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Job loss threat as 'wheels come off' for big forwarders

Previously hidden poor results coming to light

WHEELS appear to be falling off the multinational forwarding bus, with previously hidden poor results coming to light leaving job losses likely, a prospect too far for the once feted digital sect.

An insider at a major forwarder told Voice of the Independent (VOTI) that country bosses had been "banking money" from their monthly results and only reporting numbers back to head office to meet budgets over the preceding two years.

"Anything above budget has been hidden in the country's balance sheets," continued the source.

"Over the last 12 months, when the market has been deteriorating and results have come under pressure, each country has dipped into these reserves and been artificially bumping up their results each month."

Claiming head offices had been unaware of the extent to which this had been happening, the source added that these reserves had now been "mostly exhausted and true results are being seen".

> "Anything above budget has been hidden"

Other sources concurred with the sentiment that the situation was deteriorating around them, with one noting that "the wheels have fallen off.

They added: "I suspect this is happening at many of the multinationals. K+N is shedding staff quickly. I hear the same at DHL Global Forwarding – and there is a core reason behind it.

"Even the independent forwarders are having to adjust and, if you look at profit reductions year on year, some of the figures that have now normalised from financial submissions are lower than pre-pandemic.

"After the party everyone was having until mid-2022, there was a 12-month drag, and it is now all coming out and being reported, with nowhere to hide."

Expectations are for a wave of job losses to help pay off the huge overheads that had been taken on in the Covid boom years, as reduced margins and reduced profits take their toll, with Ceva Logistics named as one of those likely to wield the axe.

A source claimed that 100 staff are expected to be cut from Ceva's South American division before the year is out, with a similar number due to go in Asia Pacific.

Europe will also see cuts, said the source, adding: "There are apparently further cost reductions and possible structure changes, all coming before the end of the year.

"No doubt further changes will be required when the integration with Bolloré actually begins."

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CONSIDER IT DONE

Surge in belly capacity puts pressure on freighter services

LUFTHANSA Cargo just broke even during its third quarter, a remarkable reversal on last year's €330 million gain, with carriers reining-in expectations.

The result followed a 41 per cent slip in revenues, down to €657 million, as rates tumbled, while capacity and sales climbed seven and five per cent, respectively; but a spokesperson would not be drawn on the introduction of cost-saving measures, like job cuts.

The spokesperson noted the decline resulted from "weak market demand, in combination with rising capacity, leading to a lower yield level".

"Despite certain cost increases, overall unit cost position is developing positively, compared with the previous year," they said, adding that the state of the market was being "observed closely" and "appropriate measures will be considered if necessary".

Similarly, Air France-KLM Martinair Cargo posted third quarter downturns in revenue of 38.9 per cent compared with the same period in 2022.

Both carriers have been hit by the surge in available capacity that has coincided with a fuller resumption of passenger services, and the associated belly space, but AF-KLM also noted that "operational issues" with its freighters had led to a reduction in South American services.

This, a spokesperson said, had been necessary "in order to restore reliable operational performances for our customers".

Beyond Europe, having quashed plans to add two 777 freighters to its fleet, Air Canada recorded a C$66 million reduction in revenues, which hit C$215 million for the three months to September, which it attributed to "lower yields" stemming from "continued softness in demand".

Chief executive Michael Rousseau, more optimistically, noted: "Although it's relatively early, signals observed from the markets demonstrate upticks in demand and in yield."

Asked about its backtracking, Rousseau said: "We did cancel two 777 freighters because it was a little bit too early for us to take those into our network. But we are looking to expand our 767 freighter business and build that business over time. The market has been soft.

"We believe we've hit the bottom and we're starting to see signs of strengthening demand and yield, and we'll take full advantage of that with both our bellies and our freighters."

While some sense of normalcy has brought airfreight down from its pandemic-induced giddy heights, it has been suggested that where the "traditional market" is returning to normality, a burgeoning "speciality" market has emerged.

Executive vice president of cargo at AF-KLM Adriaan den Heijer pointed to a seven per cent uptick in hi-tech and "vulnerables", which he associated with new product launches.

MICHAEL ROUSSEAU
Air Canada

Live animals and valuables also saw respective increases of five and two per cent, while perishable volumes eked up four per cent, with pharma relatively "inelastic" at zero per cent movement.

Looking to 2024, den Heijer was also optimistic, noting AF-KLM expected growth to return to the previous annual trend of rising 2 per cent to 3 per cent in 2024.

Is it a race to the bottom?

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While Ceva did not respond to requests for comment, another forwarder said "2024 is going to be one of the worst years for the past two decades in logistics – that I guarantee you".

Across the digital divide, reports surfaced that Flexport and Forto were moving aggressively to counter the impact of the worsening tide, with the latter adding closures of offices in Madrid and Bremen to the 10 per cent staff cut it announced earlier this year.

"2024 is going to be the worst year for the past two decades in logistics"

Madrid closing leaves it with no presence in Spain, while the Bremen loss is likely to mean 75 jobs being cut.

In October, before the news was leaked, chief commercial officer Jochen Freese said that Forto's 800 staff were "key to allowing customers an integrated approach to forwarding – using both digital tools and personalised customer service".

And while insiders said after Forto axed around 90 in January more cuts were likely, its executive team denied this, describing the company as "lean enough to ride out the storm".

On Flexport's part, chief executive Ryan Petersen issued a company-wide statement noting that he had taken the "difficult decision" to cut staff numbers by 20 per cent as it contended with the difficult market.

Head of Loadstar Premium Ale Pasetti said that Petersen and the team had left Flexport in a position where its "reputation and business model was at stake".

