Shippers, don't take service levels for granted

By Dale Crisp*

Container lines in Australia's largest liner trade, from and to North & East Asia, doubled the number of cancelled voyages during the 2019 Chinese New Year – a likely omen of reduced capacity during the coming low season.

Lunar New Year traditionally heralds a reduction in Asian-originated shipping services worldwide, reflecting a considerable fall-off in demand for shipping capacity as Chinese factories close down and workers return to their homes and families for celebrations. The quantum and speed of demand recovery post-CNY often sets the tone for container lines' fortunes right through until peak season. In Australia's case this is usually begins in late July as retailers stock up for the festive season.

In 2018 lines blanked only a handful of sailings during CNY but this year almost all carriers/consortiums in the North & East Asia/East Asia-Australia (and NZ) trades each cancelled two round voyages. And due to changes in the supply side over the last 12 months Australian exporters, importers, freight forwarders and supply chain managers should expect an increasing number of sailings to be cancelled over the next six months.

At the time of writing the CNY blankings were still working through, and carriers had not disclosed forward plans. But the likely cut-backs are an inevitable consequence of a substantial August 2018 increase in supply, which saw the introduction of the HMM-led A1X service (a nominal extra 4,500 TEU per week) and the sharp upsize of tonnage in the ANL/Cosco/OOCL A3 Central Express service, where five vessels of 5,700 TEU were replaced by six of up to 8,500 TEU, the largest in regular operation to Australia.

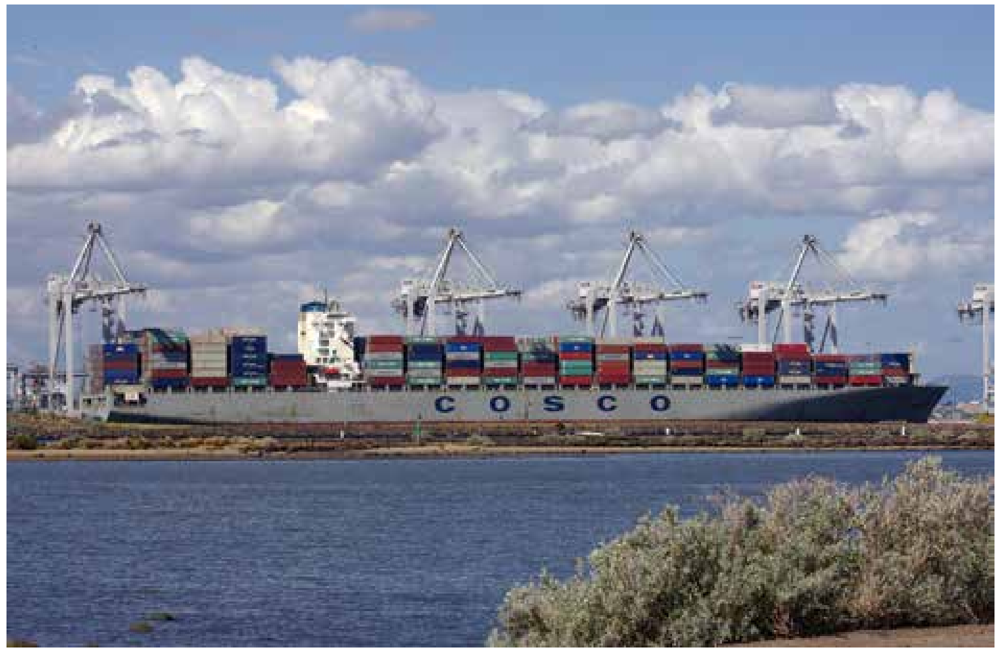
Hyundai's establishment of a stand-alone service, supported by Taiwan's Evergreen and CMA CGM Group member APL, can be viewed as a South Korean push to re-establish a major presence on a route serving one of Australia's major trade partners. Korean participation had been severely affected by the August 2016 collapse of Hanjin and manoeuvring by other carriers that saw Hyundai reduced to slot-charterer status. Nevertheless, it is arguable the service was unnecessary in total trade terms.

A3C's upgrade may also be seen as superfluous, although it is known to have been scheduled some considerable time ahead of implementation. Doubtless it was in part informed by sustained southbound demand throughout 2017-18 and the complementary demand pressures of Australia's record grain exports flowing from the 2016-17 season. However, as is now widely known, drought has seen the almost total collapse of Eastern States grain exports and the northbound situation has been exacerbated by China's restraints on a wide range of waste imports.

The second inevitable impact of the 2018 injection of capacity was a collapse in freight rates, and while this has an obvious up-front benefit for shippers, carriers respond in the only way they know how, and that's to manage supply to try and drive a return to profitability.

The situation carriers find themselves in is amply illustrated by two key indices, the China Containerised Freight Index (CCFI) and the Shanghai Containerise Freight Index (SCFI), both published by the Shanghai Shipping Exchange.

The CCFI reflects *average indexed freight rates* (all-inclusive spot and long-term rates, excluding THCs) of 15 different carriers for shipments from Dalian, Fuzhou, Guangzhou, Nanjing, Ningbo, Qingdao, Shanghai, Shenzhen, Tianjin and Xiamen. The overall index (01/01/1998 = 1,000) is based on both spot and long-term rates.



The A3 consortium has introduced the largest container ships in regular Australian trade

The December 2018 CCFI for the China-Australia/NZ route stood at 787.54, down from 824.69 in November, and 13.3% below December 2017's 908.40. At the end of January 2019 the CCFI had again eroded, to 766.94.

