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Liners still taking 'a wrecking ball' to lucrative markets

Efforts to offset the impact of the downturn have seemingly backfired

HAEMORRHAGING, seen in transatlantic spot rates, appears to be seeping into other trades as efforts to offset the impact of the downturn have seemingly backfired.

Xeneta's XSI North Europe to US east coast average plummeted another 22 per cent, down to $1,590 per 40 foot over the first week of July, having begun the year around the $7,000 mark but carriers that shifted to other routes to offset this are now seeing these trades fall.

One source told Voice of the Independent: "This wrecking ball of liner companies finding a lucrative market then destroying it continues at pace.

"They do it by injecting too much capacity onto a service to capture market share, and we're now seeing the Asia-Med trade following the North Europe-US east coast transatlantic route with significant rate erosion."

Drewry's WCI put the "previously resilient" Asia-Mediterranean lane, onto which carriers had added capacity, dip at two per cent for the week, down to $1,993.

Adding more curiosity to this is that the decline has occurred prior to the August launch of HMM's new standalone China-India-Med service, using 8,500-11,000 teu vessels redeployed by the South Korean firm from the embattled transpacific market.

> "Liner companies finding a lucrative market then destroying it continues at pace"

Vessels have also been cascaded from Asia-North Europe to Asia-Middle East services, with the Ningbo Containerized Freight Index noting "the market rate continues to fall".

Although, as something of a respite, transpacific trades could benefit from Canadian west coast dock strike, which has shuttered the key container hubs of Vancouver and Prince Rupert since the start of the month, leaving some $12 billion worth of imports stranded.

Suggestions were that some imports that normally transit via Vancouver would be rerouted to US west coast ports, although it is understood workers there will not handle these ships.

Regardless, it seems to have spiked Asia-US west coast rates, XSI reporting $1,453 per 40 foot, with other indices reporting sizeable gains.

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Manufacturers' desire to diversify away from China

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East coast spots also perked up, according to Freightos' Baltic Index, which recorded an eight per cent Asia-USEC jump, to $2,374 per 40 foot.

Maersk and CMA CGM are also attempting to reverse heavy discounting on the Asia-North Europe Lane with substantial hikes in August FAK rates to $1,900 and $1,950 per 40 foot.

The intervention, however, came as XSI recorded average spot rates on the tradelane being down another 1.5 per cent for the first week of July, to $1,207 per 40 foot, leaving carriers in a position of needing to strip significantly strip capacity if they are to make increases stick.

"Inflation and interest rates are high, but look at overall numbers"

One analyst said he could not see MSC following 2M partner Maersk with a similar increase, predicting "this GRI will be about five per cent successful".

Even so, ONE chief executive Jeremy Nixon (right) appeared bullish on the future, believing manufacturers' desire to diversify production away from China will ensure growth for the box line industry.

"We're going through weak demand and, in 2022, we had over-ordering [of newbuild ships] as a rebound from the 2021 shortages many customers had, but many over-ordered in 2022 and now have excess inventory and there is still a lot of overhang," said Nixon.

"Inflation and interest rates are high, but look at overall numbers; North American numbers of employment are surprisingly good. We think overall container volumes will grow."

Nixon's comments come on the back of weak full-year performance by ONE, its last fiscal year, ending 31 March, showing net profit down 10 per cent year on year, to $15 billion, and the carrier refrained from predicting a 2023 performance, citing a challenging market.

But he believes the 'China Plus One' strategy that many are talking-up will mirror the 2002 moment when China joined the WTO, buoying carrier performances.

He added: "We see this swing out of China, but also increasing outsourcing to South-east Asia, the Indian subcontinent, Africa and South America. ONE has big ships calling at China and Thailand, Vietnam, India, Indonesia and, increasingly, in the Indian subcontinent.

"And moving into Africa and Latin America means greater economies of scale to drive down our carbon footprint and get us on our sustainability journey.

"While the end-product comes out of a different location, the tier-three and tier-four locations that make components to meet new production may not come from the same location, so tonne-mile growth is still strong."

Asked if over-ordering of large ships, in the past two years would limit the upside from this manufacturing shift, he said terminal infrastructure in those countries had improved.

ONE has secured 54 newbuildings, mainly in the 12,000-15,000 teu range, through a mixture of direct orders and long-term charters. Twenty had entered service and the rest will be delivered in 2024 to 2026.

Amazon Air cutbacks spread to Europe

AMAZON'S engagement in the airfreight sector is on the downturn, with the e-commerce behemoth severing ties with one its US charter partners and reducing European flights.

A spokesperson for e-tailer told Voice of the Independent: "We're reducing some Amazon Air flights in Europe, which won't impact [the] delivery experience customers can expect from Amazon in the region."

But there was no comment on the level of cuts to services that commenced in 2020 and are largely operated by ASL Airlines 737-800Fs.

However, VOTI understands an agreement remains in place with ASL, which declined to comment, although data from Planespotters suggests one of nine 737Fs operated by ASL Ireland on behalf of Amazon has now been parked.

Days before the news on European flight cuts was made public, it was widely reported that Amazon had also terminated a CMI agreement with Silver Airways for five ATR72-500Fs.

