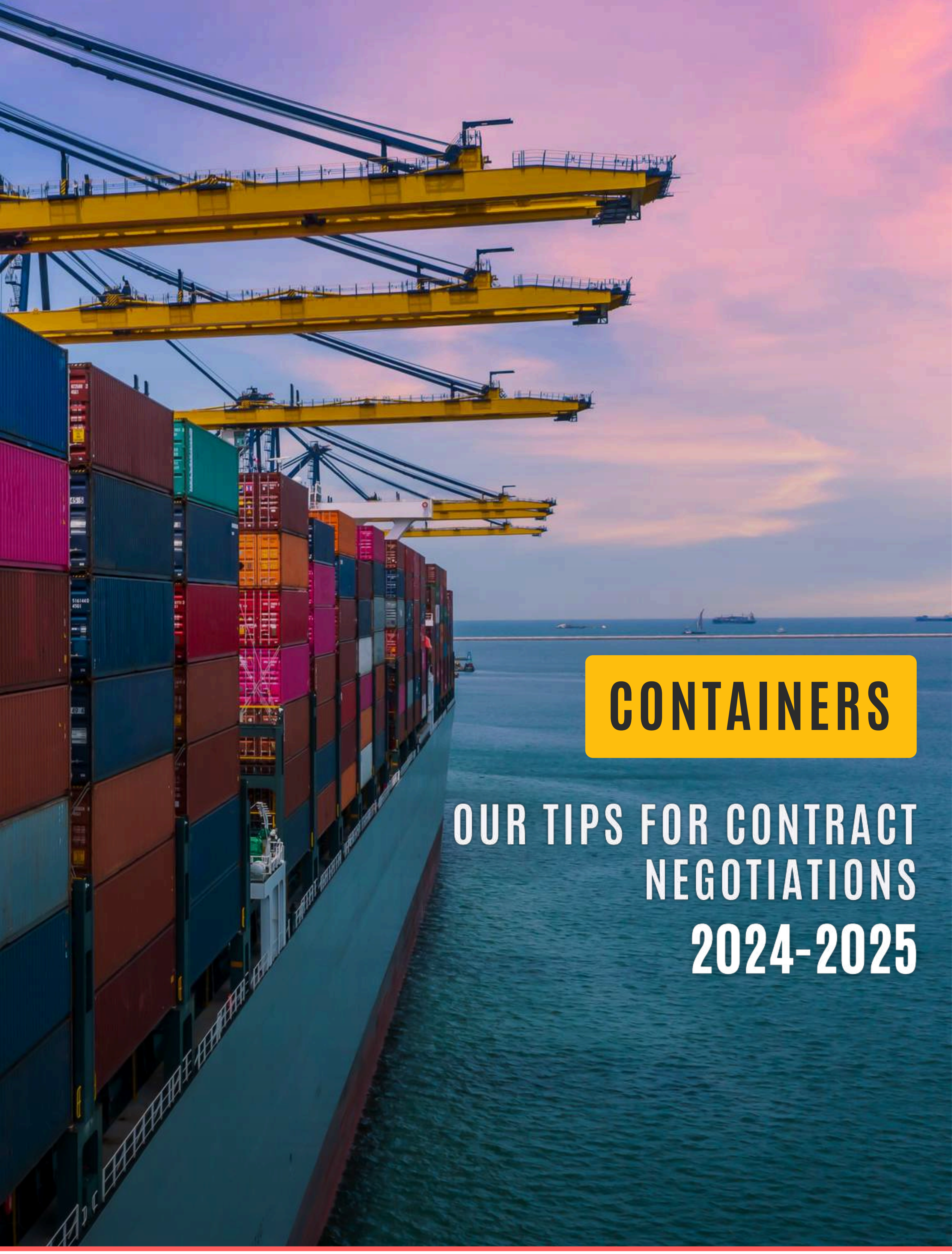


# CONTAINERS

## OUR TIPS FOR CONTRACT NEGOTIATIONS 2024-2025

OCTOBER 2024

upply

# Containers: our recommendations for the 2024-2025 negotiating round

**Is it best to strike a deal quickly or to let the clock run down a bit before signing 2024-2025 contracts with the container shipping companies? Here are our recommendations for getting the best deal in the new contract negotiating season.**

It has escaped no one that the summer holidays are over. Companies are busy with their next year's budgets. The weather has turned, and additional lines and columns have been added to the Excel spreadsheets, as they are each year. In the container shipping sector, meanwhile, the arrival of autumn traditionally marks the start of the annual contract negotiating season.

From the shippers' point of view, **the task is to move at the right time to get the rate they want for their current and future cargo transportation requirements.** Agreement is generally reached after three rounds of tendering and sometimes four for the most keenly fought over cargo lines.

