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Home > Shadow of blank sailings looms over weakening trans-Pacific

Peter Tirschwell and Greg Knowler, Senior Europe Editor | Sep 08, 2022 1:41PM EDT

Carriers such as Hapag-Lloyd are determined to match capacity with demand on the trans-Pacific. Photo credit: Hapag-Lloyd.

With volumes slowing and spot rates rapidly eroding on the eastbound trans-Pacific, expectations are building that carriers will soon pull the lever of capacity management.

It is a strategy they would return to for the first time since 2020. When volumes evaporated at the outset of the COVID-19 pandemic in the spring of that year, ocean carrier alliances swiftly removed underutilized trans-Pacific capacity in a stark display of the blank sailing capability they had gradually been acquiring over approximately five years leading to that moment.

When volumes rapidly recovered a few months later and then soared far beyond pre-pandemic levels throughout 2021 and into this year, carriers canceled trans-Pacific sailings — but almost entirely as a result of US port congestion and other factors such as China's COVID-19 lockdowns making scheduled departures from Asia impossible to deliver.

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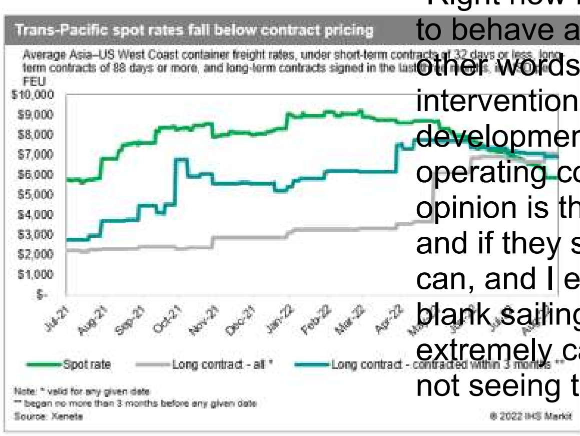

"Right now it feels to me that the market is being allowed to behave as it should under free market conditions. In other words we're not seeing a lot of blank sailing intervention," said Bill Smith, vice president of business development at CV International, Inc., a non-vessel-operating common carrier (NVO). "But my personal opinion is that the carriers probably have a floor in mind and if they see the decline in demand longer term, they can, and I expect they will, shore things up in terms of blank sailings capability which they have proven extremely capable of doing when they choose, but I am not seeing that in a strong manner, at least not yet."

Currently, "I don't think the market has found its new normal. There will be a new normal, but none of us know when that will be," Smith said.

Indeed, with volumes slowing and capacity freed up as port congestion has eased, at least on the West Coast, all signs are pointing to that day approaching, perhaps soon.

Alan Murphy, CEO of Sea-Intelligence Maritime Analysis, told JOC.com Thursday its data did not currently show any increase in blank sailings over the baseline seen in 2022. But he added that capacity was increasing as it was released from the normalizing of extended supply chains.

“As demand remains weak, it would make sense — purely from the perspective of balancing utilization — for the carriers to start increasing blank sailings, but we're not seeing it yet,” he said.

Part of the challenge facing carriers is the need to pare back significantly increased capacity deployed on the trans-Pacific during the pandemic surge.

“We probably have 50 percent more capacity in the Pacific today than we had in 2019,” Maersk CEO Soren Skou told an earnings call on Aug. 3. As much of that capacity was re-deployed from other trades, an unwinding of the trans-Pacific deployment will likely need to occur.

Murphy wrote in this week’s Sunday Spotlight newsletter that given carriers’ currently scheduled vessel deployment on the trans-Pacific, capacity growth would outpace even the most generous assumptions of demand growth. This would have the effect of firmly dropping utilization below the 90 percent threshold and signaling continued downward pressure on freight rates, a situation that would reveal carrier appetite for capacity deployment.

