Rate spike anticipated following Hanjin receivership filing

Carriers may seek to "turn the table" on shippers who drove hard bargains, but an upturn in rates may be short-lived.

By Chris Dupin |Thursday, September 01, 2016

Unless there is a rapid takeover of Hanjin Shipping, which filed for receivership in Korea Wednesday, shippers of containerized cargo, including those that do not do business with Hanjin, could see major disruptions and spikes in spot freight rates.

Brian Bourke,vice president of marketing for SEKO Logistics, said already on Thursday transpacific rates had risen substantially.

"This may get much worse before it gets any better," he said.

SeaIntelligence Consulting CEO Lars Jensen said the most benign situation would be if some other company steps in quickly and buys Hanjin within a day or two, but if that does not happen, “things will snowball incredibly quickly."

In an interview with the Danish magazine *Shipping Watch*, Jensen said, “Maersk Line looks like the most obvious and strongest contender to buy collapsing South Korean container carrier Hanjin Shipping, unless similarly South Korean carrier Hyundai Merchant Marine acquires parts or all of Hanjin Shipping.”

However, in a separate interview with *American Shipper*, Jensen said, “It doesn’t look that way because nobody has stepped up so far and said they are willing to do that. The next step is that somebody steps in and starts to buy the assets.”

Dynamar Senior Shipping Consultant Dirk Visser agreed that a Hanjin reorganization may be “very complex and it will make it a long thing to sort it all out. I think this will probably contribute to the fact that nobody will want to place one fresh container for carriage by Hanjin and so their income is bound dry up nearly immediately.”

Jensen said, “I find it very hard to see a scenario where all these ships will continue to operate, because if I’m a major shipper, first of all, obviously I would not go out today and book on Hanjin. Why on earth would I want to do that? Secondly, I would also start to ask close questions of Hanjin’s partners: Which one of the alliance services will my cargo go on?”

Hanjin is a member of the CKYHE alliance with COSCO of China, Japan's “K” Line, and Yang Ming and Evergreen Line, which are both based in Taiwan.

Evergreen Line has issued a statement saying it will not load its on cargo on Hanjin ships or Hanjin cargo on its ships.

Visser noted how Hanjin is also involved in vessel sharing agreements with many other carriers as well.

Hanjin’s problems are “a fantastic opportunity for all the other carriers not in the CKYHE because they are the safe harbor right now these days," Jensen said.

"You don’t have to shift very much cargo away from Hanjin and onto these other carriers before you reach a situation where the other carriers get their ships filled," he said. "When that happens, we can all guess what will happen to spot rates.

“Unless there’s a situation resolved with somebody taking over Hanjin’s operations today or tomorrow, there is a very good likelihood that we are going to see rapidly increasing spot rates on all the main trades over the next few days. And that is going to hit all the shippers," he added.

Shippers who have contracts with other carriers, even shipping companies in alliances other than the CKYHE, may find that if capacity tightens, spot rates escalate, and cargo is rolled to later voyages, “carriers are going to be pretty cutthroat,” Jensen said.

He noted a significant number of shippers bargained with liner companies for lower and lower contract freight rates when spot rates fell.

"If the other carriers' ships are full now because of the Hanjin debacle, well now the power is on the other side," he said. "Shippers that have not adhered to their contracts for opportunistic reasons the last few years - they should not expect carriers to honor contracts now if the situation swings the other way."

However, the upward pop in rates may be short lived since demand will probably not change, and ships owned by Hanjin are not going to sink, Visser said.

"Over time these ships are going to be out in the market again," agreed Jensen.

The majority of Hanjin's fleet consists of chartered ships. According to industry analyst Alphaliner, the company owns 37 ships with 274,078 TEUs of capacity and charters 61 ships with 335,458 TEU of capacity. Those chartered ships may be rechartered to other owners at even lower rates than what Hanjin pays, which may result in carriers continuing to keep rates low.

Visser, who formerly worked as a shipping agent, said that shippers are likely to face unpleasant surprises in weeks to come.

"I have faced these things in practice and it's horrible if a shipping company goes bust while your goods are still in their custody," he said.

Some ports have already turned Hanjin ships away. Reuters quoted a Hanjin Shippin spokeswoman as saying hanghai and Xiamen in China, Valencia, Spain, and Savannah, Georgia had blocked access to Hanjin ships on concerns they would not be able to pay fees. American Shipper was not able to immediately confirm the report with Savannah.

On Wednesday afternoon the Port of Virginia said it will "not be accepting any inbound Hanjin cargo (freight for export) at any of the port's marine or intermodal terminals. The port, however, will accept empty Hanjin containers at the PPCY" or Pinners Point Container Yard. It was not clear what would happen to Hanjin freight arriving by ship. The port added it is "developing plans for how to handle Hanjin cargo that is already on-terminal."

The Port of Prince Rupert said Wednesday morning that the container vessel Hanjin Scarlet is not presently being handled or worked at the port's Fairview Container Terminal, which is operated by DP World. Following the Hanjin Scarlet's arrival Tuesday evening, the vessel proceeded directly to an assigned anchorage, the port added.