Up to this point, Amazon had operated 89 aircraft across Europe and North America: the five Silver Airways-operated ATR72Fs; 29 737Fs operated by ASL Airlines, Atlas Air and Sun Country Airlines; and 55 767Fs operated by Atlas Air, ATI and Cargojet.

But the latest cutback continues a trend that began at the end of last year when, having spent big on capacity during Covid, Amazon fell victim to the steep decline in demand.

Those efforts, though, seem to have put the backs up of many potential customers, with its efforts to break into the Latin American market having fared poorly after citing "crazy" numbers and upsetting potential customers.

Sources said in December Amazon was set to place four Air Transport International-operated 767-300Fs in Miami to ply routes to South America, connecting Bogota, Lima and Quito.

"Amazon has too many aircraft for the current environment, so it is taking its first steps into South America," a source said at the time. "It is likely it will end up being e-commerce southbound and perishables going north."

Creditors' lifeline as US haulier Yellow struggles

CREDITORS have thrown struggling US haulier Yellow Freight a lifeline, averting potential bankruptcy.

In exchange for handing over increased financial oversight, the trucking company's debtors agreed to amended loan deals, which will seem them temporarily waive loan requirements for the six-month period to 30 September from term loan lenders.

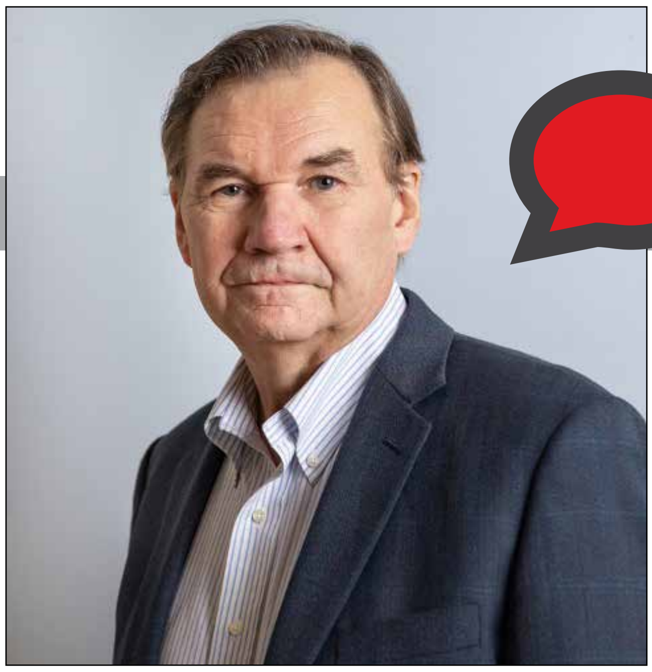
Under the agreement, lenders will nominate an operational adviser with weekly reports of consolidated operating budgets over a 13-week period, with monthly reports on key performance indicators required.

In addition, the company is obliged to keep liquidity above $30 million; it currently exceeds $100 million, according to Yellow's latest 8-K filing with the SEC.

Spotlight ON

Dr Walter Kemmsies

Right now, the SME market is a better prospect for ocean carriers



shipping advisor
The Kemmsies Group

CARRIERS are seeking volumes while SME forwarders and shippers have cargo to ship. The two must be brought together, and soon, if shippers are to avoid holiday season problems and a potential impact on their operating margins, shipping advisor for The Kemmsies Group, Dr Walter Kemmsies, tells Voice of the Independent.

"This week I saw a story about BNSF and one of the big US logistics firms, the two were beginning to discount their services in an effort to lure out smaller-volume shippers," Kemmsies says. "And it makes sense if you're a carrier – particularly in the less than full load space – that SMEs are the group to be targeting during a moment of high capacity and low demand."

More specifically, Kemmsies considers it a strategy that makes sense in the specific moment in which we find ourselves. Questioning the popular assessment of the economic climate, he asks how the US can be facing a looming recession while concurrently pumping out jobs reports indicating some 1.8 vacancies per jobless person seeking employment.

"This isn't usually a sign of pending recession, also, the world has undergone a series of changes and I am not entirely sure we understand the inflation," says Kemmsies. "Retailers inundated supply chains with commodities during Covid, but as countries came out of lockdowns, I believe what happened is they failed to consider how this would lead to less spending on consumables and more on services. Rather than acknowledge this mistake we saw CEOs of poorly performing businesses talking the US into recession by claiming consumers were not spending; in reality it was a reversion to pre-pandemic spending."

Over the period of inundating inventories, Kemmsies says, MNC retailers were filling warehouses and containers and paying whatever they could as they hoovered up capacity – "in some cases paying $30,000 per 40-foot box". This, he notes, left reduced space for SMEs as they sought to compete with their larger rivals.

"When SME stocks were depleted, they struggled to get their inventories back where they needed them over the course of the pandemic," Kemmsies continues. "But now MNC retailers are finding that their stock is remaining stubbornly high, they're not selling goods nor ordering, so ocean carriers are finding themselves with excess capacity and no one to take it, and I think this is where SME forwarders and retailers can really take advantage."

