MONTHLY CONTAINER SHIPPING BAROMETER

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Shipping companies keep their heads above water in first quarter

The rise in freight rates in the Asia-Europe trade is slowing but transpacific rates are continuing to climb. The crisis in the Red Sea is have a particularly heavy impact on the Mediterranean market.

Most container ships are continuing to go round the Cape of Good Hope to avoid coming under attack in the Red Sea but, overall, developments in February show that **the market is amazingly adaptable**. The Covid experience has clearly led to companies drawing up plans to improve their general resilience. Fears that European ports could become saturated in February turned out to be unfounded. The volume of cargo to be handled turned out to be fairly modest for a so-called "high" season.

Although the market was not totally destabilised, it would be a big exaggeration to suppose that all is well. **The current situation is difficult for the shipping companies to manage from an operational point of view**, as they try to maintain quality of service. It has also led to a deterioration in their emissions performance. According to Constante Dijkastra, a shipping specialist at the environmental association, Transports and Environment, who was interviewed by French language publication Novethic, a ship going round the Cape of Good Hope increases its CO^2 emissions by 45%.

The crisis is even more penalising for shippers, the great majority of whom drew up their budgets on the basis of a then sensible market consensus which put Asia-Europe freight rates at $1,500-1,800/40'. Today, however, **prices are oscillating at around $3,500-4,000 on average,** although shippers with contracts have some additional negotiating room, even if their contracts have been suspended.

Latest developments

- ### Contracts still worthwhile despite their limits

Shippers who deliberately stuck to spot rates, after a highly profitable 2023, have been paying a severe price since November 2023. **The first lesson to be learned, therefore, is that, like negative interest rates, spot prices cannot stay below contract prices for long.** Such a situation is a market anomaly and the return to normal always comes a shock. In our annual market analysis of the 2023-2024 contract negotiations, which was published on 4 October, which is to say before the start of the disruption in the Red Sea, Upply recommended shippers to sign up early for their new contracts.

It is true that the usefulness of contracts is limited in the shipping sector. With shippers unable to make reliable forecasts regarding cargo volumes and shipping companies unable to provide empty containers or the agreed number of slots on the first ships to leave, there is bound to be friction over contract execution. **Nevertheless, it is better to have a contract which is a little bit shaky than no contract at all.**

- ### Supply chain resilience

Logistics chains have soaked up delays in northern European port calls remarkably well. There have been some problems in the pharmaceuticals and automobile sectors but the catastrophe which had been feared did not occur.

- ### Antidote for shipping overcapacity

At the start of the autumn last year, the shipping companies were worried about the wave of new capacity due to come on to the market in 2024-2025 at a time when freight rates were already in decline. Today, the crisis in the Red Sea has become an unexpected windfall as they scramble for ships to fill gaps in loops which have suddenly become much longer.

An Asia-Europe round trip via the Cape of Good Hope at a cruising speed of 14 knots (which is to say a little faster than on services using the Suez Canal) requires 7% of additional capacity to maintain weekly frequency in terms of port calls and services, according to AXS Marine. The additional capacity expected to come on to the market in 2024-2025 represents about 10% of existing capacity.

The containership charter market is looking healthier, therefore. Newbuildings arrivals, which had been slowed down, are being speeded up again and demolitions, which had been brought forward, have been postponed.

Deviations round the Cape of Good Hope are still provisional, however, even if they are being maintained longer than originally intended and look like continuing into the second quarter. **A general and sudden return to the Suez Canal would plunge the market back into the situation in which it found itself at the start of November,** since current cargo volumes are a long way short of the level which would be needed to restore normality.

- **An unexpected boost for shipping companies' finances**

In the final quarter of 2023, shipping companies' financial results were either in the red or, among the better performers, just profitable. However, **the Houthi attacks resulted in an increase in freight rates which brought prices per container to above companies' break-even levels.** First quarter financial results were saved.

The Houthis enabled the shipping companies to operate again at above break-even levels, just as they were preparing to plunge into the abyss. If we think about it, this is not a very rational state of affairs in an industry which is so strategically and economically important.

- **Experiences different in the Mediterranean and northern Europe**

The feedback I have been able to get from the ports of Marseilles and Le Havre show that the situation is very different in the Mediterranean and northern Europe.

