South Korea returned to ninth place after dropping out of the top ten in 2008. There are 5,892 ships active in the liner trades with a combined capacity of 13,642,270 TEU [9].

For most of the Asian carriers, however, the disposals were not offset by the delivery of new ships or through charters, which resulted in a loss of market share. Also as a percentage of the total owned fleet, the Asian carriers’ disposals are significantly higher. NYK Line, MOL and “K” Line reduced their exposure to the liner trade, mark a longer-term shift in these carriers' corporate strategies to downgrade the container shipping business segments. NYK and "K" Line sold nine over-Panamax containerships built between 1997 and 2002 of between 5,500 and 6,150 TEU. The sales were conducted privately, at prices that were largely regarded as very attractive to the buyers [2] [16]. The 15 MOL ships demolished, a total of 44,500 TEU removed, were among some of the youngest ships sent for scrap last year, at an average age of 21 years. Evergreen has sold 34,000 TEU of its owned capacity during the last year, including nine of its G/GX class ships (excluding seven more that were sold on leaseback deals earlier) built between 1983 and 1988. Hanjin Shipping sold 13 container ships of between 4,000 and 5,300 TEU in June 2009. This was part of a 16-vessel deal (including 3 bulk carriers) concluded with Korea Asset Management Corp., which paid around $383 million for 17 vessels, including one bulk carrier from Hyundai Merchant Marine, which were chartered back to the sellers for five to 10 years. Hanjin's sale represented 39% of its owned containerships as the company struggles with a strained balance sheet with a debt-to-equity ratio of over 220% at the end of 2009 [10] [16].

Singapore Shipping Report forecasts an upturn in the country's maritime sector. In the first quarter 2010 imports and exports for the country are expected to increase by 10.2% and 10% year-on-year (y-o-y) respectively in 2010, and this will have a knock-on effect at the country's ports, as cargo volumes passing through the ports increase. BMI's shipping team forecasts that Singapore's main port, the port of Singapore, will for example experience y-o-y throughput growth in total tonnage of 7%, while container volumes at the port are to increase by 6%. In 2009 the port's total tonnage fall by an estimated 10% to 463 million tonnes, and the facility's container throughput volumes fall by 18% to 24.6 million TEU [11].

A number of positive developments in Malaysia's port and shipping sector; the country's ports seem to have started recovering their cargo volumes – it is conclusion in *Malaysia Shipping Report Q2 2010*. Cargo volumes at the nation's ports are expected to increase further owing to the implementation of an ambitious free-trade agreement (FTA) between the Association of Southeast Asian Nations (ASEAN) and China. In January 2010, the ASEAN-5 (Malaysia, Singapore, the Philippines, Thailand and Indonesia) and Brunei signed an FTA with China, creating the world's third-largest trade bloc. The agreement eliminates tariffs on 90% of goods traded between the countries and China and is expected to boost volumes of trade between them. Four other states, Laos, Cambodia, Vietnam and Myanmar, are on course to join the trade bloc in 2015. The *Malaysia Shipping Report Q2 2010* forecasts a growth in the country's maritime sector, as trade volumes look set to begin to recover from the downturn of 2009. Imports and exports are expected to increase by 11.9% and 5.4% y-o-y respectively in 2010, and this will have a knock-on effect at the country's ports, as cargo volumes passing through the ports increase. BMI's shipping team forecasts that one of Malaysia's main ports, the port of Tanjung Pelepas, will experience y-o-y throughput growth in total tonnage of 13.1%, while container volumes are expected to increase by 10% in 2010. This will further add up to 2009 throughput at the port, which despite the downturn in global trade volumes and the decline of Malaysia's total trade by 11.2% saw the port of Tanjung Pelepas's container throughput volumes increase by 7.5% to 6.02 million TEU and the facility's total tonnage rise by an estimated 8.6% to 95.6 million tones [12].

The first quarter of 2010 is very optimistic time for maritime sector. Major capacity influx on Asia-Europe starts – reported Alphaliner. Maritime trade between Far East and Europe was growing in the first quarter of 2010. Demand of new service launches on the Asia-Europe sector will add about 22,000 TEU per week to the trade, representing 7% of total route capacity. This is the first major goods supply into the Asia-Europe services since the financial crisis in summer 2008. These increasing goods will ease the capacity crunch on the Far East to Europe market. The additional capacity could reverse the trend of rising freight rates observed since the first quarter of 2010. If the strong demand growth is sustained over 2010, the overall trade growth figure could reach more than 10% for the year [13].

Taiwanese Evergreen Group recorded losses $300 million in 2009 for the first time since the company's inception. Evergreen currently posses a fleet of 148 container ships, with a total capacity of 551,490 TEU, of which it owns 87, charters 61 and has none on order. Evergreen Line has been very cautious about adding vessel capacity to its container fleet during the last few years. Top management has planned to build 100 new container ships. The Taiwanese carriers' plans for new ships include orders for 32 vessels of a new type with capacity of 8,000 TEU each, for 20 additional S-type (7,024-TEU) ships, for 20 additional U-type (5,364-TEU) ships and for 20 or more 2,000-TEU ships of a new type that will be used for feeder services[14].

Alphaliner predicted that deliveries of new containerships are expected to surge in the second quarter of 2010 to 430,000 TEU after the 70 new vessels for 307,000 TEU recorded in the first quarter [17]. These figures are significantly higher than the levels recorded in the second half of last year, when only 228,000 TEU per quarter were delivered on average. The new vessel deliveries are expected to contribute to a net fleet growth of 9.6% in 2010, after taking into account expected scrapping and slippage. In April alone, deliveries are expected to reach 150,000 TEU, the highest monthly level recorded since mid-2008. A total of 16 units of above 5,000 TEU, all to be handed over in April, have already received service assignments [18].

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