> "SME shippers are the group to be targeting during a moment of high capacity and low demand"

If Kemmsies' assessment is right, and the economy is not on a drift, he believes the panic will lift when the economy does not tank. When this happens, large retailers will suddenly find themselves understocked for the peak season and will be desperate for space. Essentially, this will create a rush on capacity that once again affects SMEs. But in this moment, with SMEs already short of stock and capacity high, he feels SMEs may be able to undercut the larger retailers come the holiday season, providing they are supported by the SME forwarding community and take advantage of this moment.

"We have two problems: MNC retailers are overstocked; SME retailers are understocked," he continues. "Carriers tend to focus on big shippers. There is nothing evil about this, it's how they can guarantee volumes and income to support their businesses. But right now, the SME shippers are the more interesting lot as they are where the volumes can be found. There are things to shipped. BNSF's announcement is indicative that carriers are beginning to cotton on. But they also cannot do it alone, because while it is easy to move one million tonnes of goods for a single client, it is less easy to move one million tonnes split across 25,000 clients. And this is where SME forwarders can step in."

Kemmsies believes smaller forwarders holding relationships with both carriers and SME shippers can provide an inroad for the latter with the former in this moment of uncertainty that could transform the way the industry works.

"For forwarders servicing the SME shippers, I think they may feel pressure to tap into this market from the carriers," he continues. "Right now, the forwarder's business is better than the carrier's, but the problem is that the carriers are always trying to penetrate the forwarding market, and I think it will increase and continue until containers move across the Pacific at sustainable levels. If anything, right now and you're a forwarder you must protect your relationships with the shippers but by the same token also with carriers, and one way to achieve this is by providing space and volumes."

Of course, if it were this simple, then everyone would be doing it. But there are some easy changes SME forwarders and shippers can make, Kemmsies claims, noting "one of the best things" is provide reliable forecasts over the near future. "You have to make the life of the carriers easier", whether this is by air, rail, sea, or truck. "This is pivotal," he adds, noting that the more carriers can see coming, with more advanced notice, the easier their life is.

"The other key thing is deliverance," Kemmsies says. "If you have an order stick to it. A lot of times shippers forget they need to be considered a shipper of choice, because it means you have a relationship with the carrier. This means that if one side says it'll do something it'll do it, but forwarders also need to convince themselves and their shippers to drop old grudges."

Pointing to March's Transpacific Maritime Conference, which worked on annual contracts, Kemmsies says he noted the number of carrier customers looking to avenge what many agree was advantageous practices by the shipping lines. Noting "payback's a bitch" as a theme of the conference, Kemmsies says some shippers took the higher ground in search of sustainable rates "for both sides".

"It's not about payback but achieving sustainable rates," he says. "This idea of payback that is now seeing spot rates plummet, the smart players will recognise that this isn't sustainable. Sensible shippers are worried the lack of sustainability will affect all SME shippers. When rates do come back, they know that getting good contract rates won't be that easy."

Focus ON

URGENT

Wise up in this new era of change and 'slowbalisation'

WHEN it comes to time-critical shipments, pharmaceuticals tends to predominate, but over recent decades the automotive sector, in which manufacturers hold low stock levels, has become just as dependent on a just-in-time model.

Covid shook things right up, bringing manufacturing plants the world over to complete standstills or to marked slowdowns. Indeed, such was the shift in pace that many believed the pandemic, combined with Brexit, China-US trade wars and the hot war that erupted after Russia's invasion of Ukraine last year, could spell the end of globalisation, and the just-in-time model.

"Over the past three years, supply chains in every industry have been distracted by changes enforced by events from the pandemic to Brexit, but none more so than the automotive sector," Priority Freight's group operations director, Andrew Austin, tells Voice of the Independent (VOTI). "The pandemic acted as a catalyst for some issues the industry was already facing and also revealed some new and unforeseen ones. OEMs which are currently ahead of the curve are those employing the services of a complete end-to-end provider for their logistics. This often provides greater scope for flexibility, access to a wider choice of solutions and alleviates the administrative burden associated with complex, cross-border shipments.

ANDREW AUSTIN
Priority Freight

"The pandemic acted as a catalyst for some issues the industry was already facing and also revealed some new and unforeseen ones"

"The ultimate goal of the past few turbulent years has remained the same from an automotive supply chain perspective; get the goods from origin to destination as quickly and efficiently as possible, and that is unlikely to change any time soon. It's most likely that just-in-time manufacturing will remain the norm, and automotive supply chains will need to rely on the timely transport of goods by air to maintain supply chain integrity."

Austin's assertion reflects a belief held by many in the forwarding community that the chatter around the "death of globalised supply chains" was just that: chatter. That chatter claimed that the twin calamities of Covid and the Russia-Ukraine war had seen many shunt out just-in-time, replacing it with "just-in-case", in which shippers sought to raise inventory levels to create a buffer against whatever next disaster lay just around the corner.

Former four-star US general David Patraeus was among voices claiming that growth in globalisation had become much flatter as export controls, high labour costs and technological developments brought on an era of "slowbalisation", telling audiences that shippers and supply chain managers needed to wise up and recognise just-in-time was being replaced with a near-shoring and reshoring model supported by just-in-case logistics.