In the Mediterranean, the conflict in the Red Sea is doubly penalising. The deviation round the Cape of Good Hope and then the passage through the Gibraltar Strait represents 18-20 days of additional transit time for destinations in the western Mediterranean and 25-30 days for those in the eastern Mediterranean. These are enormous increases, which d**estroy the attractiveness of the Mediterranean as a hub for services from Asia which offer shorter transit times than those serving northern Europe.**

If the current situation lasts, the risk is that mother ships will no longer go into the Mediterranean but rather use Algeciras and Tanger Med to tranship their cargoes and then return directly to Asia. This is already starting to happen, moreover (see p.9). It is a serious blow for Port Said, Piraeus, Gioia Tauro and Malta, as well as for western Mediterranean ports, which would lose their direct port calls if this practice became the norm.

At Le Havre, for the time being - and the same goes for Antwerp and Rotterdam - port operators seem to be enjoying an unexpected truce. The increase in freight rates means that business is better than expected for forwarders and shipping companies. The grimmer scenarios which had begun to emerge, in which shipping agencies would have had to undergo radical restructuring, have been shelved for now and dockers at the port of Le Havre called off their planned strike action in February in return for a promise from the government to discuss their retirement conditions in March.

The reality is, however, that French ports risk losing their ranking and becoming "feederised". Will Le Havre and Fos-sur-Mer be able to attract enough cargo from their hinterlands to justify continuing to be served by direct services? The fear that they will not is an old one, as is the question.

Already, the Gemini Cooperation project introduced by Maersk and Hapag Lloyd looks likely to have an unfavourable impact on French ports. The crisis caused by the Houthi attacks in the Red Sea must not be allowed to aggravate this trend. Clients are likely to find a choice between MSC and CMA CGM a little too limited!

- **Uncertain economic outlook**

The idea that inflation risks taking off again in the retail sector because of the increase in freight rates has hit home. This could encourage central banks to postpone their plans to lower base rates. **The impact on the American economy will, no doubt, be less great.** The US economy is doing relatively well, as has been demonstrated by the increase in imports from China registered by the west coast ports since the start of the year. **European countries, on the other hand, will need recovery programmes to stimulate demand,** which will mean lower lending rates. Meanwhile, the Chinese economy is causing concern. **Chinese economic growth is expected to fall to 4.6% in 2024 and 4.5% in 2025**, according to a Reuters poll of leading economists. The Chinese government will have to maintain the budget support programme it introduced in 2023 to respond to the decline in demand.

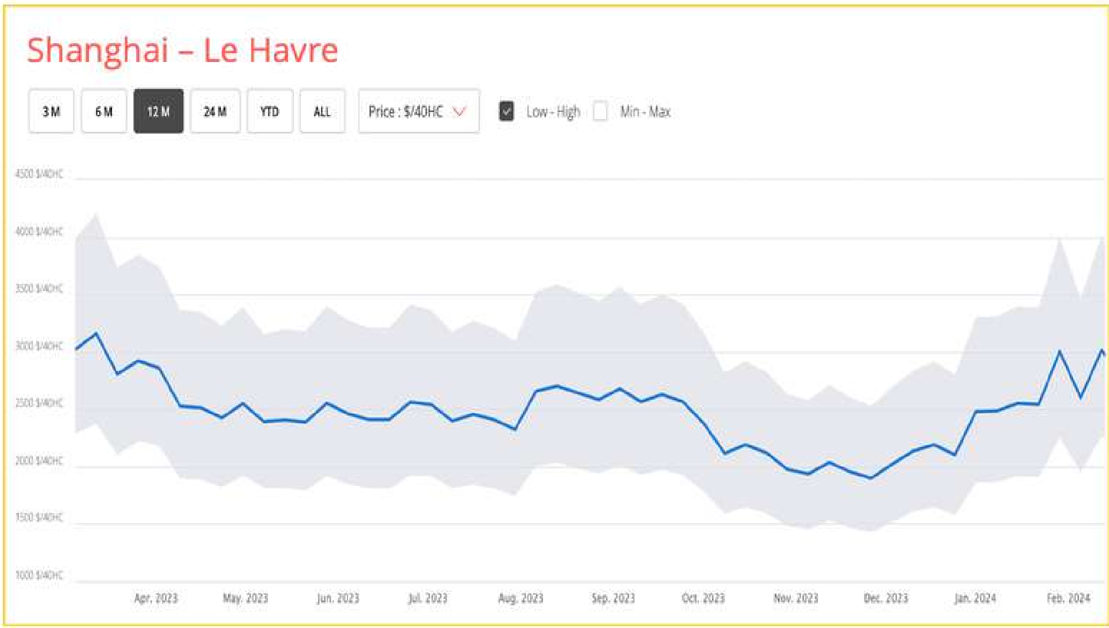
1/ Prices

We are seeing some cooling in rates on Asia-Europe services. The deviation round the Cape of Good hope has become a sort of "new normal" and, for the time being, we have not seen any major increase in cargo volumes since the end of the Chinese New Year.

