Published on *JOC.com* (https://www.joc.com)

Greg Knowler, Senior Europe Editor | Sep 29, 2022 12:33PM EDT

Carriers are up against falling demand and an oversupply of tonnage on the Asia–Europe trades. Photo credit: Shutterstock.com.

The gap between Asia–North Europe long-term rates and the tumbling spot market widened further through September, with increasing pressure on carriers to adjust prices to reflect the changing dynamic, at least until the end of current contracting cycles.

“We are in discussions with our carrier partners to adjust some of the terms and conditions to more market-going levels,” Antonios Rigalos, chief growth officer at shipper association CrossStaff, told JOC.com at the group’s annual meeting for beneficial cargo owners (BCOs) and forwarders in Barcelona this week.

Spot rates have been on a downward slide from the record levels reached at the end of last year and in early 2022 when many annual and multiyear shipper contracts on Asia–North Europe were signed. Carriers earlier this year significantly increased their profitability expectations as a direct result of locking shippers into those lucrative long-term contracts.

But the worm has now turned. Slowing demand is particularly acute in Europe, where first-half import volume from China of 3.84 million TEU was down almost 5 percent compared with the first six months of 2021, with January 2022 the last month in which a year-over-year increase was reported, according to the latest available data from Container Trades Statistics (CTS).

In a desperate attempt to protect rate levels, carriers have been withdrawing capacity on the trades into Europe with an aggressive blank sailings program, but it is having little effect on the rate slide.

With demand slowing, the spot rate on Asia–North Europe fell below the long-term rate in the last week of August and since then has lost a further 21 percent in value. Spot rates valid for 30 days or less from Asia to North Europe declined to $4,070 per TEU as of Sept. 28, down 50 percent since Jan. 1, according to rate benchmarking platform Xeneta.

Long-term rates valid for more than 90 days are currently at $4,956/TEU, virtually the same as Jan. 1. But they fell 2 percent through September, the first month the long-term rate has declined this year.

“In short, this means the shoe is finally on the other foot when it comes to upcoming contract negotiations for Q4 and beyond,” Patrik Berglund, CEO of Xeneta, said in a market update Thursday.

“Shippers are in the ascendancy while carriers will now be competing to lock in volumes in the face of lower global demand,” he added. “Therefore, we expect this month’s relatively marginal decline to pick up pace as the year draws to a close.”

But not all carriers are prepared to renegotiate deals. Hapag-Lloyd CEO Rolf Habben Jansen flatly rejected the idea, telling a media briefing earlier this month that “either you close a contract, or you don’t.”

Spot market not attractive option

“Some carriers are more receptive, while some are taking a wait-and-see approach in case the market improves from November ahead of Chinese New Year,” Rigalos said. “We will try to keep our normal contracting cycles from April 1 to March 31, so any adjustments to the one-year contracts will then be valid until March 31, 2023.”

Shifting volume to the spot market, even though the rates are falling, was not an attractive option for shippers that place a high emphasis on supply chain reliability.

“The problem with going on the spot market is that we have no protection,” a Germany-based shipper importing 14,000 TEU a year from Asia, told JOC.com. “Congestion is still a big problem in North Europe, there is potential for COVID-19 port disruptions in China, and there are many blank sailings, which leaves us very exposed without a carrier contract.”

As sharp as the rate decline has been, Berglund noted that this should be seen in the context of a market that’s been in overdrive for almost two years. Average spot rate levels on Asia–North Europe are still more than four times higher than in September 2019.

“So much of the focus has been on profits and performance, but it might be helpful to move to an atmosphere of establishing trust and building solid relationships between stakeholders,” Berglund said. “That attitude would certainly help around the negotiating table.”

This was a point made by Drewry in its latest Logistics Executive Briefing, where the analyst cautioned against shippers seeking payback from carriers as space became available at more reasonable prices.

“Restoring business relationships will be a key consideration in 2023,” Drewry noted. “It will be tempting – but not advisable – for shippers to ‘seek revenge’ against and drop previous ocean carriers and NVOCCs.”

“For most companies seeking reliable logistics and long-term improvements in operations, the continuity of business relationships remains critical and tolerating cyclical market stresses is necessary,” it added. “There are now only nine global ocean carriers. Most medium-sized and large BCOs will need to work with five or more of them for the foreseeable future.”

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