"It's no longer business as usual, the challenges are very clear; what you have to do is identify them and understand them, but, most importantly, anticipate them," said the former general.

But where one could not breathe for the next news article proclaiming the death of globalised supply chains and the just-in-time model, a raft of forwarders out there were declaring its replacement, just-in-case, a flash in the pan, a response to a series of unprecedented events with an unknown timeframe. Now, those same voices believe they have been proven right as they point to what they see as a reversion to normalcy, AGOL Worldwide's chief executive, Jorge Medina, telling Voice of the Independent (VOTI) the supposed shift from just-in-time to just-in-case "just hasn't lasted".

"Yes, Covid triggered a switch from 'just-in-time' to 'just-in-case' logistics," says Medina. "But slowly, shippers and manufacturers are going back to their old ways. This change has not lasted like we expected."

For many, the belief that supply chains outside the pharmaceutical sphere running on the time-critical just-in-time model were undergoing a permanent shift was rooted as much in the pandemic as it was the weakening of ties with China. Seeing the two as linked, there seemed to be a belief that companies would simply see holding stock as the only means of ensuring they were not caught out by what many expected would be a worsening of relations between the world's economic superpowers.

"Yes, Covid triggered a switch from 'just-in-time' to 'just-in-case' logistics"

This, though, ignores a fundamental shift that is under way, not so much deglobalisation rather what is being dubbed "reglobalisation", and here it seems Patraeus had a point. With companies looking to reduce their reliance on China, they have begun the process of reshoring by opening facilities in other parts of the world – Mexico and Vietnam look set to benefit, with sources citing Portugal as a Europe's reglobalising destination.

"Mexico-US lanes have grown already in the past six months and are set to now skyrocket," Medina continues. "We can envisage this being growth of 200 to 300 per cent and among the companies coming into Mexico are the auto manufacturers and tech companies. This is changing the game a lot, particularly

JORGE MEDINA
AGOL

for the Asia market. But for those in the Americas markets, it is a big benefit."

Sharing the view of Austin and Medina that just-in-time remains just as important is QCS's Allan Christensen, but unlike the others, he professes that just-in-case won't simply be thrown to the ash heap of history, and believes it, together with another model, are lessons to be retained, or rather tools to be stored, in the forwarder's tool kit.

"Just-in-case is still in play for lots of commodities, and there is a tendency that many clients are alert on 'what if'," says Christensen. "Personally, I do not expect a close-down worldwide as we saw previously, governments learned a lot, and the private sectors learned even more. However, the knock-on effects of the pandemic and the war in Ukraine, such as energy costs, inflation and a generally turbulent market, have forced buyers to watch their spending and not stock up; this, though, leads to a re-triggered demand for 'just-in-time'."

Supporting Christensen's perspective are ManMohan Sodhi, professor in Operations and Supply Chain Management at Cass Business School, and professor of Business at Arizona State University Thomas Choi, who both recognise that the disruptions thrown up by the pandemic and Ukraine conflict make it "tempting… to throw out just-in-time" and move over to

Time-Critical

ALLAN CHRISTENSEN
QCS - Quick Cargo Service

just-in-case.

"That would be a mistake," they write in Harvard Business Review. "Just-in-time remains the most efficient production system. Especially with interest rates rising, throwing it out and adding inventory willy-nilly would mean hurting performance without necessarily improving resilience."

Instead, the pair suggest combining the benefits of just-in-time with "buffers" or what may be seen by many as pairing just-in-time with just-in-case, where inventory levels of certain parts are kept high, namely priority parts that had either long lead-times or were vulnerable to disruption. Pointing to Toyota, the creator of just-in-time, Sodhi and Choi said the automotive manufacturer adopted this dual approach following the meltdown of the Fukushima nuclear power plant in 2011 and again deployed it during Covid to ensure that it had no shutdowns over the course of 2021.

"Companies can revamp their just-in-time supply chains by identifying their contiguous parts that can be run on a just-in-time basis and then connecting these 'just-in-time supply chain segments' via buffers," they added. "These buffers need not just be stockpiles of inventory; they could also be excess or flexible capacity, or even resources such as warehouses or transportation shared with competitors and other companies. Thus, the company's supply chain becomes a network of linked just-in-time segments connected by buffers."

Here to stay or not, there remain aggravating features of the present geo-political order as far as ensuring timely delivery of goods is concerned. US Secretary to the Treasury Janet Yellen may have arrived in China last week to try and bridge divisions between the two countries, but it came on the coat tails of Chinese legislation limiting the export to Europe of raw materials used in the manufacturing of semi-conductors – so essential to cars. Austin, though, believes there are more headaches to come on this front.

> "More and more carriers are opening up for e-bookings and live pricing, which are super tools when navigating the time-critical sector"

"Arguably, the shortage of wiring looms is now overtaking the semiconductor crisis as the automotive industry's most problematic supply chain issue," he says. "In addition, the no-fly zone over Russia has meant that the route previously used as a shortcut between the industry's two biggest automotive continents – Europe and Asia – is no longer available, requiring a painfully long and costly detour."

