

# Container shipping – confronting the crisis

TOC 2009  
Bremen



*June 16, 2009*

## Setting the mood

decline  
collapse slump  
pessimism blues  
doldrums recession misery crisis  
bankruptcy woe  
bust credit crunch  
dejection sub-prime  
doom distress depression  
desolation downturn despair gloom  
stagnation despondency

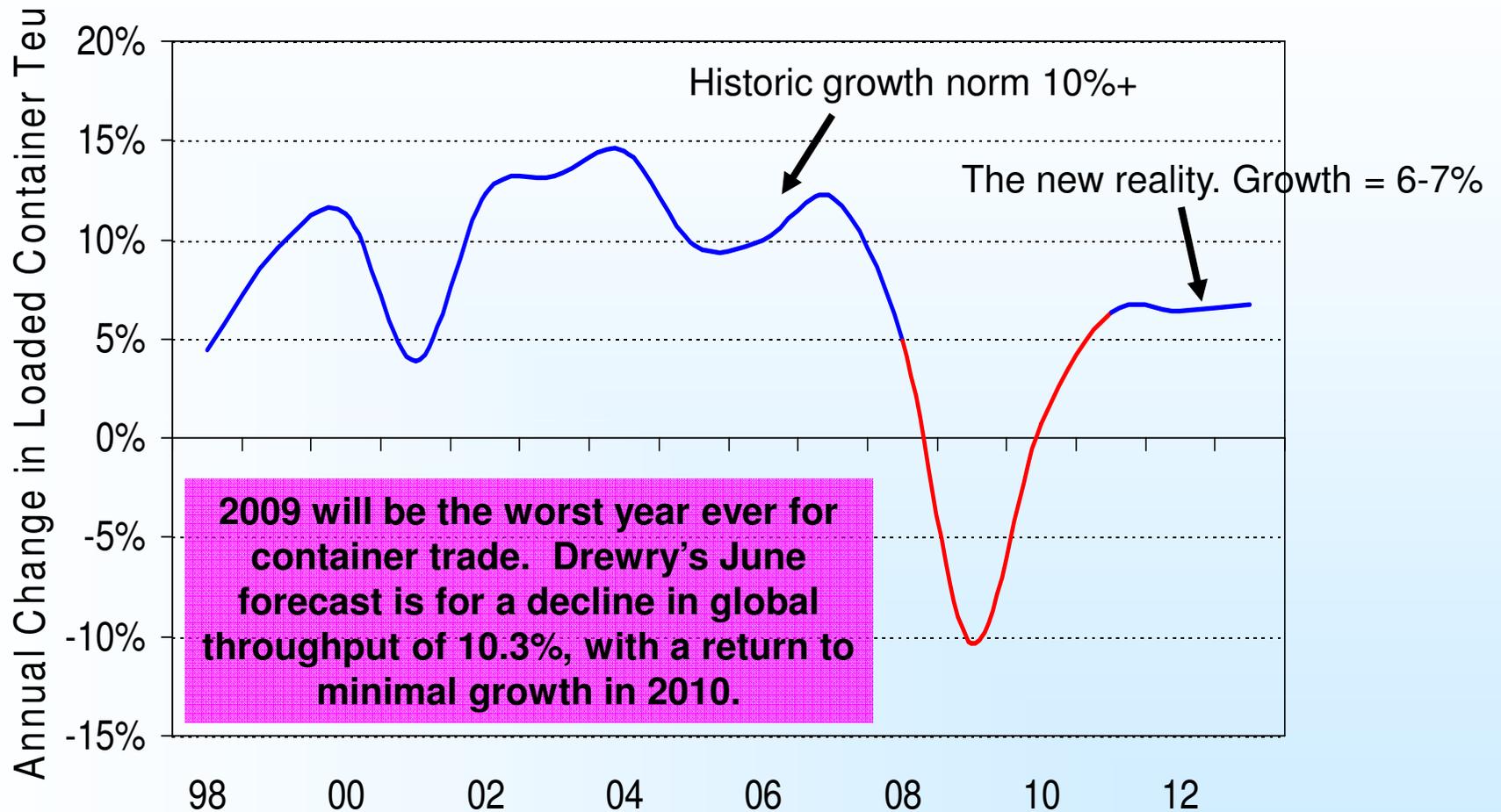




## Supply and demand

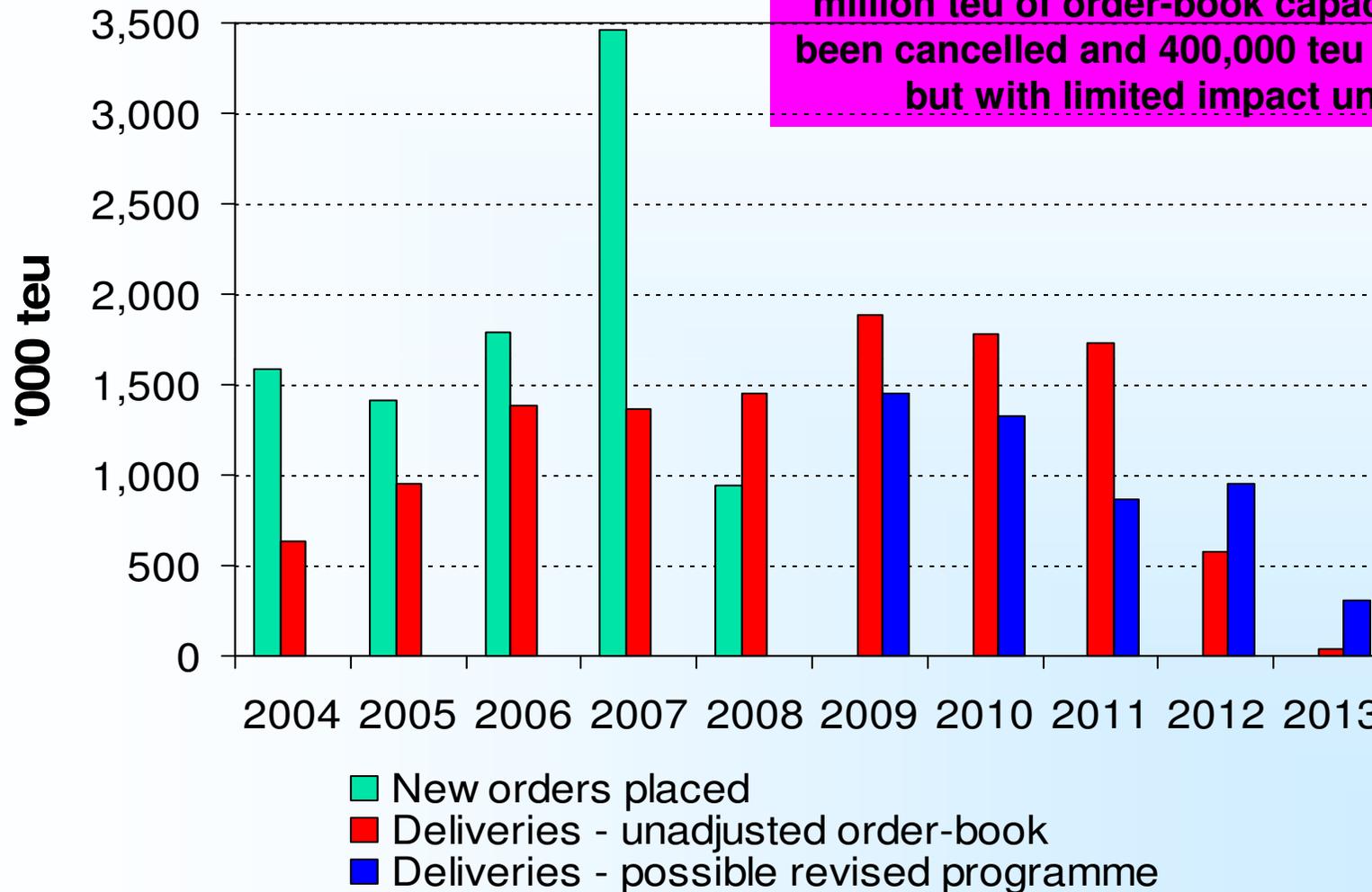


# World container trade growth – into the red zone



Source: Drewry Container Forecaster – June 2009

# Annual deliveries & orders

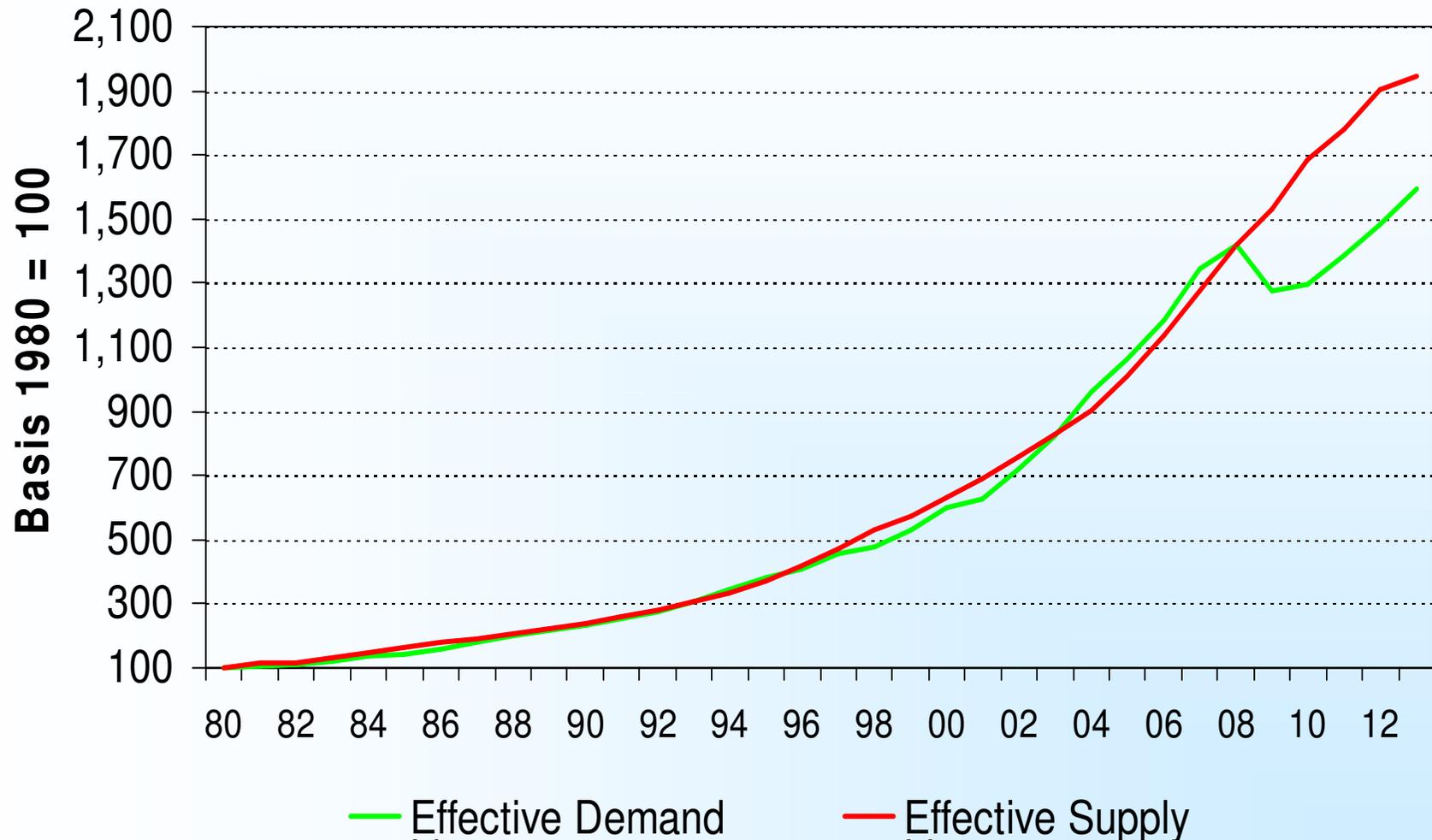