- **A colossal and difficult task**

For the shipping companies and their clients, this operation requires a colossal amount of data processing and heavy pressure to arrive at a result which is almost always imperfect. Shipping contracts are highly fastidious and sometimes unpredictable because of the possibility of major external events occurring during the life of the contract (incidents involving force majeure, for example). Since it was created, Upply, with its Smart product, has tried to tackle the problem of fine-tuning data management with a view to improving ergonomy and reducing the time it takes.

Many leading operators use our services now because we have been able to show over the last six years that **our decision-making aid product can provide precious gains in time and analytical finesse.**

Container shipping contracts are characterised in the first place by the extreme difficulty they cause shippers as they try to **draw up accurate forecasts of their annual volume transport needs**, taking account of seasonal variations. As for the shipping companies, the challenge they face is to **match capacity to demand in real time**, both in terms of empty containers and services offering early sailings. In reality, the shippers too often exaggerate their cargo volume requirements and have only a rough idea of their capacity requirements, while the shipping companies and big forwarders are quick to forget their initial contractual obligations.

Nevertheless, after the pandemics, wars and multi-form disruptions of service we have experienced in recent years, it has been confirmed that, whatever happens in the market, it is always **better to have a contract, albeit an imperfect one, than not to have one at all.** Last year was marked by a sharp fall in freight rates, which lasted until the autumn, and a return to lower transport costs for the shippers. The attacks carried out by the Houthis in the Red Sea reversed the trend, however, particularly on Asia-Europe routes, and put an end to the abnormal situation which had resulted in spot rates being lower than contract rates.

Against this background, let us look now at the market factors that shippers need to take into account in their 2024-2025 contract negotiations with the shipping companies.

# 1. FACTORS UNFAVOURABLE TO SHIPPERS

- Importing shippers have opted for caution in their cargo volume forecasts **because of poor growth prospects in Europe in the months to come**.

- Shipping capacity is becoming increasingly concentrated, as market leader MSC extends its lead over its rivals. This automatically limits shippers' choices. The same trend towards concentration can be seen among the big international non-vessel operating common carriers.

- There has been no tangible sign that shipping activity is likely to return to normal in the Red Sea in the short term, which means that the alternative route round the Cape of Good Hope has become a long-term fixture.

- The use of longer routes is partly absorbing shipping overcapacity for the time being, which is fuelling the pressure on rates.

- If there is an improvement in the situation in the Red Sea, it will take at least two months to massively reschedule ship rotations via the Suez Canal. It is already clear, therefore, that that will not happen in 2024.

- While freight rates have mainly increased on routes directly affected by the disruption in the Red Sea, namely those between Asia and Europe, we are seeing some contagion on routes not directly affected, mainly in the transpacific and Indo-Pacific markets, even if the impact has been on a lower scale.

- Shipping companies' operating costs have risen sharply in all areas, whether for fuel, crewing, war risk insurance, ship chartering, empty container repositioning or cargo-handling.

- Shippers were able to secure relatively low freight rates during the last negotiating round, even if they have not always been able to load their goods rapidly in recent months, as freight offering higher rewards took precedence. It will not be easy for them to explain to their financial departments now that shipping freight rates are set to increase sharply again, undermining the deflation process which had helped to slow down retail price inflation. This is particularly true in the distribution sector.

## 2. FACTORS FAVOURABLE TO SHIPPERS

- If the disruption in the Red Sea stops and ships are able to transit safely through the Suez Canal again, shipping overcapacity make itself felt again, generating a massive deflationary effect on freight rates.

- The cost of exporting from Europe to the United States remains very low.