Pointing to "a lot more production going into Mexico", Medina says the stats and the facts underscore the need for supply chain managers and their partners to recognise that what is changing is not the way goods are moved but the points involved. "Yes," he says, "European tradelanes have experienced a slowdown, but this has resulted in is a lot more production going into Mexico". Medina may see the increase in goods coming out of Mexico as a benefit to AGOL, but he is also keen to see Europe recover – "we need that business back" – believing people need to get on the reshoring train pronto.

> "Mexico-US lanes have grown already in the past six months and are set to now skyrocket"

Shipper sources have claimed that Covid-induced disruption alongside the simmering China-US tension were leading to a marked effort from western firms to set up production facilities outside of China, and Mexico and Vietnam were both benefiting from this, but they stressed that in much the same way the apparent *volte face* from just-in-time to just-in-case was being presented as a totalising shift, so too was the notion of China being abandoned, even if they do agree that the world is undergoing a moment of reshoring.

"Long-term, I think reshoring will become as pronounced as the hype and I think countries and ports will get wise to this and meet the demand, and so, yes, re-shoring is very definitely happening, and Vietnam is the number-one spot for western re-shoring," they tell VOTI "But with this having been a fairly recent phenomena, Vietnam has not had the necessary time to build adequate infrastructure for existing customer capacity demands on logistics facilities, such as ports, let alone for the new companies pouring in; and now it's very much hitting the overflow mark."

As far as Christensen is concerned, what remains key is to avoid any totalising assertions, instead he believes supply chain managers need to focus on changes as simply offering an opportunity to expand knowledge: supply chains must be nimble, must have contingencies in place, and must recognise the idea of "business as usual" may be a worn-out misnomer. Looking at what one can learn and expect from the war in Europe, he says it "is hard to predict".

"We all wish things are 'business as usual' but what is usual?" he continues. "We have seen three-and-a-half years of unusual now, becoming the new world – and as long as war is ongoing, the side-effects will keep on affecting us all. Having the right team to navigate and stay agile in this world is important. A lesson learned is to prepare for the worst: pandemic, war, energy-crisis, inflation and recession combined."

Choi, Christensen, Sodhi also identify improvements in technologies as a means of improving the just-in-time model amidst the difficulties of disruption, with Choi and Sodhi both noting how AI, analytics, blockchain and internet of things can enhance the performance of just-in-time supply chains. For Christensen, even simpler changes can buoy the just-in-time and time-critical system.

"More and more carriers are opening up for e-bookings and live pricing, which are super tools when navigating the time-critical sector," says Christensen. "Ad hoc jobs on a Sunday afternoon, the duty officer can still find a flight, obtain a rate and place the booking. Carriers with these options will be more successful than GSA-driven carriers."

Christensen notes that one factor that does not appear to be harming the time critical sector though is the economic changes. If anything, he says, while shipments may have "generally become more price-sensitive", the time-critical sector has regained a lot of flow as demand on it increases, with shippers looking to forwarders "able to provide solutions and that being able to meet deadlines is back to being more important". Austin supports this assessment of the economic climate: "The economic conditions may present a problem for fast-moving consumer goods, but we have not seen this within the sectors we work in such as automotive," he notes.

Questions over airline's future as JetOneX parks freighters

JETONEX has become the latest carrier to ground services, parking up its fleet of 747 freighters as weak market rates eat into operating margins of smaller freighter operators.

The US carrier, operating on Air Atlantic Icelandic's (AAI) AOC, parked all four of its 747Fs: three at the UK's Kemble Airport, with the fourth having touched down to await its fate in Jakarta; but contacts have provided conflicting accounts on why the decision was made.

One source told Voice of the Independent (VOTI) the airline had grounded owing money, another, closer to the carrier, said all European contracts had been fulfilled.

Nonetheless, they acknowledged there was still some "winding-up" to do in Asia, telling VOTI: "The dip in rates has created a need for lower pricing on charters, and it can't be done by JetOneX. Lots of airlines made a lot of money in Covid, but rates have plummeted.

"Airlines that were buoyant, now don't have contracts – and they don't have the deep pockets of a carrier like Cargolux, so they can't withstand the rate drop."

> "The dip in rates has created a need for lower pricing on charters"

The source added JetOneX was not alone in parking aircraft, claiming "lots" had resorted to this in what was a difficult market, but they added some had been able to navigate difficult market pressures by continuing to operate some aircraft, parking "just one or two".

For JetOneX, question marks now linger over its future, with some asking how an airline can come back after parking its entire fleet.

The source said: "If you aren't flying at all, it raises suspicions. I don't know if JetOneX will come back from this, it has the cost of aircraft on the ground to meet and no income. The market's too weak for some to operate; the rates are just too low for some operators."

Owned by Bermuda's Longtail Aviation, JetOneX used to fly on its own operating certificate but switched to AAI.

VOTI has been unable to confirm how long the contract is, with sources suggesting AAI may have concerns: "Would you want your AOC to be associated with an airline that isn't flying? The question is whether JetOneX will fly again," they said.