The transatlantic market, which has in the past offered better returns, has been affected by excess capacity and nascent price wars.

The transpacific market again showed good resistance, with just the right amount of capacity adjustment to match the increase in cargo volumes, along with a slight increase in freight rates. It was the market which earned most money in February, well away from the disruption in the Red Sea.

- **Asia-Europe**



Port-to-port rates (spot and contract combined) billed for sailings from Shanghai to Le Havre, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply.

- **Europe-Asia**

Port-to-port rates (spot and contract combined) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply.

- **Europe – USA**

Port-to-port rates (spot and contract combined) billed for sailings from Antwerp to New York, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply.

- **Transpacific**

Port-to-port rates (spot and contract combined) billed for sailings from Shanghai to Long Beach, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods. Source: Upply.

2/ Services

The end of the Lunar New Year celebration in Asia and ongoing Houthi attacks on ships going through the Bab el Mandeb Strait affected regular services in this early part of 2034.

In a report on 2 March, Sea Intelligence noted **a deterioration in service reliability,** which was down 5.1% in January on its December level and 0.4% down year on year. The shipping consultancy said that the crisis in the Red Sea had aggravated the situation. Reliability in January 2024 was at its lowest level since September 2022. With ships rerouted round the Cape of Good Hope, moreover, **the average delay in their arrival in port rose from 0.59 days in December to 6.01 days in January.**

Among the 13 shipping companies monitored by Sea Intelligence, CMA CGM took first place with a reliability rate of 54.7% (compared to 60% in December. Wan Hai, Evergreen, OOCL and COSCO managed to stay above the 50% mark but most shipping companies, including MSC, Maersk, ZIM and Hapag Lloyd, scored between 40% and 50%. According to the figures, no shipping company was able to improve its reliability rating.

This deterioration can be explained partly by the deviations caused by the crisis in the Red Sea and partly by the drought conditions in the Panama Canal. The fact remains, nevertheless, that the gap between the most reliable company - CGM - and the least reliable - Yang Ming - has never been smaller during the last three years.

Red Sea

The Red Sea is still little frequented. The attack on the Rubymar on 24 February made the shipping companies aware that the Houthis are capable of sinking ships, even though European and American naval forces are patrolling the area and escorting ships. They are evaluating the situation on a daily basis before deciding which route ships should take. In this situation, **Hapag Lloyd** announced that it was stopping its AR1 service between Asia and the Red Sea.

CMA CGM, on the other hand, announced that it was resuming Red Sea transits on a case by case basis. "The situation is being closely assessed for each vessel before each transit, routing choices therefore cannot be anticipated or communicated," it said in a statement on its website. According to the information we have at the moment, the Marseilles group is the only one to take this position. Its competitors are continuing to deviate their vessels round the Cape of Good Hope. CMA CGM's decision is not without consequences, however. Insurers are quoting war insurance premiums at 0.6-1% of ships' insured values.

Mediterranean-Red Sea

The situation in the Red Sea is encouraging a return to butterfly services. These involve splitting a service into two to avoid going through problem areas. Faced with the risk involved in going through the Bab-el-Mandeb Strait, shipping companies have set up services between the Mediterranean and the Red Sea, which do not go through the strait. Dynamar has indicated that other butterfly services are on the way. **Maersk** is going to create a service between Port Saïd, Jeddah, King Abdullah, Port Said, Barcelona, Tanger Med, Algeciras and Vado Ligure, while a second service will call in Tanger Med, Port Said, Jeddah before returning via Port Said. **Hapag Lloyd** has set up a three-ship service serving Tanger Med, Damietta and Jeddah before returning again via Damietta. Finally, **CMA CGM** has launched the Red Sea Express to link its Mediterranean hubs to the Red Sea. The service calls in Tanger Med, Algeciras, Malta, Alexandria, Damietta, Aqaba and Jeddah.