**By the end of 2012 we project that 1.12 million teu of order-book capacity will have been cancelled and 400,000 teu pa deferred – but with limited impact until 2011**



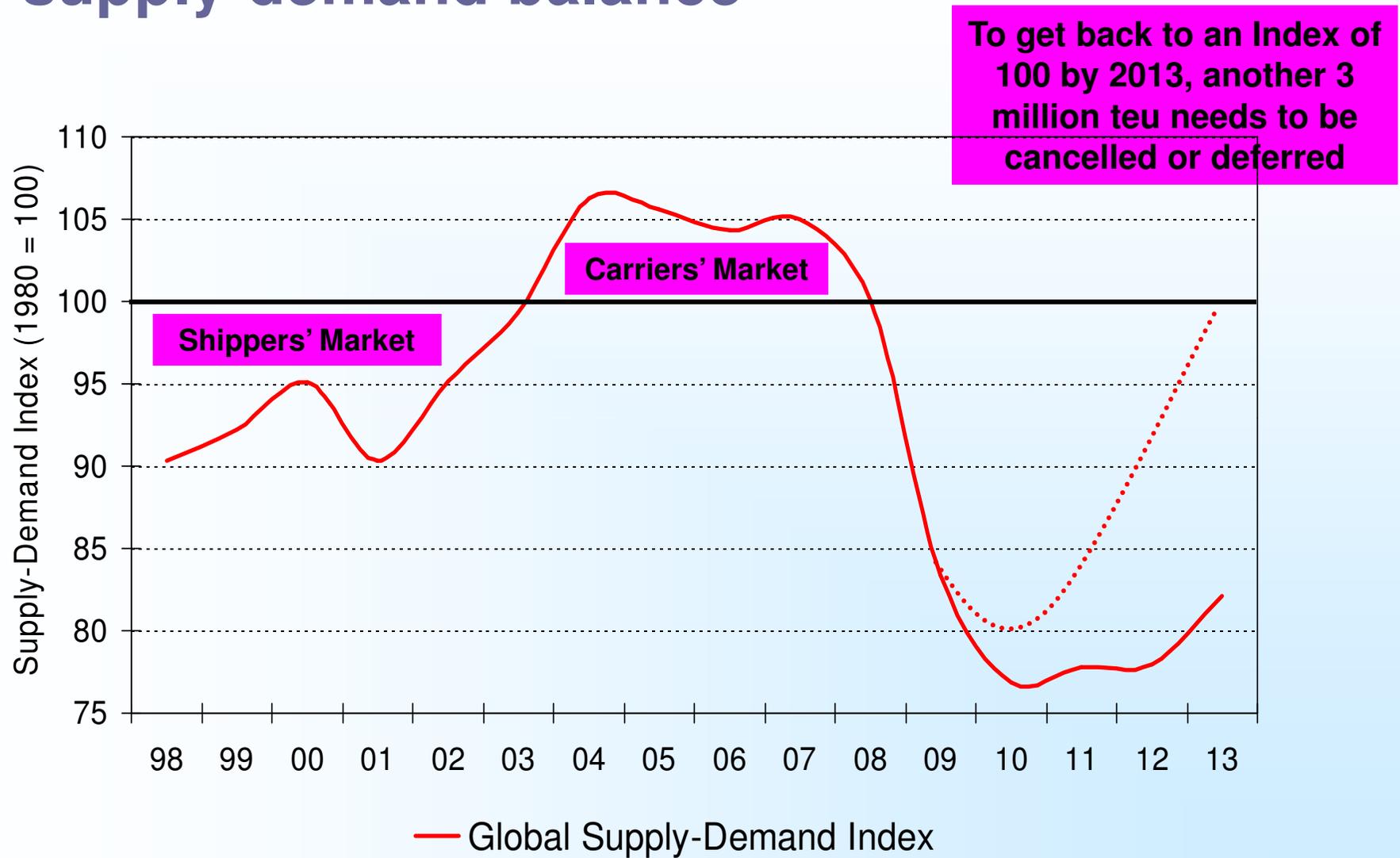
Source: Drewry Container Forecaster – June 2009