Others caught in the maelstrom include cargo one and FreightWalla, which collapsed in June, having engaged in a spree of job losses, leading to questions over venture capital-backed business models – Forto raised $610 million over eight rounds this way.

Pasetti said that, with liquidity tightening and the post-Covid world leading to a fierce fight for less-profitable market share, the traditional forwarding model had proved more resilient.

He added: "However, what really smells of very poor capital allocation is that many would-be disruptors had a chance to 'monetise the pandemic' and simply forgot to play the mid-long-term game, without carefully budgeting and paying attention to the right investment balance between tech and people.

"Flexport's reputation and business model is at stake, yet the others are not better off, judging by their poor attempts at convincing us that normalisation will play in their favour."

Furthermore, Xeneta chief analyst Peter Sand has claimed: "You cannot build a successful business one way or another on a digital platform only."

Speaking to The Loadstar Podcast, Sand said: "Challenges remain for digital freight forwarders. Those that failed to build a sustainable business case during the Covid heydays will find it more difficult to find their ground going forward, in a much-changed market."

Explaining that shipping "remains a personal thing", Sand continued that at minimum he expected to see "some weeding out" of the increasingly digitalised sphere.

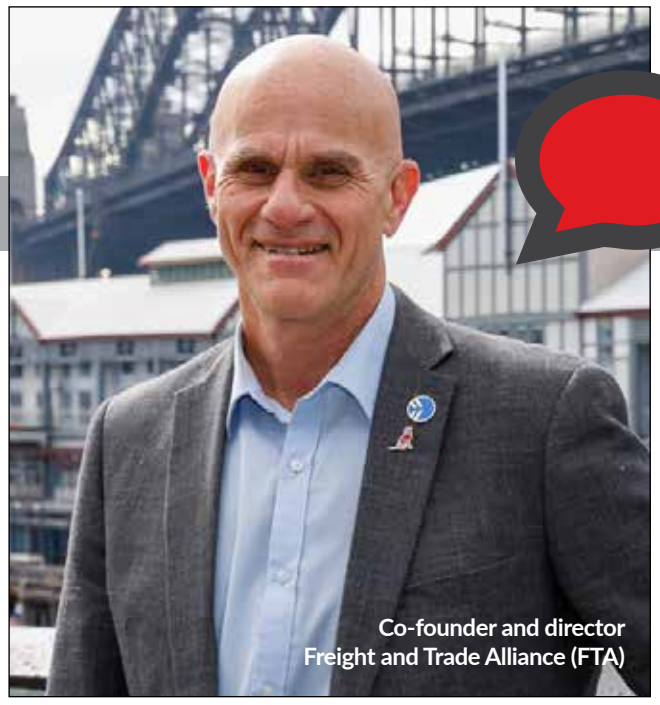
Other forwarders have been more blunt in their distaste for the likes of Flexport and the approach it took and its associated impact on the wider market, with sources having complained to VOTI that it was engendering a race to the bottom.

Sands, though, was left questioning the decision by the likes of DSV and Kuehne + Nagel to digitalise their platforms.

Spotlight ON

Paul Zalai

Another tough few years ahead for forwarders


Co-founder and director
Freight and Trade Alliance (FTA)

SHIPPERS faced an arduous pandemic period, as costs spiked amidst claims that carriers – air, ocean, and overland – were exploiting the situation to surge pricing. And looking at the remarkable reversal in fortunes over the course of this year for those carriers, there's no doubting just how rewarding Covid proved for them. But the collapse in rates has not been all good news for forwarders, leaving them once again squeezed between the carriers and the needs of their own customers.

Co-founder and director of Australia's Freight and Trade Alliance (FTA), Paul Zalai – who also serves as the secretariat of the Australian Peal Shippers Association (APSA) and a director of the Global Shippers Forum – tells Voice of the Independent (VOTI) that, while the "return of rates to pre-pandemic levels would usually be seen as a positive for shippers" with rates 60 per cent down year-on-year and forecasts of a further 33 per cent in 2024, "forwarders are seeing greatly reduced margins".

"This is also coupled with lower demand for sea freight globally due to an economic slowdown and inflationary pressures, creating a tough environment for freight forwarding businesses," says Zalai. "Air freight capacity is gradually returning to pre-Covid levels. Whilst not quite back to that level yet, there has been steady growth. Similar to sea freight, rates have also returned to levels more familiar with pre-Covid."

Nor does Zalai believe there will be a positive about-turn in the near term, claiming that "all indications are that we will have another tough few years ahead", in part due to the record number of new vessels ocean carriers have on order coinciding with a level of "very low demand" that is "expected to remain so for a while longer". Asked how he thinks the carriers will cope with this, he believes "surcharges will again become the norm," pointing specifically to newly emergent environmental regulations as a source of this.

"The IMO announced its revised GHG reduction strategy for global shipping in July at MEPC 80, with new targets set for Net Zero 2050," he continues. "Shipping lines will no doubt look to set out their carbon pricing strategies. It looks as though surcharges will again become the norm to recover costs instead of incorporating this into all-inclusive freight rates."

For his part, Zalai has been particularly vocal in expressing anger, frustration, and a need for reform within the container shipping industry. And he was not calling into a void. Those major profits have not escaped scrutiny.

> "Air freight capacity is gradually returning to pre-Covid levels"

In late September, the United Nations' Conference on Trade and Development (UNCTAD) released its Review of Maritime Transport 2023 providing a series of policy recommendations intended to ensure that gains made by competitive liner shipping services did not pool in a few hands and were, instead, passed on to shippers and their supply chain partners – exporters, forwarders and importers. Zalai breaks down some of the central recommendations from UNCTAD, going on to discuss what more is required to impede a repeat performance from the carriers.

