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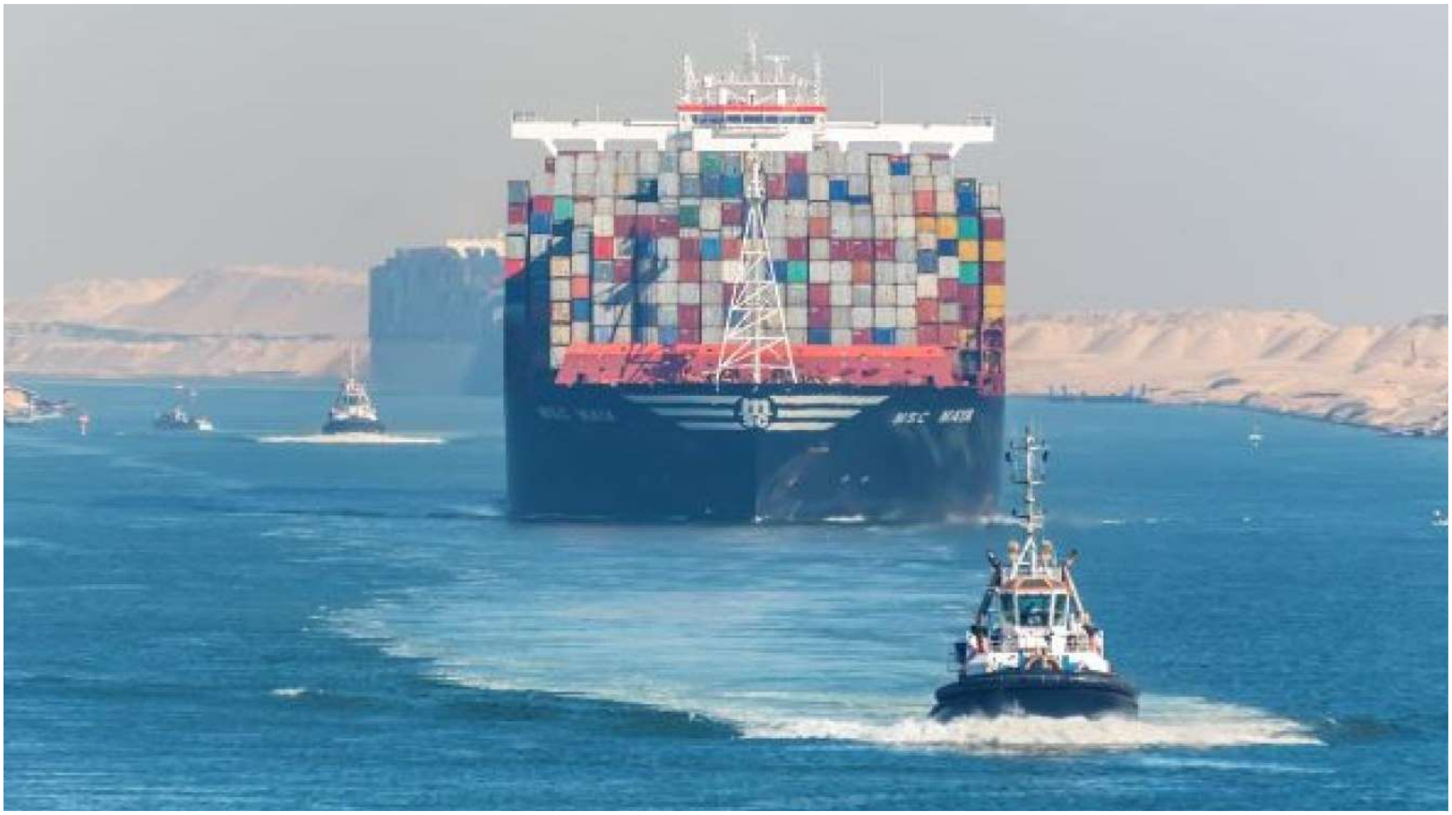
Carriers, shippers prepare for 2024 amid spectrum of uncertainty: analyst



Geopolitical risks, such as the potential for a temporary closure of the Suez Canal amid growing conflict in the Middle East, must be on the minds carriers and shippers in 2024, writes Lars Jensen. Photo credit: byvalet / Shutterstock.com.