# The supply - demand gap & the scale of the problem



Source: Drewry Container Forecaster

# The supply-demand balance



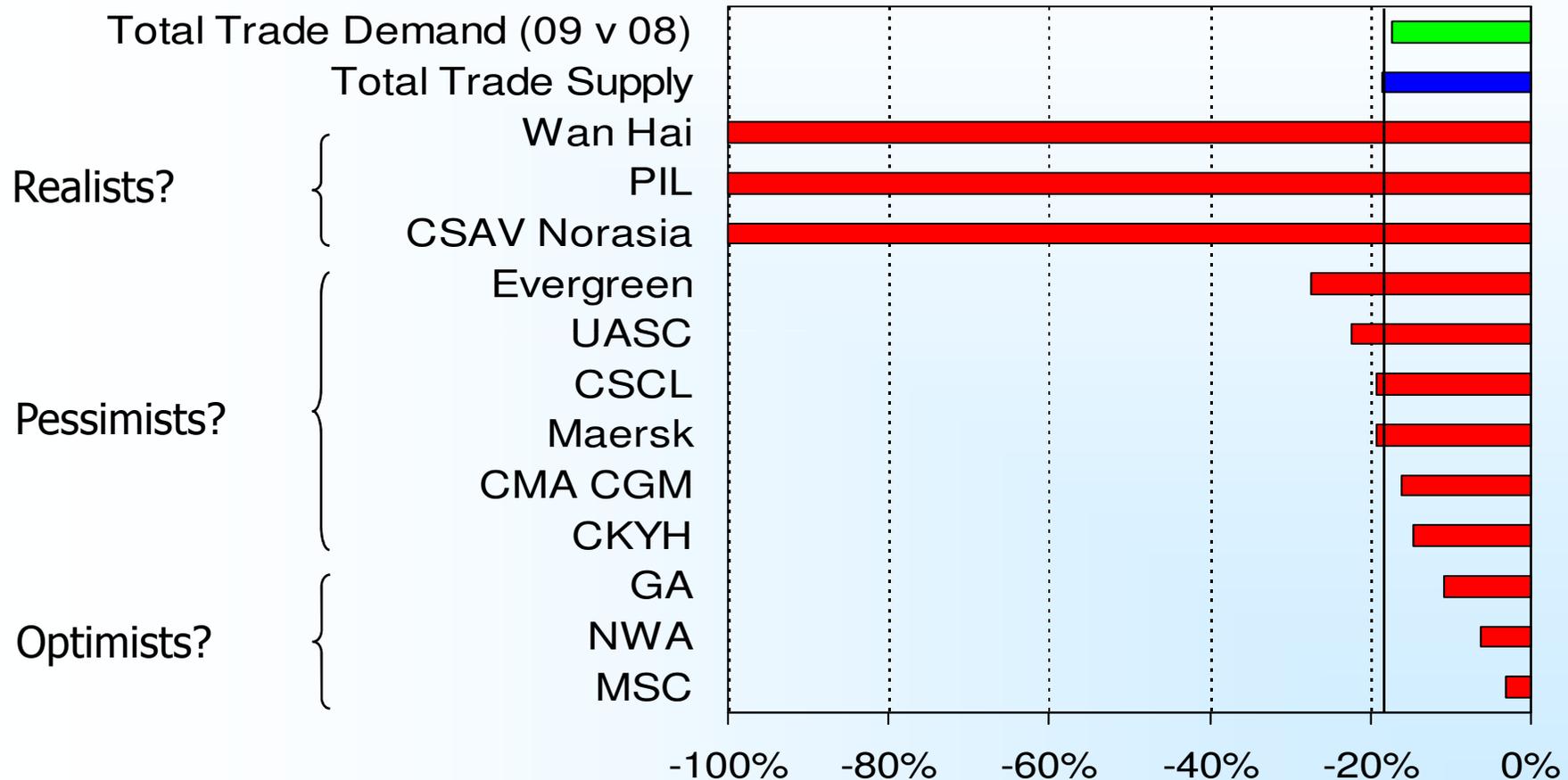
Source: Drewry Container Forecaster – June 2008