"A specific strategy states that 'international development partners should provide capacity building and strengthen the capacity of national competition authorities in the area of marine transport and provide platforms for international cooperation and coordination'," Zalai tells VOTI. "In line with this approach, a major announcement was made on 10 October that the Consortia Block Exemption Regulation (CBER) no longer promotes competition in the shipping sector and therefore the European Commission will let it expire on 25 April 2024. Furthermore, as a part of a focus on competition in global supply chains, the Australian Competition and Consumer Commission (ACCC) announced in early 2022 a new international working group with the competition authorities in the UK, US, Canada, New Zealand and Australia, forming the 'five eyes' alliance."

In response to a recent request for further detail, he says that the FTA and APSA received advice that the ACCC is still engaging with their international counterparts, with a particular focus on cartel detection, data analytical tools and a focus on potential collusion in global supply chains, given the pandemic-induced disruptions, increased freight rates and price of goods for consumers. The five eyes' shared objective, Zalai continues, is to expand and improve their investigation tools and techniques to better detect, dismantle and deter cartel behaviour.

When Zalai spoke with VOTI last year, he touched upon infrastructure developments in Australia. Asked how the situation has changed in the proceeding 12 months he points to a slew of new capabilities, with the likes of DP World and Patrick Terminals having opened new reefer facilities and laid out investments in cranes to improve efficiencies at their operations. But he proves particularly effusive on the developments at the port of Melbourne. Ranked first among Australian and international ports in the 2023 Global Real Estate Sustainability Benchmark (GRESB) Infrastructure Asset Assessment, the Victorian gateway also received a five-star GRESB rating for the second consecutive year, scoring 99 out of 100. Now, it has been awarded a A$58 million initiative – comprising $38 million from the Commonwealth government and $20 million from the state Victorian government – to develop new rail infrastructure.

"Port of Melbourne's Port Rail Transformation Project, which includes the Port Rail Shuttle Network (PRSN), will see us leverage public land to encourage investment from the private sector in new rail connections and terminals," continues Zalai. "By 2050, the PRSN is expected to move 30 per cent of Melbourne's containers by rail, avoiding millions of truck trips on roads each year."

Our time with Zalai closes out on a wider issue. Given its location, not to mention its trade ties, ongoing chatter around China's plans for Taiwan has generated a lot of anxiety within supply chains – Australian and global. Australia has already been looking at ways to mitigate the domestic impact of any conflict that may arise there, with Zalai noting its attention towards alternate markets.

"Some commodity exporters have had success in replacing any lost trade with China with alternate markets in South-east Asia, and the sub-continent," he continues. "India currently leads the world in terms of current growth on the Purchasing Managers' Index, which added with our recent success in establishing the Australia-India Economic Cooperation and Trade Agreement, has led to alternate solutions. And it is encouraging news to see our prime minister in China and the talk of removing residual trade sanctions. However, shippers need to learn from recent experiences and continue to spread their risk with the ever-present threat of geopolitical tensions in the region and globally."

Focus ON

Charters – 'finding that middle

FOR carriers, both of the air and ocean variety, 2023 may be something of an annus horribilis, especially when contrasted with the starkly different fortunes of the preceding three years. However, poor year or not, the closing months have left some room for optimism for the charter sector, with brokers telling Voice of the Independent (VOTI) that an end-of-year mini-peak may be upon them, giving them reasons to be cheerful as the clock ticks over into 2024.

DANIEL CARRIETT
CharterSync

CharterSync's global cargo director, Daniel Carriett, says that while "certainly we have seen relatively low demand, market weakness and declining rates in the charter market for a large proportion of 2023", it must be assessed within the context of what came before it – pointing to what he describes as the pandemic-induced "super peaks".

"The return of passenger belly capacity post pandemic certainly eased the freighter capacity crunch," Carriett tells VOTI. "Carriers have had more availability to place on the charter market and rates have come down towards more traditional levels, although high fuel prices have kept the average charter cost on the high side. 2023 has also seen a large demand for humanitarian airlift in the aid and relief sector, following tragic events such as earthquakes in Turkyie, Morocco and Afghanistan, flooding in Libya and more recently the events in the Middle East."

> "The return of passenger belly capacity post pandemic certainly eased the freighter capacity crunch"

Looking at the present, and forecasting on the future, he is one of the brokers claiming that the charter market is seeing signs of a mini peak season on some of the traditional lanes, and this, he adds, "should give reasons to be cheerful for the outlook in 2024". Sharing in Carriett's end-of-year optimism, Hunt & Palmers' Jamie Peters notes an upswing in yields from major markets, including those operating Asia to both Europe and the US.

"This has driven the charter rate upwards as demands rise – carriers are usually wise to the yields and when they propose a charter price the per kilo comparison is usually above commercial rates. That is because if you want a charter flight service you should be paying a higher premium," Peters tells VOTI: "2023 has certainly seen a lower demand for air charter in general as we have come down from the high demands of the previous three years, this was inevitable as capacity returned to the belly hold uplift. The global economic climate has also impacted volumes and, in turn, that filters around all modes of transport. There are still opportunities and requirements for us to work with."

Aviocharter's Igor Mantrov says that the charter market exists in the "very fluid" space of demand ups and downs. While it is usually event-affected demand that brings in business – be those emergencies or natural disasters – he notes this year the unexpected peak has been something of a harbinger of good fortune. Peters adds that alongside the Asia peak, there have been war-driven demands, first from the conflict in Ukraine, latterly followed by the escalation in violence in the Middle East – which has also left the industry nervous as to how it will react if it spills over into a regional or global conflagration. Mantrov adds that whatever it is, when events arise they can "consume market capacity, leaving fewer aircraft for commercial work and result in increased charter prices". But for Air Charter Service's Glenn Phillips, the key thing to remember is that "general airfreight is not the be all and end all" as far as charter goes. One area that is, again after a difficult start, seeing something of an end-of-year bump is the long-term charter segment.