"It might need to make some changes to its business model. It will be hoping to pick up some contracts, or that a peak season will come."

While unable to glean any comment from JetOneX itself, VOTI did find a LinkedIn note from the airline's logistics manager that he was looking for a new role. One forwarder contact said the carrier was not answering calls and "owed money".

Globalink gives Turkish Air Cargo a way into Central Asia

GLOBALINK Logistics has been appointed Turkish Air Cargo's sales agent for Kyrgyzstan and Kazakhstan, linking the carrier into Globalink's expansive Central Asian network.

The WCAworld member has 12 dedicated service stations across Kyrgyzstan and Kazakhstan, with a further 36 across Central Asia, the Baltics, and Caucasus.

A Globalink spokesperson told Voice of the Independent the new partnership was a "noteworthy milestone".

"We eagerly anticipate providing our valued customers with even greater efficiency, reliability, and speed in our air cargo solutions," the spokesperson added.

"Our mission is to provide top-notch, comprehensive logistics solutions. This symbiotic relationship with Turkish Air Cargo clearly reflects our relentless drive towards achieving unparalleled excellence and innovation within the air freight landscape."

Through the agreement, Turkish will have access to Globalink services, including its customs-bonded road feeder network across Central Asia and the Caucasus.

The carrier will also benefit from the forwarder's Dangerous Goods Management, Valuable Cargo Handling, Packing & Crating, and Express Freight Service, alongside its capacity for tailoring custom-made logistics solutions to cater to the distinct needs of each client.

Insights IN

Seafreight – comment by Mike Wackett

Day of reckoning looms for over-optimistic carriers

MIKE WACKETT FICS
Sea Freight Consultant

THE standout misjudgement by US and European government economists in the past six months was that high inflation "is only transitory".

And up there with this faux pas were container shipping analysts, who also got it badly wrong in thinking that ocean carriers had finally learned their lesson in terms of capacity management and pricing discipline.

In the case of the former prediction blunder, high inflation is still sticking around and unlikely to ease significantly any time soon, despite the efforts of governing banks to squeeze home finances hard with a volley of consecutive 'sledgehammer to crack a nut' interest rate hikes.

And, as for ocean carriers becoming more judicious with their pricing and not driving down freight rates back to subeconomic levels, after tasting the high returns of the past couple of years, instigated by prudent management, well who was kidding who here?

'high inflation is still sticking around and unlikely to ease significantly any time soon'

Shipping lines might have been able to convince the investment analysts who listened intently to first-quarter earnings calls and politely asked the wrong questions. However, anybody long enough in the container shipping industry to have seen it all before, came away from those Q&A sessions knowing full well that ocean carrier leopards don't change their spots!

And it was only a question of time before ocean carrier bad habits re-emerged in their aspirations to grow market share at all costs.

It didn't really matter that there were a few carriers that were trying to keep a lid on things; it only needed one member of the three east-west alliances to start discounting rates before the starting gun was fired on a new version of the 'race to the bottom' game.

Meanwhile, second-quarter results from the liner majors will reflect a significant decline in contract rates, which have taken their cue from collapsing spot rates.

After the golden days of the past two years, ocean carriers still managed to produce an estimated cumulative $13bn net profit in Q1, largely garnered from the legacy contribution of unexpired contract rates.

Banking the last of the windfall profits, carrier forecasts were for a flat performance in the remaining three quarters, therefore still resulting in a profitable full-year.

However, a perfect storm of negative factors has emerged to blow those optimistic outlooks off course and potentially onto the rocks.

As the weeks go by it seems more and more likely that the traditional peak season, when holiday season goods are shipped, will turn out to be a damp squib.

Distribution centres in the US and Europe are still brimming with the overordered goods from last year, and retailers are understandably reluctant to catch another cold with a fresh batch of ordering for product beleaguered consumers cannot afford to buy.

And on the supply side, another 1m teu of capacity is due to be delivered in the second half of the year, including a number of 24,000 teu behemoths that can only realistically be deployed on the under-pressure Asia-North Europe tradelane.

Notwithstanding all this newbuild tonnage due in an already oversupplied market, ocean carriers also find themselves in a bind, having locked themselves into a number of long-term charters at fixed-rate daily hires.

Unlike freight contracts, charter party agreements cannot just be torn up, and even trying to negotiate a reduced hire rate with shipowners does not usually have much chance of success against the enforceability of an agreement and the infamous dogged determination of the shipowner.

It follows that container liner shipping companies are staring into the abyss of several quarters of high costs and falling revenues, which is a red flag for losses.

Some analysts point to the 'cushion' of billion-dollar profits from last year that will be the carriers' salvation. But investors are only interested in the future and it seems that carriers will not enjoy such an easy ride from analysts in the forthcoming second-quarter earnings calls.

Air freight rates may be near to bottoming out

AIR freight rate declines have decelerated, falling just 2.4 per cent for the week to 3 July against an average of 4.8 per cent over the preceding month, with some markets even up.