# Carrier responses to the global crisis

- **Pessimists, Optimists and Realists**
- **Nothing is now sacred:-**
  - Fast transits
  - Improved service frequency
  - More port options
  - Fixed day weekly sailings
  - Increasing service capacity
  - Value of ship time
  - Choice of partners
  - Commitment to a trade
- **But will it be enough given the duration of the downturn?**
- **The industry is haemorrhaging cash in 2009 – not everyone can survive. The global supply-chain is under threat.**



# Asia-N. Europe trade capacity changes by carrier/group, Jan '08 - Apr '09



Source: Drewry Container Forecaster

## Development of major East-West services

	Jan 1 2007	Jan 1 2008	Apr 1 2009
Transpacific	79	76	64
Asia – N Europe	30	31.5	27
Asia - Mediterranean	18	29.5	19
N. Europe – N. America	24	23	20
<b>Total E/W strings per week</b>	<b>151</b>	<b>162</b>	<b>130</b>
Average vessel size (teu)	5,010	5,188	5,837
Vessels employed	1,066	1,120	933



Source: Drewry Container Forecaster

# Slow steaming – the first solution

RV Days	Weekly Strings - Oct 2007	Weekly Strings - Apr 2009
<b>Asia-N Europe</b>		
70	1	7
63	7	15
56	19	3
49	3	0
<b>Asia-Mediterranean</b>		
77	0	1
70	1	3
63	1	5
56	8	6
49	11	2
<b>Asia-ECNA via Panama</b>		
70	0	1
63	2	3
56	12	8

Excludes pendulum and non-standard end to end services



Source: Drewry Container Forecaster



## Freight Rates & Profitability



# The global rate environment

## Driving rates down

- Declining demand and vessel load factors
- Negative market sentiment
- Competitive tensions as some carriers seek to exploit/engineer the crisis
- Confusion
- “When an industry with a reputation for bad economics meets a management with a reputation for brilliance, it is the reputation of the industry that remains intact.”