GLENN PHILLIPS
Air Charter Service

"The very long-term charter agreements we saw over the past three years are definitely less dominant, but what I would call 'limited series charters' are still alive and kicking – it's really a resumption of pre-Covid peak season demand," Phillips tells VOTI. Carriett says that while long-term charter was at a "much lower threshold" over the first seven months of 2023 compared with where it had been a year earlier, "we have seen a gradual rise in requirements for longer-term charter agreements since August". This, he continues, has involved both temporary capacity increases for the final quarter of the year, as well as yearly demand continuing into 2024. Among the sectors fuelling this is the e-commerce sector, particularly out of key hubs such as Hong Kong. Peters is seeing a similar situation, albeit it appears to have manifested "specifically in recent weeks", with many e-commerce players looking for shorter "one-year deals, at best" and bringing to the bargaining table "very low budget expectations".

> "2023 has certainly seen a lower demand for air charter in general"

"Their hope is they find someone with a low year-round rate that can help them with the fourth quarter period this year and be at a reasonably stable rate throughout 2024," he says. "The problem we see is carriers are wise to this approach and will not drop that low, especially when the fourth quarter is proving to be more fruitful than they might have anticipated a few months ago. Nobody really has a stable 12-month outlook on volumes and that seems to make people hesitate on paying the rates the carriers currently propose, finding that middle ground is the challenge."

IGOR MANTROV
Aviocharter

Mantrov claims, though, that the decline in long-term charters is not simply down to reduced demand. Between Peters and Mantrov a picture emerges that both the aircraft owners and those looking to shore up space are engaged in what is best described as a game of chicken. Carriers don't want to tie up capacity in case another bumper event drives a demand surge and allows them to extract extremely high rates. But those with cargo to move are not wholly confident of what the state of the market will be this time next year, and don't want to be locked into prices from which they will find hard to extricate themselves.

"Customers who have regular business and can forecast demand tend to lock up long-term charter agreements," Mantrov continues. "But the airlines are more reluctant to do so in today's market, as they see great opportunities during peak season or unforeseen situations (such as Covid) and wish to retain flexibility to increase price to meet high demand."

One sector that has seen sustained high demand is heavylift and outsized. Peters says that the larger aircraft types are becoming harder to source at short notice and prices are increasing quickly. This, though, has been fostered in

Air Charter

e ground is the challenge'

large part by Russia's invasion of Ukraine and the associated sanctions that have kept Russia's fleet of Antonovs out of western skies, while Ukraine's own fleet has found itself largely devoted to the war effort.

"The lack of outsized aircraft is noticeable, with the limited source of supply it has been hard to find availability during November," he says. "A lot of cargo which we transport using these outsized aircraft have customers with advance planning in their thoughts; they are wise to this and often contract aircraft in advance to ensure their requirements can be met."

For Aviocharter, the reduction in these larger fleets has proved a particular headache. At one point, 90 per cent of its business was in the heavylift and oversized category. Mantrov says much of its specialist heavylift and oversized business was dependent upon utilising the AN124 and IL76.

"Now with the reduced capacity of large aircraft types by as much as 75 per cent, what we have seen is that prices have increased significantly," he adds. "Even when we have clients who are willing to pay such high prices, the lack of availability often means they are left to choose ocean freight as mode of transport."

VOTI spoke with aircraft experts on the market's dependency upon these Russian aircraft. Asked whether there was an opening for a new aircraft to fill this space, managing director of Trade and Transport Group and former Boeing analyst Thomas Crabtree was circumspect, noting that a large part of the problem revolved around the cost of development and the income generated by these aircraft. To get a sense of the disparity, there is an expectation that to build and develop an alternative would take 15 to 20 years and cost upwards of $30 billion.

When doing a cost-benefit assessment, those funding the development would look at the fact that the average 747-400 is in the air for 3,000 hours a year – during Covid this hit 5,000 hours for some carriers – while the average Antonovs fly fewer than 500 hours a year. Asked earlier in the year for his thoughts on a replacement to the Antonov, Air Charter Service's cargo director, Dan Morgan-Evans ,told VOTI that it was the break-up of the Soviet Union that gifted the cargo scene the Antonovs, with the Soviets having paid for them "and then they fell into private hands". It was a quirk of fate, that a fully state-funded aircraft residing in a state that just happened to collapse in a manner "that maybe we'll never see again" ended up being able to service the ad-hoc scene, a position Crabtree agrees with, stating "what seems unlikely is we'll see a repeat of Antonov's start".

Asked what all this meant for the contemporary charter scene, Phillips concludes: "The lack of Russian aircraft in the market is a difficult one to judge. I think possibly it has helped to keep the charter market ticking over as it keeps that capacity out of the market – particularly when we talk about 747s. The AN-124 availability is difficult, in the fact that it's virtually a monopoly. Time will tell what this does going forward."

JAMIE PETERS
Hunt & Palmer

What impact will the end of the 747 have on the charter market?

THIS year witnessed the last Boeing 747 off the production line, marking an end to the most successful aircraft in history. From the charter perspective, the position on the end of the 747 lifecycle is mixed. Air Charter Service's Glenn Phillips puts it bluntly telling VOTI that "for a while" the move will have "little impact" on the charter market, adding "there are enough in current fleets for the size of the charter market". Indeed, there seems to be consensus that the plane will likely be servicing the freighter market for up to another four decades, with an "important role" particularly given the Ukraine war-enforced shortfall in other heavylift aircraft.

