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Fresh capacity to keep pressure on US West Coast rates

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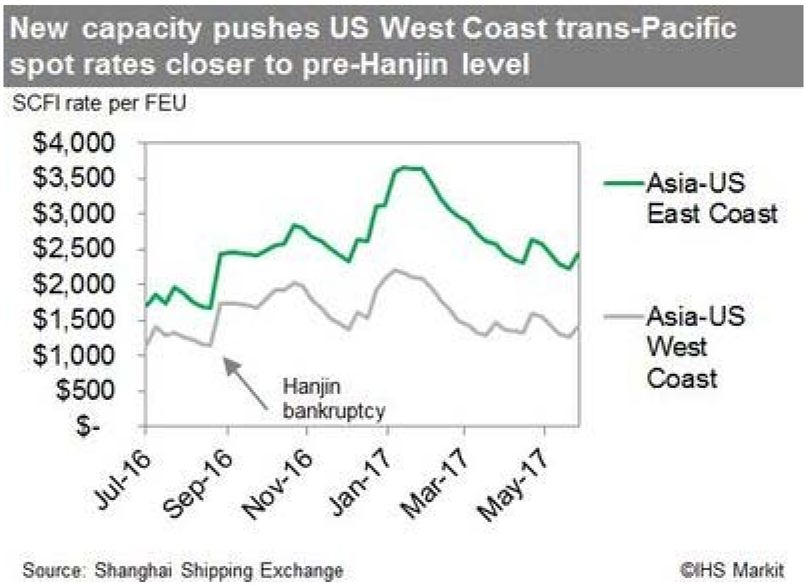
Bill Mongelluzzo, Senior Editor | Jun 08, 2017 11:48AM EDT

The capacity carriers are adding to US West Coast services this peak season will be more than double the additions to the East Coast.

LONG BEACH — Carriers will have a more difficult time maintaining rate increases on their services to Los Angeles-Long Beach this peak season than elsewhere in the eastbound Pacific because they are adding twice as much capacity to the US West Coast than to their East Coast services, logistics consultant David Arsenault said Wednesday.

“Southern California is ground zero. It is where rates will be under the most pressure,” Arsenault, president of Logistics Transformation Solutions and former president of the Americas at Hyundai Merchant Marine, told the annual conference of the Agriculture Transportation Coalition (AgTC). With the reconfigured alliance carriers, plus the non-aligned lines concentrating more of their assets in Los Angeles-Long Beach, carriers will find it more difficult to fill the capacity in their Pacific Southwest services than in their Pacific Northwest and East Coast services, he said.

Spot rates on the trans-Pacific trade seem to back this up, as the most recent SCFI rates per FEU from Asia to the US East Coast are up 44 percent compared with before Hanjin Shipping's bankruptcy, at $2,428, while the West Coast rate is up 22 percent compared to pre-Hanjin levels, to $1,413. The pre-Hanjin West Coast level was $1,153, while that rate to the East Coast was $1,684.



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Comparing the services that will be deployed during the summer-fall peak-shipping season, Arsenault said carriers are increasing their capacity to the West Coast by 4.9 percent, "with a disproportionate amount in the Pacific Southwest." The increase in capacity to the East Coast in peak season 2017 vs peak season 2016 will be only 2.1 percent, he said.

Earlier reports in February comparing the anticipated deployments that would take place under the new alliance arrangements on April 1 listed the capacity increase to the East Coast at a much larger 9.6 percent over February 2016. However, that was before the Panama Canal's third set of locks was completed last summer. Vessel sizes on all-water services to the East Coast doubled to as much as 10,000 TEU by peak season 2016. Therefore, this peak season is being compared with a capacity increase that had already taken place by the summer of 2016.

Vessel capacity in Pacific Northwest services has not changed much, or may be down slightly from last year, so Arsenault said he would not be surprised if carriers attempt to charge a premium on their PNW services.

Despite these trade lane differences, there is no doubt that spot rates this year are 30 percent or more above what they were in the first five months of 2016, and carriers achieved sizable increases in the service contracts they signed with their steady customers this spring. Following the Hanjin bankruptcy on Aug. 31, and the five carrier mergers that have taken place this past year or are scheduled to take place, carriers have no choice but to pay close attention to their profits and losses going forward, he said.

Bill Rooney, vice president of strategic development at Kuehne & Nagle, told the AgTC meeting that “financing fatigue” has set in on an industry that for years has enjoyed billions of dollars of subsidized capital because many of the lines are either family owned or government subsidized. Following the Hanjin bankruptcy, even those financiers have been questioning the wisdom of subsidizing what has become a commodity business with an unacceptable return on capital, he said.

Rooney said the carrier industry is averaging a 4 percent return on capital that is costing its financial backers 10 to 12 percent. The spate of mergers and acquisitions simply reflects the inability of the carriers and their financial backers to maintain the status quo, he said.

Although importers and especially exporters have enjoyed low rates since 2010, they are paying a dear price for the cheap rates, including an on-time performance of 75 to 80 percent, which is a productivity metric that would be unacceptable in most industries. The prevailing attitude among beneficial cargo owners has been, “We don’t like your service, but we really like your price,” Rooney said.

Arsenault said the bad service, which includes poor on-time performance, equipment shortages and persistent errors in bills of lading and other paperwork, are results of years of cost-cutting by shipping lines. “Carriers are trying to save their way to profitability,” he said.

Service levels by some carriers have deteriorated so badly, especially in the export trades, that some agricultural exporters are saying they are ready to pay a premium for guarantees of faster, more reliable, hassle-free service, said Peter Friedmann, executive director of AgTC. Friedmann said exporters of meat and other refrigerated products fear they will lose market share to exporters in other countries that may enjoy better service. “Slow steaming, slow loading, slow trans-shipment — are we going to be pushed out of those markets?” he said.

Contact Bill Mongelluzzo at bill.mongelluzzo@ihsmarkit.com and follow him on Twitter:@billmongelluzzo.

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