## Driving rates up

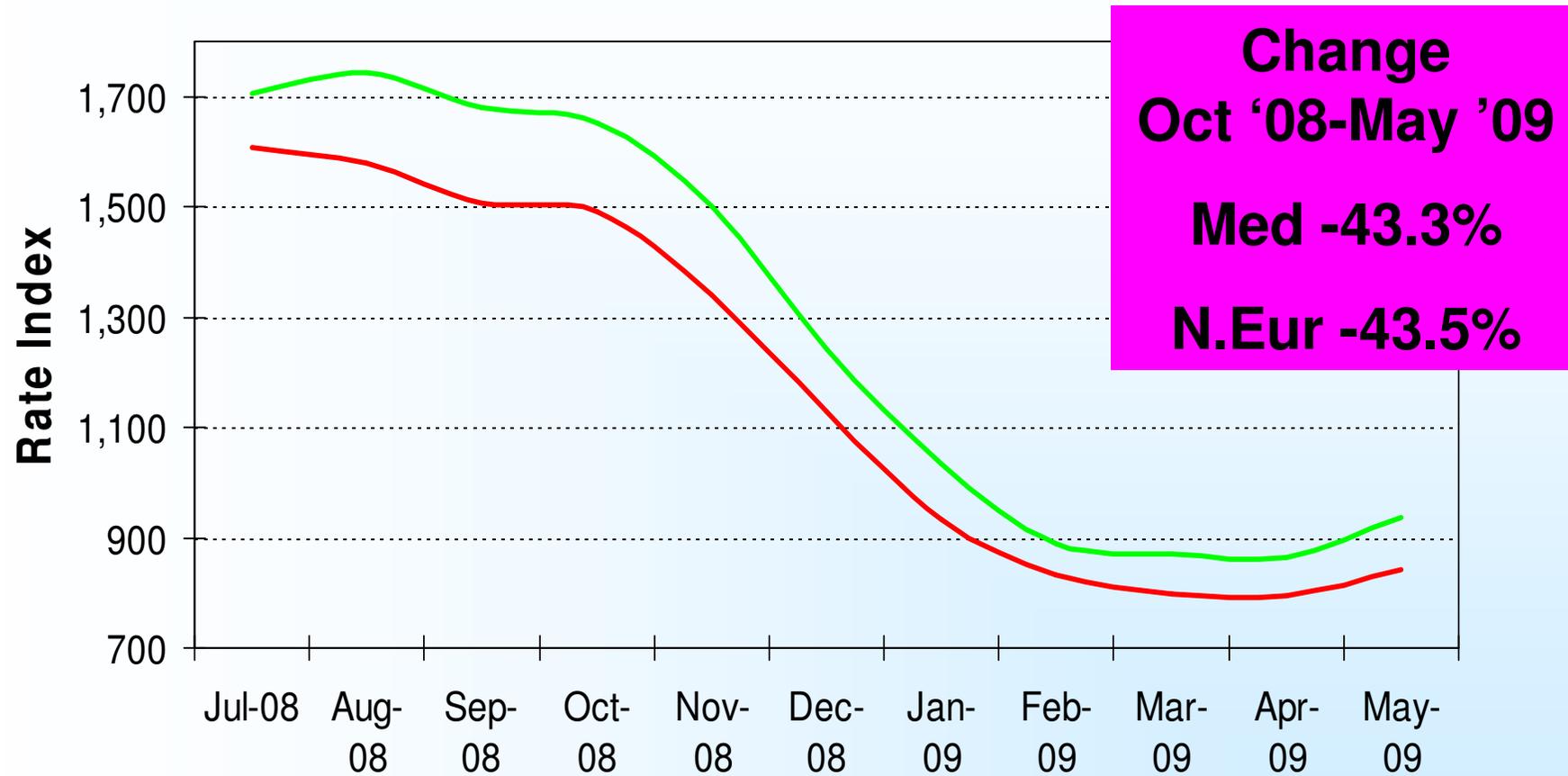
- The costs of over-capacity

## The wild card

- Fuel prices



# Asia – Europe trades lead the rate collapse



Note: Start of month Index Position

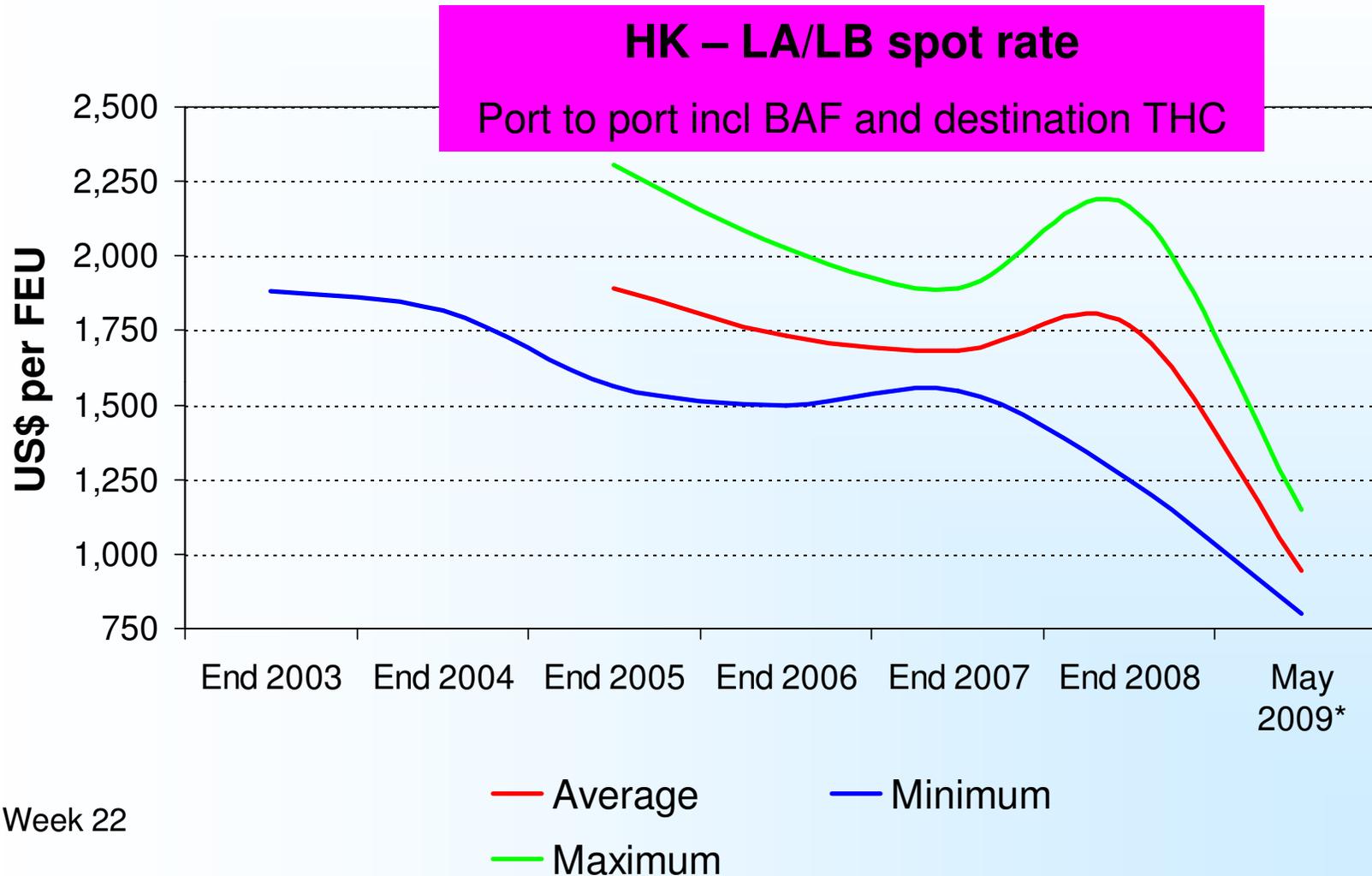
— China-N Europe      — China-Med



Source: Drewry Container Shipper Insight/Shanghai Shipping Exchange



..... and now the Transpacific is following

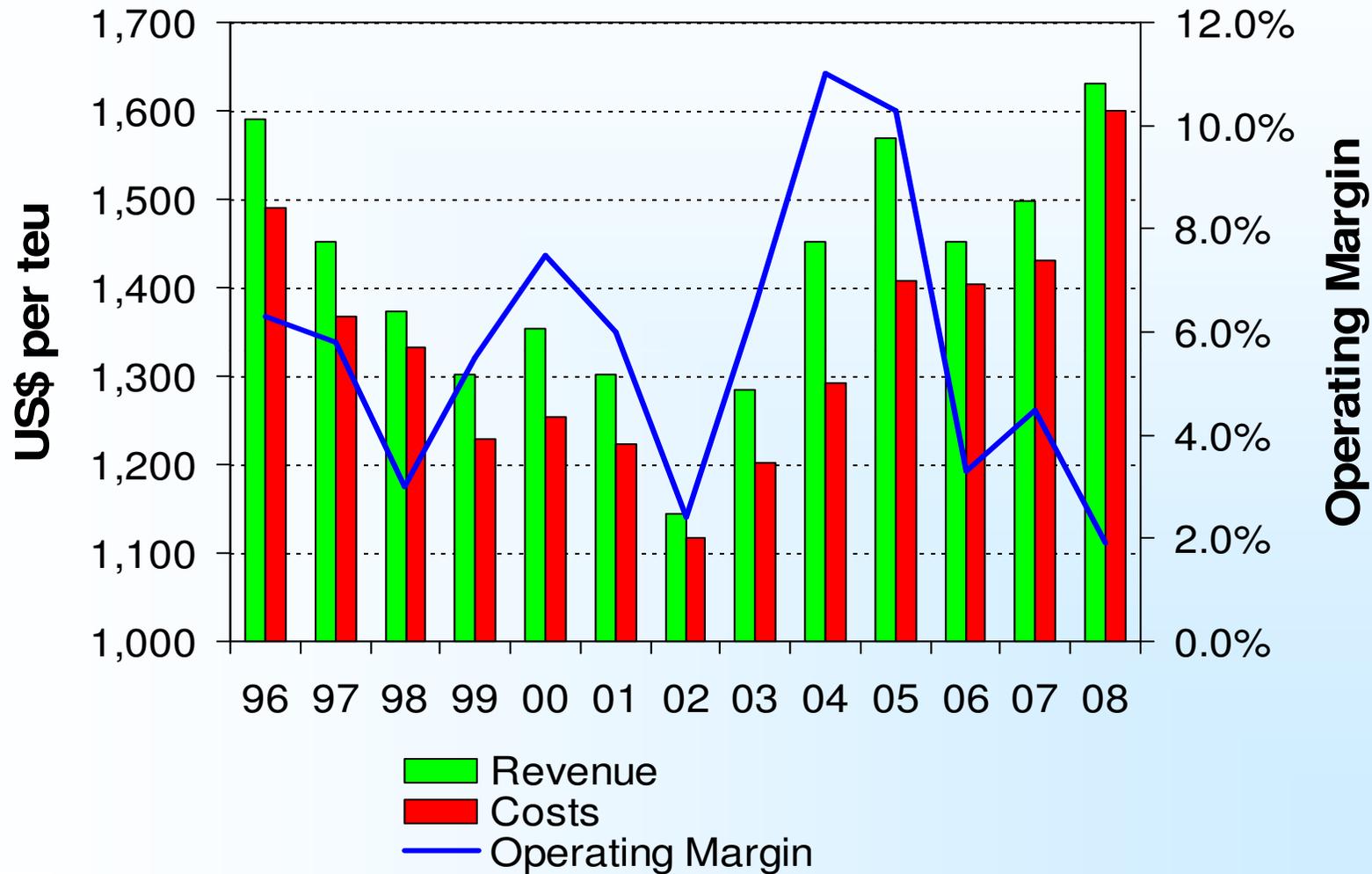


\* Week 22



Source: Drewry Container Freight Rate Insight

# Estimated carrier unit costs and revenues



Source: Drewry Container Forecaster – June 2009



## The 2009 financial score-card

Carrier	Q1 2009 EBIT result (US\$ mill)	Global Market Share (of operated capacity)
<b>Container Shipping Activities Only</b>		
Maersk Line	-424	12.1%
Hapag-Lloyd	-302	3.3%
APL	-237	3.4%
Zim	-156	1.7%
Hanjin	-142	2.6%
Evergreen	-82	4.2%
<b>Container + Other Shipping Activities</b>		
Cosco	-490	3.4%
CSAV	-265	2.1%
China Shipping	-176	2.9%
HMM	-61	2.0%



Source: Drewry Container Forecaster

## The black hole in carrier finances in 2009

- A 15% decline in global average freight rates and a 10% decline in global cargo volumes would indicate a reduction in carrier income of \$55 bn in 2009.
- Where are the savings going to come from?