MSC has also modified the route of its Dragon Service between the Mediterranean and Asia. Its ships now go round the Cape of Good Hope. The company has, therefore, dropped calls in King Abdullah, Ashdod and Abu Dhabi and added a call in Sines. The new itinerary takes in Dalian, Pusan, Shanghai, Ningbo, Yantian, Singapore, Gioia Tauro, Genoa, La Spezia, Marseilles, Barcelona, Valencia and Sines, returning via Mundra, Nhava Sheva, Colombo and Singapore. Similarly, the Indus Express between the Middle East, India and the United States has dropped its calls in Haifa, Sines and Houston. Colombo now serves as hub port in a loop which takes in Abu Dhabi, Dubai, Port Qasim, Nhava Sheva, Mundra, Colombo, New York, Savannah, Charleston and Freeport.

Meanwhile, **Medkon Lines** and **Turkon Lines** have joined forces to provide a service between Turkey and the Red Sea ports. The service will call in Iskenderun, Mersin, Jeddah and Aqaba. Hapag Lloyd has slots on this service.

Black Sea

Since the start of hostilities in Ukraine, the country's Black Sea ports are being used to export cereals. Odessa, Yuzni and Chornomorsk regularly receive calls from ships looking to load cereals. More than 10M tonnes have been exported since July 2023 when the previously existing humanitarian corridors were closed. Ukraine nevertheless wants to return to the container trades, according to Dutch consultancy Dynamar. The Ukrainian infrastructure ministry told the Ukrainska Pravda newspaper that two ships were loading in Ukrainian ports before leaving for Constanta.

The ports of Odessa and Yuzni regularly come under attack from Russian missiles, and it is understood that they have suffered heavy damage. To meet the country's import needs, therefore, the Ukrainian authorities are using the Romanian port of Constanta, sending containers on from there to Ukraine by lorry. The return of Ukrainian ports to the container trades will improve supply capacity but security will be an important issue. How will Russian forces react if this traffic shows strong development? It should be remembered that a Russian naval fleet is positioned off Ukraine's ports even if it is not currently trying to interfere with bulker sailings to and from the ports of the European Union.

At the same time, after two years of war between Ukraine and Russia, the shipping companies are returning to the Black Sea, as is the case with **Arkas** and **Medkon**. Services are being operated in and out of the Georgian port of Poti despite the risks posed by Russian mines.

Europe-Caribbean

CMA CGM is remodelling its service between the Mediterranean and the Caribbean. From the end of March, it will introduce a ninth ship, with the aim of improving service quality and reliability. The group is also adding a new port call in the Mediterranean-Caribbean leg of the service. A call in Tanger Med will be introduced following its final Mediterranean call in Valencia. Ships will then sail straight to Fort-de-France.

Transatlantic

Mærsk has blamed congestion at European and North American ports for its decision to change its TA5 service. The MSC Rachele's planned westbound (Europe-North America) call in Gioia Tauro on 9 March was cancelled. Its next call in the port is due to take place on 16 March. At the same time, its scheduled call in Newark on 1 April has been cancelled. It will make its next call at the port on 8 April.

Europe – Persian Gulf

Mærsk has added a service between Europe and the Persian Gulf. The ME8 began operating round the Cape of Good Hope on 14 February. It serves the ports of Jebel Ali, Doha, Dammam, Al Jubail, Jebel Ali, Abu Dhabi, Duqm, Salalah, Tanger Med, Port Said, Barcelona, Tanger Med, Algeciras before returning via Salalah. Mærsk is using the ports of Tanger Med and Port Said as hubs for its Mediterranean services, while Salalah and Jebel Ali serve as hubs in the Persian Gulf. The new service is an addition to the group's ME6 and ME7 services between India and Europe, which have been suspended for the time being.

Transpacific

ONE is to launch a new service in the Pacific to meet US demand for goods from Asia. This service, which is being marketed as the AP1, will start in April or May and call in the ports of Haiphong, Cai Mep, Shekou, Xiamen, Taipei, Ningbo, Shanghai, Los Angeles and Oakland, before returning via Shekou and Haiphong. According to Dynamar, the service will be operated jointly with Wan Hai, which will provide five of the seven ships to be used. The AP1 should replace the AA3, which Wan Hai operated alone, according to Dynamar.

MSC is maintaining its blank sailings strategy to stick as closely as possible to its service schedules. It cancelled the Asia-North America loop the Northern Jaguar was due to start on 4 March and that due to be made by the Maersk Shivling on 26 February. MSC is making the changes because of restrictions on passages through the Panama Canal. The sailing of the Conti Makalu as part of the Pelican service was cancelled during the week beginning12 February.