Baltic Air Freight Index data shows a year-on-year change of -49.4 per cent, but there are notable indications that the nadir may be close, if not already reached, with outbound Chicago up 1.8 per cent month on month, leading both sides looking to gamble.

"It is getting pretty nasty out there; stress levels among airlines and forwarders are clearly rising," says chief airfreight officer at Xeneta Niall van de Wouw.

"A fear-of-missing-out {FOMO) is driving the aggressive drop in cargo rates because no one wants to lose volumes, and they also want to get more of the cargo that's in the market. We can see the larger forwarders taking big risks."

Regionally, e-commerce demand has remained high for southern China, with the Hong Kong index down just 2.8 per cent over June, taking its year-on-year fall to 41.1 per cent.

Outbound Shanghai (BAI80) was down 3.1 per cent for the month, year on year, though the situation looks markedly worse, down 56.7 per cent, with only Europe coming close to this, at 52.1 per cent, which also saw a more dramatic monthly fall, down 12.5 per cent.

"The air cargo market is a toxic mix, with some forwarders agreeing to 12-month fixed rates, including fuel, that are lower than the rates we see in the market overall," says van de Wouw

"That is nearly 'going to Vegas' in terms of risk, but forwarders are anxiously looking to secure volumes in the face of fierce competition. Shippers we are talking to are, in general, not looking for a massive overhaul of their supplier base. But they do want to see a benefit, because rates and market conditions are so much lower than they were six-to-nine months ago."

> "It is getting pretty nasty out there; stress levels among airlines and forwarders are clearly rising"

According to Xeneta, six-month and longer contracts have gained ground, with six-month contracts accounting for 37 per cent of all Q2 contracts, longer contracts accounting for 28 per cent.

Added to this, spot market negotiations fell from 25 per cent of the market in the second quarter of last year, to just 14 per cent this year.

van de Wouw adds: "The big question for carriers is do they go for margin or volume? No one wants to be flying empty, and even the most respected airlines seem to be recognising they must join the game, because if they keep rates high, they just won't get volume."

All of which is leading the industry to question whether the long-running decline in rates is reaching bottom, or if there is still more of a fall to follow.

Looking to the global macro-outlook does nothing to help, with sources claiming geopolitical concerns remain elevated – the recent supposed Russian mutiny not helping – but concurrently inflation has been falling in the US and Europe.

Western consumers also have some money to spend, with Covid-era savings high, and Kemmsies Group shipping advisor Dr Walter Kemmsies believes this may lead to a Q4 airfreight boom.

"When Covid hit and passenger services were being grounded all over the world, we saw carriers

NIALL VAN DE WOUW
Xeneta

early-retiring pilots, but when it all began reopening, they realised they did not have replacements lined up," says Kemmsies, who spoke at length for this month's VOTI interview.

"Come Q4, I think they may regret this, as purchasing managers will begin begging their suppliers to send goods in two months rather than the usual six or seven.

"What this means is there will only be one route to market; ocean may be able to compete on the rates, but it just won't be fast enough. I do not think it would be wild to suggest the repeated ineptitude of purchasing managers may lead to an end-of-year airfreight boom."

$1.5bn boost to help California's ports 'up their game'

CALIFORNIA is pumping more than $1.5 billion into its port infrastructure, as it looks to rejuvenate the sector and add some 20,000 jobs to the economy.

Long Beach, Los Angeles and Oakland are among gateways to gain from the injection of cash, with LA bagging some £233 million for what it called "essential" improvements to both its infrastructure and sustainability agenda.

Executive director of the port Gene Seroka said: "This investment will accelerate efforts to boost competitiveness, create jobs and enhance decarbonisation efforts."

Among projects gearing up for the economic support is a "much-needed" chassis and empty container storage facility serving all 12 box terminals at LA and Long Beach, which will be more than doubled from 30 acres to 71 on the back of $149.3 million in funding.

One shipping source told Voice of the Independent the Californian ports had been crying out for improvements in chassis storage, but also said IT changes were vital.

"Infrastructure at California ports has long needed improving, with the availability of chassis having been a big issue, this makes a lot of sense and represents a good start on what is needed to modernise the ports," they said.

"Even so, west coast ports are behind the curve in terms of investment compared with their east coast rivals, and need to up their game to reverse the coastal shift of cargo."

Under the funding pledge, Oakland will also receive more than $102 million to support its $357 million modernisation project that it is hoping will lure customers back to a port that the funding body itself described as an "under-utilised" gateway.

Transportation secretary Toks Omishakin said: "The historic level of state funding also puts the projects in a stronger position to compete for significant federal infrastructure dollars."

The funding announcement follows the California Transportation Commission approving $1.1 billion for infrastructure improvements on high-volume freight corridors at the start of July, putting total supply chain funding for the month at $2.6 billion.

Ports of Long Beach, Los Angeles and Oakland are among gateways to gain from the injection of cash for improvements

Logistics providers pivot as nearshoring boosts Mexico-US supply chains

FUNDING for tech companies has slowed to a trickle, but Nuvocargo, a trade software provider based in Mexico City, recently snatched up $36.5 million in funding. Like logistics firms involved in US-Mexico cargo flows, the company is enjoying an increasing tailwind from a surge in traffic.