Hunt & Palmers' Jamie Peters concurs that the 747 will "be around for a while yet"; in part because he sees its nose-loading capability as something that will prove hard for the industry to replace. Echoing this, global cargo director at CharterSync Daniel Carriett cites the aircraft's outsized and heavy cargo qualities as still key for a functioning airfreight market, describing its capabilities as "unmatched" in terms of loadable volume, nose door loading capability on production freighters and its extensive range. Carriett adds "the relative decline in use of the 747 over time will certainly leave a gap in outsized and heavylift cargo transport capacity". Despite clear admiration for the aircraft, Peters does note that "there will always be alternative aircraft, but it will just depend on if they meet client budget expectations, if they are less economical" – but based on current orders, he can see gaps emerging.

"Major carriers continue to have orders of B777Fs and A350Fs in the coming years as the replacement," Peters continues. "These types will certainly have better economics, but will not provide equal loading capabilities to the B747F. Manufacturers and airlines must have determined that the operating economics outweighed the loading benefits."

Aviocharter's Igor Mantrov predicts that while the outsized market will leave an important role for the 747, it will not be the sole reason the plane stays in the skies – and he expects it to still be flying in several decades.

"Although B747F production ended earlier this year this type of aircraft will still be in operation for potentially another 30 to 40 years," Mantrov tells VOTI. "We still see 30- to 40-year-old B747F aircraft flying today. But with growing demand from the e-commerce sector, the airlines are choosing more cost-efficient/greener twin-engine aircraft types on long-haul routes, such as the B777F and A330F, with new aircraft like the A350F entering the market from 2025. Smaller freighter conversions, such as the B737-800F and A321F, have been very popular on short-haul routes."

Perhaps it is this demand for "greener" options that will most rapidly reduce the numbers of 747s in active service. Carriett, certainly sees the passing of the famous Jumbo jet as a "sad" milestone, but one that was both inevitable and necessary.

"There is no doubt that the advancing age of the 747-200s and 747-400s, coupled with the inexorable move towards cleaner, more fuel-efficient twin-engine freighters, will see these 747 variants gradually (and regrettably) removed from active fleets in coming years," Carriett tells VOTI. "At least in the short to medium term, we expect to see the 747-400s feed down into smaller, niche carrier fleet inventories. But we are starting to see signs of newer twin-engine aircraft, such as the B777F, come into freighter fleets that have traditionally been 747-centric. More conversions are coming through into the market. We are also seeing more capacity coming through in the narrowbody freighter fleets, with the emergence of more B737-800s and some A321 freighters entering charter fleets."

(Photo: Boeing/Paul Weatherman)

The last Boeing 747 left the company's widebody factory in advance of its delivery to Atlas Air in early 2023

Another staff cull at Maersk as Q3 proves 'disappointing'

THINGS went from bad to worse for Maersk over the three months to September, with the carrier recording a $27 million operating loss and announcing that it was in the process of culling its global headcount by 10,000.

Staff numbers have already been reduced by 6,500, but with expectations of a Q4 ebit loss and a sense of a "worsening" market, the earnings call revealed 3,500 more jobs would be cut.

Addressing investors, chief executive Vincent Clerc said: "There is a very uncertain trading environment, with significant risk of further downside potential. Since the summer we have seen overcapacity across most regions triggering a new wave of price reductions.

"At the same time, scrapping and idling of tonnage hasn't yet picked up. We therefore expect further headwinds, as the market conditions are worsening."

Clerc's comments present something of a grim market picture, given Maersk boasts 68 per cent of its liner volume being under contract, giving it a premium over spot rates, but he said if spots failed to recover the carrier would have to "reset" those contracts at lower levels.

Looking to the future, he warned that if the spot market failed to improve over the final three months of the year, "I think we would be looking at a pretty dire situation in 2024".

He added: "The real trick now is to know what is going to happen with spot rates during the contracting season in the coming months, because it will have an impact on the renegotiation of contracts."

In terms of numbers, group turnover plummeted 46 per cent against the same period last year, to $12.1 billion resulting in an ebit of just $538 million.

Making the contrast with 2022 starker was that, 12 months ago, the Danish carrier had bagged net profits after tax of $8.9 billion; this year that number was a mere $600 million, while its ocean rates also slumped 58 per cent on last year, for an average of $1,048 per TEU.

Divisionally, ocean revenue collapsed 56 per cent year on year ,to $7.9 billion, despite besting the industry liftings average by five per cent, handling 6.3 million TEU.

Revenues fell, albeit less markedly, by 16 per cent at its logistics and services division, with organic revenue down 22 per cent as a result of reduced activity in the retail and lifestyle sectors, resulting in a 47 per cent drop, to $136 million in ebit.

VINCENT CLERC
Maersk

Keen to find a sunnier point, Clerc said the terminal business "remains resilient"; turnover fell just 11 per cent, to $1 billion, for an operating profit of $270 million (a 24 per cent drop).

Nor does he expect much "if any" impact from the European Commission's decision not to renew liner shipping's Consortia Block Exemption Regulation (CBER) next April, noting that it would only really add "a bit" to the amount of admin required.

"I think we have ample data to show these alliances have been good for consumers, because they've produced lower-cost networks and, therefore, have resulted in cheaper ocean freights – maybe, when we look at next year, too cheap," he added.

Hemisphere boosts UK footprint with new warehouse

HEMISPHERE Freight Services has announced that it will be expanding its operations with the addition of a new, multimillion-pound warehouse being built in the east of England.