“The question is how the market would respond to such tactical capacity management at present, as freight rates are certainly coming down, and seemingly faster than was expected, but they are still considerably above pre-pandemic levels, so the carriers may find quite a lot of opposition to blank sailings right now, especially as schedule reliability remains horrendous,” Murphy told JOC.com.

Protecting the business

Carriers have learned that matching capacity with weakening demand is a strategy that works to great effect in limiting rate erosion. In a media briefing earlier this week, Hapag-Lloyd CEO Rolf Habben Jansen suggested a new round of blank sailings may be in the cards.

“In Spring 2020, we lost from one day to another 20 percent of our revenue,” he told reporters. “If you do that, you have to make sure that you take cost out, because otherwise you are going to run against the wall, and that’s what we have been looking at and what we will be looking at going forward. If there is not enough cargo to fill all the ships, we will try to save some costs to protect our business.”

Skou echoed those comments in the Aug. 3 earnings call. “We will provide the capacity that our customers need but we will not sell all the capacity that we have unless there's demand for it,” he said. “This is very similar to the way the Korea express package operators operate their networks. They're not flying the airplane if they've got no packages, and that's what I see for this industry going forward.”

Despite trans-Pacific eastbound volumes being up nearly 29 percent so far this year versus the same period in 2019, and up nearly 6 percent versus 2021, a marked slowdown is under way. According to a National Retail Federation (NRF) forecast published Wednesday, US imports landing at the 11 ports surveyed by NRF will fall on a year-over-year basis in each month for the remainder of 2022. Specifically, US containerized imports in the second half of this year will fall 3.1 percent compared with the same period in 2021, according to the NRF, which given the growth in the first half would result in imports growing 1.2 percent to 26.1 million TEU for the full year in the surveyed ports.

“Consumers are still buying, but the cargo surge we saw during the past two years appears to be slowing down,” Jonathan Gold, NRF’s vice president for supply chain and customs policy, said in a statement accompanying the forecast. “Cargo volumes are solidly above pre-pandemic levels, but the rate of growth has slowed.”

Will carriers play ball with shippers?

The basis for carriers engaging in capacity management is they are not required to deploy capacity if the demand is not there to support it.

Still, weakening conditions, due in part to greater capacity being unleashed back into the market because of easing West Coast port congestion, is increasingly leading shippers to request that carriers renegotiate contracts. The reason is the spot rates that shippers are able to obtain out in the open market fall below the contract rates they have committed to. Although some carriers, such as Hapag-Lloyd, say they are unwilling to reopen annual contracts to reflect falling spot rates, pressure is building on carriers from many shippers to review rates.

Just Wednesday, Taiwan's Yang Ming Marine indicated it is willing to give shippers discounts on long-term contracts in an effort to preserve business relationships.

"Because spot rates have plunged, we do face pressure from some clients demanding rate adjustments for long-term contracts," Yang Ming COO Chang Chao-feng told an investors conference hosted by Yuanda Securities.

The current spot rate from Asia to the US West Coast of $5,046 per FEU is almost $2,000 below the average rate agreed to in long-term contracts of at least 90 days, according to rate benchmarking platform Xeneta. Average spot rates on the trans-Pacific, which have fallen 36 percent since Jan. 1, first dropped below contract pricing in mid-June, with retailers slowing cargo imports because of full US warehouses.

Smith said he is seeing instances of carriers willing to adjust rates for 30-day periods but not for the duration of the contract.

"Some [carriers] are holding the line, saying we had a deal and we need to respect that," he said. "But it's significant enough now that the BCOs can't ignore it. There could be thousands of dollars difference where they signed at the high-water mark and where the spot market is now much lower."

However, Murphy raised another factor that might work against carriers implementing a new round of blank sailings. Empty containers are piling up in the US and Europe, and the only way to clear them out was to sail underutilized on the headhaul routes.

"While the carriers are not really incentivized to do so, it should be hard to argue against it, as they are still quite profitable," he said.

Special Correspondent Keith Wallis contributed to this report.

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