The Alliance, meanwhile, decided to return to the Panama Canal in March with its Asia-US East Coast service. The service left the Panama Canal for the Suez Canal in the autumn, when drought conditions first made their appearance in Panama. Following the Houthi attacks in the Red Sea, however, the company decided to return to its original route. The loop will take in Qingdao, Shenzhen, Ningbo, Shanghai, Pusan, Cartagena, Savannah, Charleston, Wilmington and Norfolk before returning via Pusan.

Mediterranean-United States

As part of its service between Turkey, Greece and the US East Coast, **MSC** announced that it was adding calls in the ports of Haifa, Norfolk and Baltimore. At the same time, the service's calls in Barcelona, Valencia and Halifax have been dropped. The service will now call in Tekirdag, Izmit, Aliaga, Piraeus, Mersin, Haifa, Salerno, Sines, Boston, New York, Philadelphia, Norfolk, Baltimore, Savannah, Port Everglades and Freeport before returning to Turkey.

Mediterranean-Middle East

Le MEGEM service operated by **CMA CGM, COSCO and Hapag Lloyd** between the Middle East and the Mediterranean has been suspended because of the Red Sea crisis. The service provided a round trip between Dubai, Hamad, Dammam, Jubail, Dubai, Jeddah, Port Said, Tripoli, Mersin, Piraeus, Istanbul, Izmit, Aliaga, Iskenderun, Damietta and Jeddah. The suspension of the service has resulted in Hapag Lloyd taking space on the Medkon Lines-Turkon Lines service, which calls at some Mediterranean ports.

Alliance

The Ocean Alliance members - CMA CGM, COSCO, OOCL and Evergreen - announced on 27 February that they were renewing their agreement for a further five years, which means that the alliance will continue to exist until 2032. The alliance, which was formed in 2017, is renewed by five-year periods and the existing agreement is not due to expire until 2027. The memorandum of understanding signed on 27 February only provides for the agreement to be extended, however. It does not indicate which services the alliance will operate.

3/ Operations

- ***Terminals***

Hamburg: the Hamburg Senate has agreed to allow MSC to take a 49.9% stake in HHLA. This is a first stage on the way to final approval of the transaction. The Hamburg Parliament and the competition authorities have yet to give their opinions. It should be remembered that HHLA sold a 20% stake in its Tollerort terminal in Hamburg to Chinese group COSCO. These different divestments follow a 7.5% drop in the cargo volumes handled by HHLA in 2023.

Dar es Salaam: the Dar es Salaam container terminal is going to become the East Africa Gateway, a joint-venture between Adani Ports and Abu Dhabi Ports. The new entity has been given approval by the Tanzanian government to take control of Tanzania International Container Terminal Services (TICTS), which operates berths 8 to 11 at the terminal. Before the award of the contract for management of the terminal to Adani, TICTS was controlled by Filipino group ICTSI.

Taipeh: Evergreen Marine Corporation's cargo-handling division has taken a 5,84% stake in Taipei Port Container Terminal Corporation. The company runs berths 3 to 6 at the Taipei container terminal. Evergreen now has a 33.69% holding in the company alongside Wan Hai and Yang Ming. According to Dynamar, half the cost of the operation has come from Evergreen's own funds. It can be recalled that COSCO Ports tried unsuccessfully to buy into Taiwan's ports some years ago.

Port Saint John: the Canadian port of Saint John, which lies at the mouth of the Saint John River on the country's Atlantic coast, is expanding. The West Side Container Terminal, which is operated by DP World, is involved in the project. The port plans to build a 345 m-long quay with the aim of increasing its annual handling capacity from 125,000 TEU to 325,000 TEU and even 600,000 TEU by the end of the decade. The port's access channel is also to be deepened from 8.4 m to 9.4 m and widened from 150 m to 168 m.

- ***The Panama Canal***

The latest news about the water level in Lake Gatun, which feeds water into the Panama Canal, is gloomy for the canal's short-term operating prospects. The canal authority announced recently that it would be reducing the number of daily transits from 24 to 18 from 15 March.

If the situation continues, conditions of access risk becoming even more difficult and fees even more expensive. The canal authority says that ships must now pre-reserve their slots. Ships which do not reserve a slot will theoretically be prevented from transiting, whereas, until now, they have been made to wait without priority rights. The introduction of tougher operating rules, which are linked to the need to provide the population with drinking water, suggest that there will be **no return to normal operation in the short term.**

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The "Services" and "Operations" sections of this barometer are produced in collaboration with Hervé Deiss, who is a journalist specialized in maritime transport and port issues.

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