The WCA member, and family-run outfit, stated that at more than 243,500-square feet, the new warehouse, being developed by Curzon de Vere, will become the largest purchase by an independent operator at Suffolk's Port One Logistics Park.

Hemisphere director Craig Perrin told Voice of the Independent: "This is a big moment for our business.

"Opening this additional warehouse will enable us to continue providing a full suite of logistics services to our current customer base, whilst allowing us to address the challenges we are seeing many prospective clients endure due to lack of available warehousing space."

Scheduled for completion by Q1 2024, it will have 34,750 racked pallet locations, stacking nine levels high, and an additional 8,000 bulk loaded pallets on floors and mezzanines.

It will also boast eight dock levellers, three of which are suitable for double-decker trailers, and two 7.5 tonne hydraulic lifts for cargo and people, and it will also contain 12 EV parking spaces and 59 regular car parking spaces for staff and visitors.

"We are determined to play an active part in the growth of the UK warehousing sector and helping drive standards for the benefit of customers," added Perrin.

"Our aim as a business has always been to take the headache of logistics away from our clients by providing first-class infrastructure and logistics services, all backed up by a brilliant team of logistics experts."

Furthermore, with Port One being East Anglia's first carbon-neutral logistics park, it will enable Hemisphere and its clients to significantly reduce their supply chain carbon footprint.

Craig Perrin (left) and Andrew Perrin (middle) and Louis Perrin (right) from Hemisphere inspecting their new site

Asiana/KAL merger looks set for take-off

ASIANA Airlines has agreed to sell its cargo business, paving the way for a merger with compatriot carrier Korean Air Lines (KAL).

The decision by South Korea's second-largest airline had been expected for some time, with the government in Seoul pushing KAL to take over and stem the flow of public funds – topping KRW3.6 trillion ($2.7 billion) – that kept Asiana afloat during Covid.

With that money having come from state-owned Korea Development Bank (KDB), it was perhaps unsurprising it had responded positively and supported the merger.

Claiming the merger would form a single, competitive national carrier amid industry-wide consolidation, KDB's response contrasted with that of regulators in Brussels, from where the European Commission warned it would threaten competition on cargo and passenger services to and from Europe.

A KAL spokesperson said that with the sale of the cargo business, the carrier had submitted "remedies" to the EC it believed would help facilitate the process, with hope of receiving approval at the start of 2024.

"While Korean Air continues its efforts to secure the approval from the EC, the airline will also communicate closely with the remaining regulatory bodies to finalise the approval process as quickly as possible," the spokesperson added.

And it is also having to address similar concerns by anti-trust regulators in both Japan and the US.

Added to this are concerns from unions representing Asiana staff, which had opposed the divestment over fears that staff numbers at the cargo division would be cut, although KAL has sought to head this off with a pledge to make job retention one of the terms of sale.

Analysts paint a murky picture for liners in 2024

CARRIERS may see a worsening of the already dire rates situation, before anything gets better, as long-term prices declined by a further 2.6 per cent in October, according to Xeneta.

In its latest analysis, the benchmarking firm warned the situation for shipping lines could "get worse before it gets better," noting that its long-term freight rate XSI index had recorded a 62.2 per cent decline in the past 12 months.

"Significant changes will come in the new year, following the tender season," said Xeneta market analyst Emily Stausbøll.

EMILY STAUSBØLL
Xeneta

"This is when many shippers will be signing new contracts at lower rates than the ones they are replacing. I expect the storm to arrive in January, with an even more severe decline in the XSI than in 2023."

Voices had been claiming that 2024 would prove more prosperous for carriers, but Stausbøll shot optimism down, suggesting the picture would be murky until at least May.

Overall, she also said, while improvement could be expected by May, she was forecasting a "stormy time" for carriers over the course of the whole of next year, a factor borne out by the constant pressure felt across short-term rates that affect long-term contract negotiations.

> "Significant changes will come in the new year, following the tender season"

Freightos' Baltic Global spot index put the present state of play at its worst since April 2018, with a seven per cent drop in October, for an average $1,095 per 40 foot (FEU).

It was looking particularly grim on Asia-North Europe, as October failed to recoup sizeable September losses, for an average rate of $983 per FEU, and market rates remain below breakeven, despite carriers announcing substantial GRIs for the routing as of 1 November.

One Shenzhen-based forwarder at the start of the month was even offering Ningbo/Shanghai-Antwerp/Hamburg/Rotterdam for $600 per TEU and $950 per FEU.

Similarly, Asia-Mediterranean rates have come under pressure, with a 14 per cent decrease in October, to $1,370 per FEU, placing it four per cent below 2019, although on transpacific routings there has been some positive momentum.

Freightos' research lead Judah Levine described Asia-US west coast and Asia-US east coast as "relatively stable" during October, declining 8 and 9 per cent, to $1,564 and $2,213 per FEU.

Spots for Asia-US east coast were markedly down on 2019, finding themselves 17 per cent lower than their pre-pandemic days, but more interesting was the 15 per cent bounce recorded against 2019 for Asia-US west coast spots.

That, though, was the only real sign of post-pandemic boom, with North Europe-US east coast spots down 48 per cent on 2019, to $1,045 per FEU.

Describing the transatlantic rates drop as leaving the routing at "unsustainable levels", CMA CGM announced a raft of freight all kinds (FAK) price hikes in an effort to curb the hit it takes, with one executive describing the route as a "total disaster".

Taking effect 23 November, FAK rates for North Europe/Mediterranean-Canada east coast/US east coast will see the base rate for Rotterdam-New York per FEU rise to $1,600.

