Ocean Carriers Focus on Continued Adjustment to Global Freight Network

Ocean carriers that drive North American international intermodal freight activity enter 2018 with an intense focus on industry realignment, economics and changing cargo patterns in the midst of a modestly improving global economy.

Those broad conclusions emerged from interviews with top executives of ocean carriers and comments from industry experts in recent weeks.

“A healthy shipping industry is vital for the world economy,” said Rolf Nielsen, senior vice president and head of North American operations at Denmark-based Maersk Line.

“When the world’s seventh largest shipping line [Hanjin] went bankrupt, we saw the effect that $14 billion worth of cargo stranded at sea had on our customers’ supply chains,” the Maersk official said.

Richard Craig, CEO of Japan-based Mitsui O.S.K. Lines (America) Inc., also told Insights that capacity and economics continue to be the most prominent issues for the industry, “driven more by market share than bottom-line focus.”

“There are too many non-economic drivers of behavior in our industry,” he said, citing political pressures, national interests and the need to keep shipyards and steel mills working in some countries.

Focus on Labor Negotiations

Craig and James Michalski, vice president of inland operations in North America for CMA CGM headquartered in France, told Insights they are closely watching contract negotiations between management and the International Longshoremen’s Association in light of the potentially wide-ranging impact. The union contract with the United States Maritime Alliance covering East and Gulf Coast ports expires on Sept. 30, 2018.

North American intermodal’s role also is drawing attention due to ocean carrier economics and trucking-related considerations.

“Inland intermodal is a very important service,” said Howard Finkel, executive vice president at COSCO Shipping. “It is just that — a service. A lot of shippers think we should do it at cost or below.”

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When we are offering intermodal service, we have other industries involved. It’s time consuming and costs money. When someone is interested in intermodal, it has to be paid for.”

Finkel stressed intermodal’s importance by saying 50 percent of COSCO’s business arriving in North America is IPI, or inland point intermodal, as governed by beneficial cargo owners’ routing decisions.

Trucking availability and infrastructure in Southern California also will need continued attention to ensure efficient inland intermodal capacity, Craig said.

Michalski shared that intermodal drayage is a key area of focus, including assurances of an adequate supply of drivers and efficient management of chassis.

“The revenue side of the economics equation remains prominent for steamship lines that have suffered as declining rates throughout the industry led to the Hanjin bankruptcy.

“It was clear then [in 2016] and now that sustainable freight rates are needed to support the growing costs in fuel, labor and infrastructure investment,” Nielsen said.

**Matching Capacity to Demand**

Finkel said rates remain the most important issue for the Chinese carrier, as all carriers face the issue of matching capacity to demand in an environment where overcapacity continues.

The importance of rates needs to be underlined, he said, because based on early shipper negotiations there hasn’t been enough realization that ocean carriers’ profitability must improve or bankruptcies will happen again.

“Contracts long have been all about rates,” he said, and were treated as rate sheets by BCOs. “There needs to be more moves toward service. I hope we can get to the point where we can charge different prices as we provide more and different levels of service.”

There also was wide agreement about a broader issue for ocean carriers.

“We see the wave of consolidation in 2017 as a positive step which we hope will lead to a healthier industry. Maersk is participating in this positive trend with the acquisition of Hamburg Sud this year,” Nielsen said. He cited benefits from mergers related to information technology, customer service, equipment, port operations and other services.

Craig and Michalski also highlighted the importance of closely monitoring the changes resulting from consolidation and realignment. Craig added that the creation of the Ocean Network Express, known as ONE, including Mitsui O.S.K. Lines and two other Japanese carriers, K Line and NYK Line, is going smoothly as the carriers consolidate to serve a range of international cargo markets.

Hofstra University Professor Jean-Paul Rodrigue focused on how structural changes in global shipping patterns are affecting intermodal.

‘Rebalancing’

“One issue has been unfolding for several years and involves a level of rebalancing between the East and West Coasts’ volumes due to the all-water route through Panama,” he told Insights. That has challenged East Coast ports’ operational efficiency with volume and ship call frequency changes, he added.

“This shift limits the growth prospects of long distance intermodal rail from the West Coast,” Rodrigue added. “While West Coast ports are familiar with post-Panamax containerships, their implementation on the East Coast increases surges in volumes, which put pressures on intermodal services.”

In addition, Michalski said CMA CGM is watching the U.S. economy for signs of consumer spending increases.

Finkel, whose company also has been active in making acquisitions, believes the ocean carrier industry is being transformed more by structural adjustments in the industry, such as the Hanjin bankruptcy and consolidation, than it is by the year-to-year changes in the global economy.

Experts offered a range of perspectives about the global economy and the 2018 freight market.

The Global Port Tracker report, issued Jan. 8 by the National Retail Federation and Hackett Associates, showed a 7 percent increase in imports through the nation’s 10 largest ports last year above 2016 levels, a performance that boosted optimism for 2018.

“On a percentage basis, 2017 was one of the strongest increases we’ve seen since the end of great recession,” Hackett Associates founder Ben Hackett said in a statement. “That’s no minor achievement at a time when many are trying to talk down the economy. The rate is expected to slow down some, but with 2017’s performance and continued high consumer confidence, our models show continued growth in the coming year.”

‘Growth is Growth’

Rodrigue was less optimistic, saying that the rate of growth of container volumes in excess of global gross domestic product has slowed in recent years. “Demand has picked up, but growth prospects are limited,” Rodrigue said. “Still, growth is growth, and additional volumes are always welcome.”

British shipping consultancy Drewry identified a different concern in a report. There may not be enough containers available to meet demand after the 2018 Chinese New Year, when demand surges before holiday shutdowns can result in equipment dislocation.

“For the shippers that fill the steel boxes with their cargoes, the prospect of equipment shortages, even if only temporary, will be particularly scary,” the Drewry report said.

Technology also is a 2018 watchword.

“Digital also plays a key role in consolidation and we are at the cusp of a digital transformation where customers are demanding more from an ocean carrier,” Nielsen said.

The Maersk Line official believes digitalization can radically improve productivity, visibility and overall a better customer experience.

He cited several digital pilots in process at Maersk to improve the way trucking services are procured. An online e-auction application called Spotlanes is one example. Maersk Line also is launching products such as Remote Container Management to ensure that its 270,000 refrigerated containers are monitored via satellite so that changes in product condition can be addressed before a ship’s arrival in a port, Nielsen said.

Rodrigue also said that the changing global freight market has increased interest in automation at port terminals and intermodal yards as well as more efficient information technologies. This does not generate more volumes, but improves the efficiency and visibility of container flows, he noted.