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Oversupply in container shipping industry ??

The container shipping industry is heading towards a prolonged slump that could last longer than the 2009 downturn, Paris-based maritime consultancy Alphaliner has warned.

In the absence of a strong rebound of the Western economies, trade growth is expected to remain behind fleet growth for quite some time, it said. The main carriers' operating margins have slipped this year and the poor operating conditions experienced these days could well last for two more years, given the prevailing oversupply situation.

Unlike the 2009 recession, which resulted in the first fall in demand for container shipping ever experienced by the industry, the current slump is caused by an oversupply of capacity and weak demand growth in the European and US economies. The fall in container orders between the fourth quarter of 2008 and the first quarter of 2010 brought the order book down from 60 per cent to 26 per cent of the existing fleet, but this did not solve the overcapacity problem.

The strong recovery in 2010 bought time for shipping lines. Record earnings helped many of them to restore their battered balance sheets, while additional capital was raised in the hope of a sustained recovery for the industry. This triggered a new wave of containership orders and the 2.3 million TEU of capacity contracted since June 2010, pushed the order book back to 30 per cent, compared to the existing fleet. Some industry sources continue to underestimate the impact of the excess supply problem, citing misleading supply growth figures of seven per cent for 2011 and 2012 and a capacity shortage in 2013.

As it turns out, the actual growth rate for 2011 and 2012 will be close to 8.5 per cent, while the 2013 supply growth will exceed 10 per cent, due mainly to the recent surge in containership orders.
The bias in favour of large containerships is expected to create a severe oversupply on the main east-west lanes. The order book for vessels of over 8,000 TEU currently represents 85 per cent of such ships. Within this size segment, an equivalent of 62 per cent of the existing 8,000-TEU plus fleet is to be delivered in the coming 28 months (until December 2013).

This translates into an average annual growth of 23 per cent. These VLCS and ULCS will push further 6,000-8,000 TEU ships out of the east-west trade lanes, inducing a risk of contagion of oversupply to north-south trades, a process which has already started. Ships in the 3,000-5,000 TEU range could therefore bear the brunt of the cascading of capacity. Paradoxically, the comparatively low order figures for smaller units may turn out to be an advantage in view of the expected cascading that will filter down all along the capacity spectrum.

Unlike the situation in 2009, the impact of the supply growth will not be mitigated significantly by reduced average sailing speeds, since extra-slow steaming is already widely adopted by the current fleet. The reduction of the idle fleet since the first quarter of 2010 has obscured the underlying overcapacity problem. Weak utilisation levels on both the Asia-Europe and Asia-US routes resulted from carriers' futile efforts to increase market share, pursue a high-volume and low-cost strategy, thus inducing a competition frenzy. The structural oversupply problem is exacerbated by the excess shipbuilding capacity, with a significant number of shipyard slots still to be filled.

China Shipping Warns of Persistent Downturn

China Shipping Container Lines lost $95 million in the first half of the year compared with a profit of $264 million a year earlier, as slumping rates and volumes pushed revenue down 12.9 percent.

The company, joining a series of other liner operators that have seen last year's profits turn into red ink this year, warned difficult market conditions could last another year or two.

"The road to recovery is not smooth," the ship operator said. The company posted an $83 million operating loss, compared with $208 million in operating profit in the first half of 2010. Revenue fell to $2.2 billion from $2.36 billion.

The company said low rates, weak demands and high oil prices hit most of the company's routes. Container volumes fell 3.3 percent to 3,436,000 20-foot equivalent container units.

Trans-Pacific volume fell 9.9 percent to 597,393 TEUs, while Europe-Mediterranean volume fell 11 percent to 533,0089. Asia-Australia-New Zealand volume tumbled 11.5 percent to 623,180 TEUs. Intra-China services rose 5.8 percent to 1.6 million TEUs,while other services rose 15.6 percent to 43,016 TEUs.

Cosco struggling for good results

Beijing-based company COSCO expects overcapacity to depress freight rates though 2011. China Cosco Holdings posted a first-half net loss of $432 million compared with a net profit of $553 million a year earlier, and said reached agreements on bulk carrier charter disputes led to ship arrests.

The Beijing-based company said its container shipping unit reported an operating loss of $156 million as revenue, reported an operating loss of $156 million as revenue, excluding chartered vessels, fell 4.2 percent to $2.8 billion. Container volume rose 9.8 percent to 3.24 million 20-foot-equivalent container units. Cosco said it expects overcapacity to continue to depress freight rates through 2011. The company said demand on Asia-Europe and trans-Pacific routes remains "uncertain," but the outlook on secondary routes is more positive.

DP World plus 36 % profit

Port operator DP World saw higher container traffic, benefits from focus on growing markets. DP World boosted first half after-tax profit by 36 percent from a year ago to $281 million, as the global port operator benefited from higher container traffic and its focus on faster growing emerging markets. The Dubai-based group's profit was $6 million shy of a record in 2008.

Including a large gain on the sale of a majority of its Australian business, the DP World's net profit more than tripled to $741 million from $219 million in the first half of 2010. Revenue rose by 3 percent to $1.5 billion within the same period, reflecting the deconsolidation of its Australian terminals. Traffic in the first half grew 11 percent year-over-year to 26.2 million 20-foot equivalent units.

CEO Mohammed Sharaf said DP World's terminals have become more profitable following initiatives introduced after the 2009 downturn. "Our global portfolio…is now more robust and better positioned to deliver profitable growth," Sharaf said. He warned that the outlook for the traditionally stronger second half is uncertain because of concerns over the development of world trade.

"The impact of this uncertainty has not, as yet, been reflected in the markets in which we operate and, with our focus on the more resilient emerging markets, we still expect to deliver full year results in line with expectations," Sharaf said. DP World made a profit of $436 million on the $1.5 billion sale of 75 percent of its Australian operation to Citi Infrastructure Investors in late 2010.

Zim facing difficult times

Lower ocean freight rates offset Israeli ocean carrier's increased container volume. Zim Integrated from a $3 million profit a year ago, as lower ocean freight rates offset increased container volume.
The Israeli ocean carrier's revenue grew 7 percent to $1 billion from $933 million a year ago, and was up 10 percent against $912 million in revenue in the first quarter of 2011.

The second quarter net loss was an improvement on a $111 million deficit in the opening three months of the year, but the operating loss widened to $79 million from $7 million during the period. Container traffic increased to 596,000 20-foot equivalent container units in the second quarter compared with 547,000 TEUs a year earlier, and 555,000 TEUs in the preceding three months.

Average freight rate per TEU slipped to $1,307 in April-June from $1,360 in the previous quarter due to deliveries of new ships through the first half of the year. In spite of difficult market conditions, the carrier in the first half earned $13 million before interest, tax, depreciation and amortization. Zim, a unit of Israel Corp., said its results were close to the average operating income in the container industry, reflecting the efficiency measures and strategic changes introduced in the carrier's financial restructuring in 2010.