Showing the depths carriers have plunged to in the past year, that still puts them well below 2019 levels where even pre-Covid they were netting around $2,000 per FEU on this route, with market specialists considering the tradelane as "robust but unexciting".

One source added: "We never expected to make much money out of the transatlantic, but we certainly didn't expect to lose our shirts on it. At the moment, it's a total disaster."

Indeed, the transatlantic was last to experience the pandemic container rate explosion, coming only after a boom on the transpacific which saw ships shifted culling transatlantic capacity as well as reducing equipment levels.,

Then, when transpacific demand plummeted, they all shifted back, crowding the transatlantic market and forcing rates down.

Alphaliner noted that Cosco and its OOCL subsidiary alone added 38.1 per cent of capacity to the routing, with CMA CGM bolstering its offering by 34.2 per cent – partly due to launching a Mediterranean-US Gulf service 12 months ago.

HMM buyers' pockets 'not deep enough for a crisis'

SOUTH Korea's maritime industry and a host of civic groups are lobbying the government to end the process of seeking a buyer for its embattled container line, HMM, and instead formally nationalise it.

The carrier was taken into state control in 2016 in a debt for equity swap, with the majority of the shares being held by Korea Development Bank (KDB) and Korea Ocean Business Corp (KOBC), which are now seeking to sell at least a 40.65 per cent stake in HMM.

But the National Movement for a New Maritime Power, Busan Port Development Association have claimed the three prospective buyers on the shortlist may not be financially able to support the carrier in a crisis.

"Ocean-going container shipping is a business of national interest and is difficult for private companies; it would be wise to turn HMM into a national enterprise, or a joint stock company in which all citizens are investors, without a single large shareholder," said the lobbyists.

"Considering the bidders' asset scales, it's questionable whether HMM can cope with a future recession. It's not advisable to sell HMM in a hurry.

> "HMM must grow with international competitiveness and lead the development of the [domestic] shipping industry"

"HMM must grow with international competitiveness and lead the development of the [domestic] shipping industry. There's a great need for solid national support to nurture HMM into a world-class ocean-going liner operator."

It was expected that a preferred bidder would be named this month, with Harim-JKL, Dongwon Group and LX International, all South Korean businesses, having been shortlisted.

The winner may find itself holding an even larger share, of 57.8 per cent, if KRW1 trillion ($742 million) of bonds is converted into stock, with all three looking at multiple means to raise the funds for an expected KRW5 to KRW10 trillion ($3.5-$7.4 billion) asking price.

Linerlytica analyst Tan Hua Joo, however, expects the sale to be withdrawn, questioning whether any of the possible buyers will be able to match the asking price.

Pointing to the 2017 collapse of Hanjin, the lobbyists stressed the need for the government to learn the lessons that led to it and claimed the sale of HMM was being driven by a desire from KDB and KOBC to "monetise HMM bonds held by KDB".

Insights IN

Seafreight – comment by Mike Wackett

Bad Moon Rising across liner trades

CONTAINER shipping lines are on a cost-cutting crusade: they are battening down the hatches and preparing for what shipping executives have described as a "dire outlook" for the industry over the next few years.

And in the words of Creedence Clearwater Revival's iconic 60's song: there's a Bad Moon Rising in the liner shipping world that is guaranteed to bring "trouble on the way" to the balance sheets of the smaller carrier players, with ghost-like echoes of the 2016 collapse of Hanjin Shipping.

A $250bn cumulative net profit in 2022, hot on the heels of a $200bn profit the year before will, according to maritime analyst Drewry, have sunk to a combined operating profit of $20bn this year, before slumping to a predicted $15bn EBIT loss in 2024.

But as we have seen from the publication of the first batch of third quarter results ocean carriers are already trading in the red, and Drewry's deemed loss for next year could soon need to be upgraded.

Thanks to the pandemic-induced profits of the last couple of years, liner shipping companies are in far better shape than in 2016; but the 'easy come' profits of 2021 and 2022 could be 'easy gone' unless there is a quick and sizeable upturn in demand, coupled with some judicious capacity management.

Indeed, the profits of previous years will be long forgotten by shareholders and investors whose main focus is on the prospects for future returns.

And as demand weakens due to economic and geopolitical uncertainty, huge waves of newbuild tonnage continue to be delivered.

October saw over 200,000 teu of newbuild capacity hit the water, making the fifth consecutive month when deliveries exceeded that number.

> as we have seen from the publication of the first batch of third quarter results ocean carriers are already trading in the red

The total capacity of new containership deliveries this year is expected to reach 2.4m teu, and there is worse to come next year, with a staggering 3m teu due to be received, adding more strain to the chronically oversupplied industry.

Moreover, many of these newbuilds are huge, 24,000 teu behemoths, ordered by carriers that were high on an orgy of post-pandemic profits and fuelled by an egotistical drive to operate the 'biggest' containerships in the world.

These massive vessels are realistically only able to be deployed between Asia and Europe – ironically the most beleaguered tradelane of all the major liner trades, where demand and freight rates have sunk like a stone.

Publicly-listed companies will be obliged to take urgent action to stem the tide of losses and, as always, there are fixed costs, contracted costs and very few moveable costs, which as usual will mean significant staff redundancies.

Maersk announced during its third quarter earnings call that it had already quietly reduced its global workforce by 7,000, as at the end of September, and that it intended to let another 3,000 staffers go by the early part of next year.

And in the firing line once again on carrier "right-sizing" lists will no doubt be the sales, marketing and customer service support staff that helped drive the billion dollar profits of the past few years.