The SCFI reflects average USD spot rates (all inclusive, but excluding THC) of 15 different carriers for shipments from Shanghai, to base ports in the area of destination. The overall index (16/10/2009 = 1,000), is based on spot rates only, and shows a much more alarming (for carriers) decline.

On the Shanghai-Melbourne route the December 2018 SCFI fell to US$587.00/TEU, compared to 676.80 in November. However, the comparison with December 2017 is stark: a 50.4% fall from 1,184.20. By the end of January 2019 the index had fallen further, to 532.

While late-2017 rates were buoyed by the very strong southbound volumes that saw carriers extract maximum returns as bookings exceeded capacity and cargo was rolled, the 2018 peak failed to meet price hopes – hopes that may well have been unrealistic in the context of the additional supply of slots.

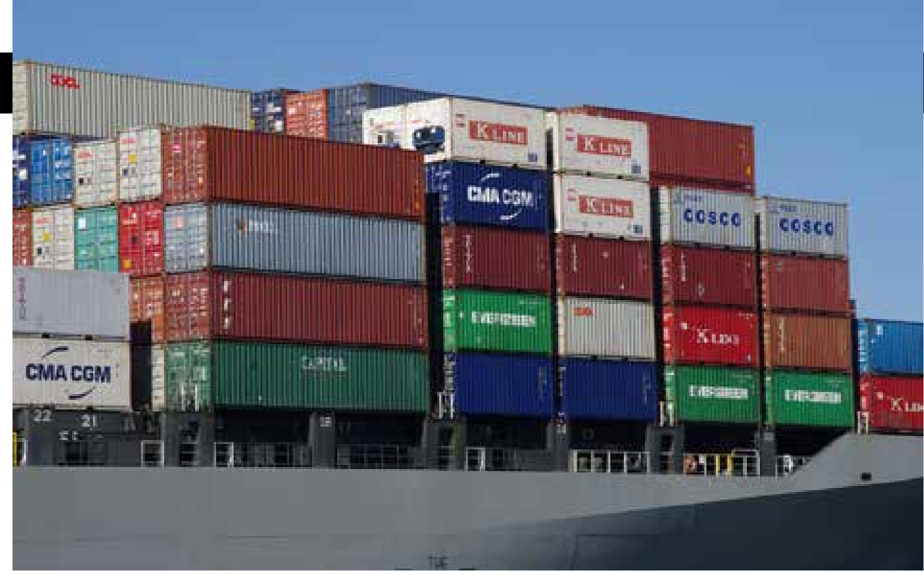
In the early years of this decade, carriers in the N&EA/EA-Australia trades, mostly under the auspices of the Hong Kong-based Asia Australia Discussion Agreement, organised variations of a slack-season capacity management program that saw co-ordinated withdrawal of tonnage – that, in one notable year of chronic over-capacity, ran from end-November to mid-August.

But now there is no AADA, nor any equivalent northbound discussion agreement (covered by Part X of the Competition and Consumer Act 2010), and so no officially-sanctioned forum to establish, maintain and monitor a capacity management programme. At time of writing, carriers have made no announcements about any such plans.

Nevertheless, unless there is an unexpected, unseasonal re-ignition of the (mostly retail-driven) southbound volumes – especially unlikely in a federal election year – and a completely unimagined boost in exports, shippers might expect the increased CNY blankings to set a pattern that's likely to roll on until at least late July.

Are carriers complying with minimum notification requirements?

In this period of uncertainty for shippers, the Australian Peak Shippers Association Secretariat has ramped up efforts to hold shipping lines accountable to minimum notification periods and most major liner services appear to be obliging.



During slack season capacity management rival container lines share ships and slots

Section 10.41(2) of Part X mandates that shipping lines who are party to registered conference agreements must provide the designated shipper body – APSA - with "at least 30 days' notice of any change in negotiable shipping arrangements". "Negotiable shipping arrangements" is defined in section 10.41 (3) (a) to include "freight rates, charges for inter-terminal transport services, frequency of sailings and ports of call".

This section of Australian law is similar but different to regulation in the U.S. under the Federal Maritime Commission where the Commissioner requires that increases in rates, charges or surcharges (including new rates, charges or surcharges, as in the case of Low Sulphur Surcharges) must be published in a common carrier's tariff at least 30 days in advance of its effective date.

APSA's Travis Brooks-Garrett notes that while a small number of shipping lines were pushing back on minimum notification periods based on "cynical and narrow interpretations of the Act" most understood the crucial importance of service frequency for Australian shippers - especially when more than 90% of the nation's trade by volume is carried via seafreight.

"Exporters are most affected by cancelled sailings and at the very least should be given enough time to make alternative arrangements. A minimum notification period of thirty days is reasonable for most services, particularly those with long round voyages," Mr Brooks-Garrett said.

He fears that "the proliferation of new surcharges and now the threat of blank sailings rolling from Chinese New Year into the slack period" will harm an export community already suffering from drought.

"That's why having dependability in our ocean freight services is so important to our exporters. If there is to be a capacity reduction programme, coordinated between shipping lines, then it should occur in a way that is open, transparent and negotiated with shippers under the umbrella of Part X of the Act. Any organised capacity reduction programme outside of this would be a big concern to shippers and should pique the interests of the competition regulators."

As ever, shippers and shipping lines will be keeping a watchful eye, and both will be hoping for a turnaround in volumes.

**Shipping writer Dale Crisp also provides FTA/APSA with communications and content advice.*