In a statement Tuesday night, Canadian National Railway said "All Hanjin import containers will be released for pickup. This includes Hanjin containers on ground at CN inland terminals as well as containers currently moving on the CN network to CN destination terminals. There will be no storage charges for these boxes. All Hanjin export units currently at CN inland terminals will not be loaded onto trains and can be picked up from the CN origin terminal. There will be no storage charges for these boxes."

CN added it "will not accept any additional Hanjin export loads at our inland terminals going forward and at this point until further notice, will not accept any bookings from other steamship lines destined for Hanjin owned vessels."

Visser projects that what will probably happen at many terminals is the stevedore will discharge the ships for its own account and only deliver the cargo to the bill of lading holder against full payment of anything the shipping company owes him.

"In the end, it will all come down to the insurance companies," he added.

EUSU Hanjin Logistics, a non-vessel-operating common carrier (NVOCC) that is no longer affiliated with Hanjin, told customers in an advisory Wednesday that it anticipates supply chain disruption due to delays in vessel berthing and containers being discharged and released by terminal operators. The NVOCC said it also anticipates added costs related to those seizing Hanjin Shipping's assets trying to recover their cost from cargo owners due to inability to recover from Hanjin Shipping.receivership today.

DB Schenker, ranked as the world's thrid largest NVOCC by Wisconsin-based consultants Armstrong & Associates, said it is making "all efforts to protect customers by immediately ceasing all bookings with Hanjin because "in the event of the bankruptcy, there is a possibility of ship arrests that could restrain immediate access to the containers previously booked and currently on board of those vessels."

"This situation may force a declaration of *force majeure* and the arrested ships / containers could incur additional charges such as (but not limited to), port and terminal demurrage, equipment detention, equipment repositioning charges, etc, which, if assessed by the entities involved, will be for the account of shippers/consignees listed on our bills of lading," Germany-based DB Schenker said. "Meanwhile, we are working diligently to take possession of all of our customers' shipments as they arrive and become available at destination or as they are awaiting vessel at origin ports."

As to the origin of Hanjin's situation, Jensen said, "This is the inevitable result of the game all the carriers have been playing over the last five to 10 years. The key competitive parameter in this industry is not cost - that is only parameter number two. The most important competitive parameter among the carriers is their ability to get more cash before they run out. It’s a game they all have been playing for 10 years and they are extremely good at it. But as logic will dictate at some point in time, somebody is going to lose that game.

“Unfortunately for Hanjin, it appears that they were the first to lose that particular game,” he said.

He noted that Korea Development Bank and the Korean government have supported both Hanjin and Hyundai, but other carriers have found a diverse number of ways to get cash.

For example:

- CSAV had cash plowed into it by its owning family and its liner business was eventually merged with Hapag-Lloyd.
- More recently, Hapag-Lloyd acquired United Arab Shipping Company, and under a so-called Shareholder Support Agreement, controlling shareholders of both companies have committed to backstop a $400 million cash capital increase.
- In 2010 and again in 2012, Turkey’s Yildirim Group invested in CMA CGM, while France’s sovereign wealth fund, Fonds Stratégique d’Investissement (FSI), invested in the French carrier in 2012.
- Neptune Orient Lines (NOL) was owned by the sovereign wealth fund of Singapore before being sold to CMA CGM earlier this year and NOL raised funds through the sale of APL Logistics to Japan’s Kintetsu.
- Jensen said Maersk Line, one of the strongest carriers financially, has been able to get capital injections through its sister companies in the oil and gas business or through the sale of bonds.
- Carriers have sold off terminal assets, and in 2014, MOL sold Brookfield Management a partial stake in West Coast container terminals operated by its TraPac subsidiary, while "K" Line sold Ports America a 30 percent stake in International Transportation Services, which operates container terminals in Long Beach and Tacoma.

Meanwhile, U.K. law firm Holman, Fenwick and Willan issued a briefing on Hanjin in which it raised a plethora of questions, but relatively few firm answers.

"Parties who own cargoes on board Hanjin-operated vessels will want to ensure that voyages currently underway are continued without undue delay and that any cargoes due to be delivered will reach their destination and be discharged on schedule," the firm said. "Cargo interests will also want to arrange for the re-delivery and alternative carriage of containers due to be carried by Hanjin. Cargo interests which have paid freight in advance to Hanjin will be considering claims to recover such sums.

"Freight forwarders which have booked cargoes with Hanjin will face problems similar to those confronting Hanjin's vessel sharing partners. There will be concerns regarding liabilities for customer cargoes which are currently being shipped on vessels operated by Hanjin. Delays caused by Hanjin's position, such as vessel arrest or the refusal of ports to let Hanjin vessels berth, may leave freight forwarders open to claims from their customers. Some freight forwarders have already moved to obtain redelivery of containers due to be shipped by Hanjin, in order to arrange carriage by another operator," the firm added.

"In some instances, forwarders will have paid hire to Hanjin in advance, and forwarders will now be concerned about recovery of these sums. Some freight forwarders had reportedly in recent weeks already stopped booking slots on Hanjin vessels as a matter of company policy."

The law firm also said trucking firms and railroads engaged for the onward carriage by land of containers shipped by Hanjin are now at risk of not receiving payment of these debts and will also be considering claims.