Mexico's exports are on fire. In May they were up 5.8 per cent year on year, with non-oil shipments to the US climbing 11.4 per cent by value. The lion's share is manufactured goods, which account for 88.6 per cent of Mexico's exports.

According to the Association for Supply Chain Management, Mexico overtook China by 15 per cent in US import volume in the first quarter to become the biggest trading partner of the US. At the same time, waterborne US imports from Asia dropped 27 per cent.

Observers and industry executives are unanimous that this is the result of nearshoring. Sourcing from Mexico offers the benefits of comparatively short supply chains and USMCA membership, noted Bob Imbriani, executive vice-president international at Team Worldwide.

"We're seeing a lot more activity between our customers in the US and Mexico. We also see more orders for US customers shipped from overseas to Mexico, either direct or to the US and we move them from there in bond," he said.

The influx of companies into Mexico got under way before the pandemic, but the disruptions that it wrought accelerated the migration, as firms with an existing presence in the country expand their activities and others relocate from overseas to set up shop in Mexico. They have been joined by a growing number of Chinese manufacturers who establish a presence there to serve customers in the USMCA market.

Imbriani expects activity and volumes to climb further as more manufacturers set up production plants in Mexico. Many firms are not in a position to shift to Mexico or elsewhere in Latin America at the moment because their suppliers are located in Asia. Over time, they will also shift to the Americas, he reckons.

In the wake of its integration, the newly minted CPKC railroad has leveraged its status as the only Class I railway that covers all three USMCA market with new a new intermodal service. At the same time it is courting Asian shippers with the idea of using Mexico's Lazaro Cardenas port as a gateway to the US and Canada.

Team has seen some routings from Asia to Mexico and on to the US, but a much larger volume goes from Asia to the US for transhipment to Mexico, observed Imbriani.

"Rail carriers are taking notice of the increased volumes to and from Mexico," he remarked, adding that this will bring about a diversification in supply chains. However, the vast majority of US-Mexico traffic continues to move by truck, he said.

> "Rail carriers are taking notice of the increased volumes to and from Mexico"

Airfreight volumes are low, used mostly by the automotive industry. Some Mexican exports cross the US border by truck to be flown to overseas destinations as a result of limited international airfreight capacity from the country's gateways, Imbriani noted.

There is also some ocean freight entering the US via the Gulf of Mexico. Miami is the primary gateway for this traffic, followed by the likes of Mobile, Tampa and New Orleans. These volumes have risen, but at a relatively modest rate.

So far the trucking industry has absorbed the growth in traffic without apparent impact on transit times. There are the inevitable delays at the border, which are mostly due to inspections, according to trucking firms. Most of the truck traffic is transloaded at the border.

Imbriani stressed the benefits of participation in the Customs-Trade Partnership Against Terrorism (C-TPAT) programme to expedite clearance at the border crossing points.

"This is a time for companies to obtain or maintain C-TPAT certification," he said.

Along the same line, he advised that shippers should use trucking providers that are certified under the Free and Secure Trade (FAST) scheme for commercial vehicles.

Some firms, such as Averitt Express, have been experimenting with LTL solutions to beef up their trucking capabilities. Mexican traffic moves on a truckload basis to points like Laredo for deconsolidation and subsequent carriage in LTL mode to the final destinations in the US.

Like manufacturers, logistics providers based in the US are also moving into Mexico or stepping up their presence there. Redwood Logistics and BlueGrace Logistics have recently announced plans to boost their service offerings in Mexico.

The trend is also playing in the opposite direction. Traxion, one of the largest Mexican logistics providers, recently bought Las Vegas-based BBA Logistics, a cross-border, door-to-door logistics brokerage, for $10 million. Management described the acquisition as part of a plan to provide door-to-door brokerage services in the US.

"With the integration of BBA Logistics, Traxion strengthens its strategic position to continue to capitalise opportunities brought by the nearshoring phenomenon," commented company founder and president Aby Lijtszain.

Team Worldwide has been beefing up its capabilities in Mexico-US logistics, but it eschews direct investment in Mexico. Instead, it pursues a strategy of expanding its presence at border crossings on the US side while strengthening strategic partnerships with Mexican logistics firms on the other side of the border.

According to the ASCM report, Mexico is not the only country that overtook China as a major US trading partner. Canada also surged ahead in the first quarter, albeit at a less blistering 5 per cent margin.

"We have not seen significant growth in moves to Canada. There has been some increase, but nowhere near US-Mexico demand, and not from new manufacturers," Imbriani said.

Zim changes course, with more losses on the horizon

ZIM has changed course on its early bullish full-year projections: in an updated forecast it is now expecting a loss exceeding analysts' projections.

Having recorded a net loss of $58 million in the first quarter, the Israeli carrier surprised analysts by holding firm on a belief that it would hit EBIT of $100-$500 million for the full year – in marked contrast to projections that it would report a loss of $95 million.

But with no rebound in sight, Zim's optimism appears to have waned, with it now accepting 2023 will be a tough year. It has published guidance for a loss of $100-500 million.

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