It follows that, as carriers retreat to their bunkers to ride out the "earthquakes and lightning" of the liner downturn, shippers can expect even poorer service from their carrier counterparties than before – if that is even feasible!

MIKE WACKETT
Sea Freight Consultant, FICS

Panama Canal drought boosts rebound of Asian traffic to USWC

HIT by the worst drought on record, the Panama Canal authority (CPA) continues to tighten restrictions on vessel transits, and shippers are beginning to question the route for US imports from Asia, potentially reinforcing the migration of traffic back to the west coast.

The bleeding has stopped for the port complex of Los Angeles and Long Beach, the premier US gateway for maritime trade. Both ports reported year-on-year gains in traffic for September, finally reversing a dire stretch of double-digit decline in throughput.

The port of Los Angeles, the larger of the two, saw volumes climb 5 per cent year on year, with loaded imports up 14 per cent and loaded exports surging 55 per cent. Long Beach clocked up its busiest September on record, with volumes climbing 11.8 per cent, fuelled by imports rising 19.3 per cent. It was the port's first monthly increase in traffic in 14 months.

Up the coast, the port of Oakland saw volume go up 1.2 per cent, while the Northwest Seaport Alliance enjoyed 22 per cent growth in container traffic, its first international volume expansion in 19 months.

Overall though, throughput at LA and Long Beach was still down for the first nine months of the year, but executives of both ports expressed confidence in further gains in the fourth quarter.

The market has been tepid, but the west coast ports are welcoming back traffic lost due to the congestion of 2021/22 and subsequent fears of a lengthy port strike in the contract negotiations between terminal operators and labour. With a new contract in place, cargo owners who routed traffic through east and Gulf coast ports have begun to shift flows back to the west to leverage faster transit times and lower rates.

> 'The market has been tepid, but the west coast ports are welcoming back traffic'

"LA/Long Beach is not a risky proposition any more. Many cargo owners are looking to revert there," one forwarder executive remarked.

This momentum looks set to increase as the disruption from the drought in Panama worsens. October was the driest on record since the government started record keeping in 1950. The situation has worsened continuously since May, when the canal authority imposed draught restrictions on the canal because lack of rain had brought water levels roughly to a par with 2019, which had marked the lowest level in two decades.

Subsequently those draught restrictions were tightened several times, and tighter limits on daily transits imposed in an effort to reduce salination of the freshwater in the canal as well as the lakes and rivers that make up its watershed, which also provides fresh water to three cities, including the capital.

Last month daily transits were down to 34, but this has been slashed to 24 this month and will shrink further, to 20 in January and 18 in February, which marks a 50 per cent reduction from a year earlier.

So far, the restrictions have mostly affected tankers, but the reductions in draught have meant that large containerships had to offload some of their boxes to rail them across the isthmus. Moreover, costs rose for shippers as container lines imposed a canal surcharge.

The CPA already signalled in the summer that "significant restrictions" would remain in place until September next year. In a research note, supply chain data company project44 advised clients to expect lead times for the canal to remain high and that additional restrictions would most likely follow as drought conditions continue.

Few people would be surprised if further restrictions were to surface next year amidst rising concern about global warming, especially as the current El Niño cycle produces winds that hamper the formation of rain clouds in the region.

International freight consultancy Xeneta has called the predicament of the Panama Canal "a disaster playing out in slow motion".

Cargo owners are concerned. "The Panama Canal is an increasing risk for some customers," one forwarder remarked.

"After hearing the news about the Panama Canal cutting capacity, some clients are asking about impacts to their supply chains. We're working with our core carriers to gather more details about how our operations will be affected, if at all," reported Matt Sanders, public relations manager of AIT Worldwide Logistics

So far only a few clients have decided to shift traffic from Asia back to west coast ports, he added. "For the moment the majority of our customers are continuing to ship via their established supply chain."

There are signals that flows are beginning to shift. According to one report, transpacific container lines have been making more calls at the Mexican port of Lazaro Cardenas, which offers an alternative route to the US Midwest through rail service by Canadian Pacific Kansas City Railway. The amalgamated carrier has been marketing this route aggressively to Asian shippers.

Crane Worldwide Logistics advised its customers that the return of labour peace for US west coast ports has opened up potential cost savings in routings through Los Angles/ Long Beach, but warned that "the genuine cost advantage for companies will arise from a complete supply chain analysis from Asia origins to final destinations in the United States including trucking/rail routing across to the east coast".

Transpacific pricing suggests that ocean carriers are more bullish on the west coast route. At the end of October rates from Asia to the west coast were 15 per cent higher than in October 2019, whereas pricing to the east coast was 17 per cent lower.

Two new directors to drive e-commerce and final-mile for WCAworld

WCAWORLD has announced the double appointment of Harald Oechsner and Steve Howard joining as director of e-commerce and director of the World Parcel Alliance, respectively.

Reporting directly to WCA chair David Yokeum, Oechsner and Howard have been appointed as part of an effort to help grow e-commerce and final-mile opportunities for the network's 12,000-plus members.

Commenting on the news, Yokeum told Voice of the Independent: "We have listened to member feedback.

"We appreciate that our members need additional support and opportunities to grow their e-commerce and final-mile businesses, and this is why we're investing now in our e-commerce network and have established the World Parcel Alliance."

Having worked closely with members for more than 25 years, Oechsner has a firm grounding in what they want, with Yokeum confident he can drive WCA's e-commerce vision.

Howard is similarly experienced, with over 33 years' experience in the Americas trucking and final-mile sectors and has previously presided over the Customized Logistics and Delivery Association and sat on its board for 14 years.

Yokeum added: "I look forward to working with Harald and Steve and seeing how quickly we can grow together with our members".

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