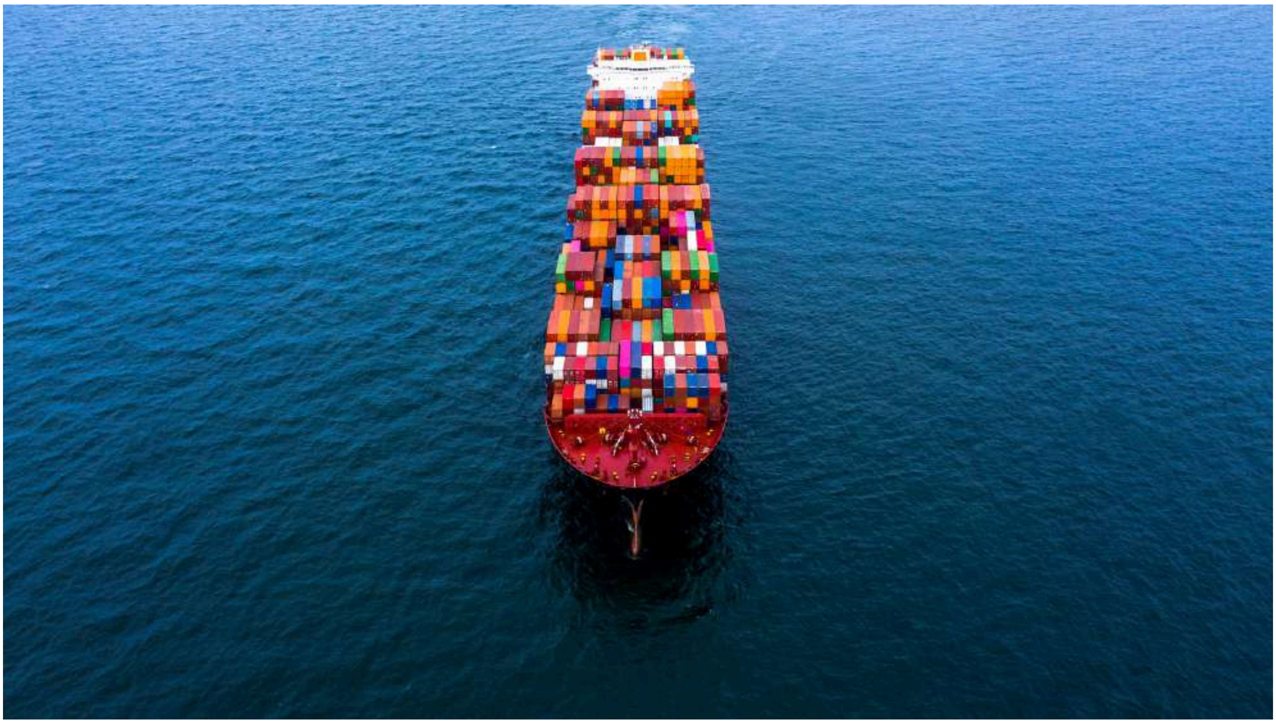
- The tensions, uncertainties and multiple pressures weighing on the international shipping market (Suez Canal, South China Sea, surcharges for greenhouse gas emissions) are accelerating the move towards goods sourced closer to the markets where they are to be consumed. Nearshoring remains expensive but allows for better management of stock shortages and is more virtuous from an ecological point of view. In this situation, the shipping companies are starting to get the message that it is probable that, on Asia-Europe routes, the size of the "cake", which is to say the number of containers to be transported, will not continue to grow automatically year after year.

- The market will continue to be served by many giant 23,000-24,000 TEU vessels, which will be prevented by their size from being repositioned on smaller lines.

- More than other shipping companies, MSC will need to fill its ships. It has launched a major new construction programme which is due to be completed in 2025 and, in the meantime, has hired virtually all the vessels available on the charter market.

- The threat of traffic restrictions on the Panama Canal has been considerably reduced, at least for the time being, contrary to the situation this time last year.

- There are some tensions between Western countries and certain Global South countries, and this could affect trade growth. Relations within the Global South and the Indo-Pacific region are developing, however, albeit with some bumps in the road, and this could benefit Western groups present on these markets.



# 3. OUR CONCLUSIONS

On the basis of the fundamentals referred to above, we see two possible scenarios at this point:

- The Cape of Good Hope route will continue to be used and freight rates will stay at current median or even slightly lower levels (around USD3,000/40' on Asia-Europe routes) because of the increase in shipping companies' operating costs.
- Freight rates will collapse as 100% safe navigating conditions are restored on the Suez Canal and new shipping capacity continues to come on to the market.

The first scenario is the one which is holding the line as the contract negotiating round gets under way. That does not mean that it will continue to do so. Despite continuing use of the Cape of Good Hope route, the arrival of a massive amount of fresh capacity ordered during the post-Covid period is going to weigh on the market so long as demand remains weak. MSC, which provoked a sharp increase in freight rates last spring after having strangled the market in 2023, is going to need to fill up its ships. It will have no choice but to engage in an exercise in which it has proved it is past master: forcing rates up and down alternately, even if it means taking them dangerously close to break-even levels. That said, its own break-even level is below the market average and, given its firepower as market leader, its competitors will be obliged to follow the oscillations, at least partially.

# 4. OUR RECOMMANDATIONS

- Extend your existing terms and conditions for a few months more, if you are able to do so, to give the market time to settle.
- Maersk and Hapag Lloyd, the founders of the Gemini Cooperation, should soon take up position on a new "quality" approach to their services, while MSC will remain volume-orientated and CMA CGM and COSCO will combine the two approaches. It will then be for you to determine your own position according to your own cargo requirements and expectations.
- Incorporate into your decision-making models the risks posed in the South China Sea by the state of China's relations with Taiwan and the Philippines. They are less pressing at the moment, because of the attention being given to the situation in the Red Sea, but remain serious.
- If you are obliged to conclude an agreement now, include a review clause in your contract in case safe navigation is restored in the Suez Canal while the contract is still in force.
- Do not hesitate to check out the offers of shipping companies and forwarders outside the Top 5.

**At this stage, if you manage to have your contract extended or if it still has some months to run, we recommend that you take up a "late bird" position. Take account of the real increase in shipping companies' operating costs while negotiating but insist on the overcapacity which will inevitably force freight rates down at some point.**

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