Lower bunker prices (40%?) = \$10 bn

Reduction in number of services = \$5 bn (?)

Cost savings on lower cargo volumes = \$10 bn (?)

Off hire of ships and lower charter rates = \$5 bn (?)

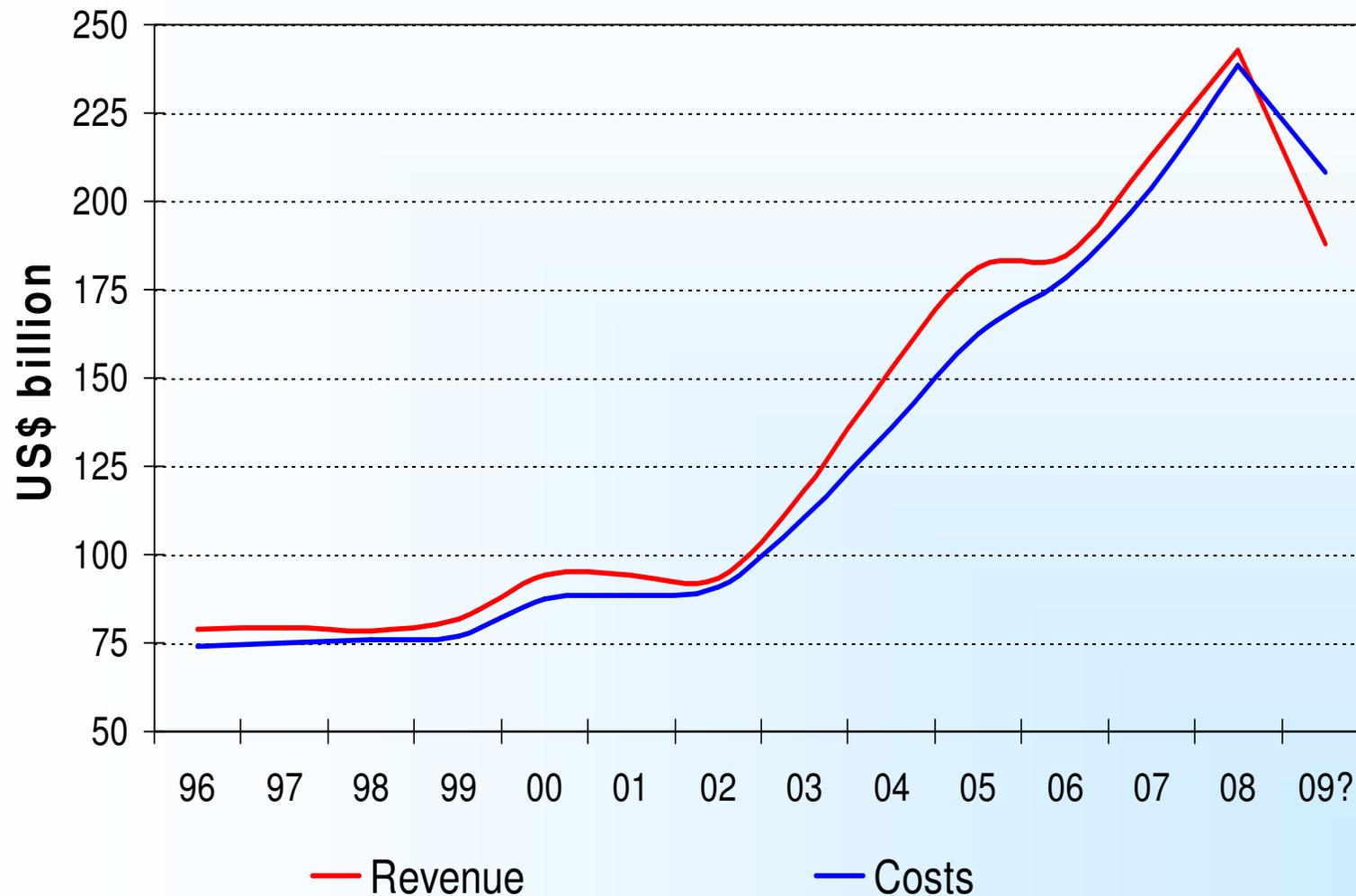
Total savings = \$30 bn

Shortfall = \$25 billion (+ extra costs of new deliveries in 2009)

- Indicative aggregate carrier P&L in 2009 = loss of \$20bn (minus 10.6% margin on turnover)



# Estimated industry-wide carrier revenue and costs





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