Lars Jensen, CEO & Partner, Vespucci Maritime, and Journal of Commerce analyst | Nov 2, 2023, 10:53 AM EDT

As any active participant in container shipping knows, there is always uncertainty.

When you participate in the annual TPM conference in Long Beach, which brings in all the major industry stakeholders, it appears to always be under a cloud of uncertainty as to what the year will bring. And as the market is cyclical, it is relatively evenly divided over time whether it is the shippers or the carriers who are the most concerned.

This is not because something is wrong in the industry, nor is it unusual. It is a consequence of an industry exposed to the unpredictable nature of the global economy.

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The key is not to get too bogged down in the details while trying to optimize forecasts in the vain hope that will somehow eliminate the uncertainty. Forecasts are necessary, but beyond a certain point they become an exercise in massaging decimal points that cannot be predicted.

Instead, it is about identifying and categorizing risk, and then using that approach to develop a robust plan in the face of the — known — uncertainties.

If we look at 2024, there are three categories of risks associated with market forecasts that should be considered.

Forecasting supply and demand

The first element is forecasting supply and demand. To some degree, this is the "easiest" as it is quite simply looking at the capacity being delivered, less scrappings, versus container demand linked to the economy. Of course, the devil is in the details. Capacity developments can be altered through idling of vessels or a reduction in sailing speeds. And the rule of thumb that container demand develops in line with global GDP — at least that was the baseline prior to the pandemic — appears to not work anymore. In recent years, the so-called GDP multiplier appears to have dropped materially below parity, but whether this is a pandemic ripple effect or a new normal remains to be seen.

But for all the uncertainty, these considerations are all well-known territory in the industry. Part of that also means that, yes, we are in a standard cyclical downturn. And, yes, the carriers will at some point in time idle more capacity, the only question is when.

New regulatory environment

The second element is the question of forecasting the change in carrier behavior in the face of a changing regulatory environment. This is more difficult to deal with as it is not an exercise in quantitative modeling but instead one of trying to read the minds of carriers.

The implementation of Europe's emissions trading system (ETS), as well as the abolition of the Consortia Block Exemption Regulation (CBER) anti-trust exemption in the EU, will lead to a reassessment on the part of carriers. Not only in terms of how to rearrange the networks to both mitigate the impact of those milestones, but also in terms of assessing the intent from the EU regulators. A key part of the problem is that it appears that there is a difference of understanding between the regulators and the carriers. And in the absence of any clear legal precedents, this creates a problem for the carriers. They might be able to continue to operate as-is, and they might not. The question then becomes: How much legal exposure are they willing to risk when designing new networks and vessel-sharing agreements? This is presently very difficult to predict with any degree of certainty, especially if there is a gap in the interpretation of the rules between regulators and carriers. Mind you, the regulators are not necessarily the arbiters of truth in this matter if there is not a clear legal precedent.

By extension, this also makes it difficult to predict how many of the networks will look beyond April 2024. Will there be backbone networks serving all the major ports? Clearly yes. Is it crystal clear who will collaborate, who will offer direct services versus transshipment services, as well as what transit times and port rotations will be? Not really.

Planning for the unexpected

The third element is trying to forecast the potential for major shocks to the baseline forecast. This could, for example, be an assessment of the risk of another temporary closure of the Suez Canal owing to a spillover from the present war in Gaza. Or an escalation in other vital maritime waters prone to geopolitical strife such as the Strait of Hormuz or the South China Sea. Or a worsening climate impact on, for example, water levels in the Panama Canal. Or a cyberattack that shuts down key ports or major carriers.

These are merely the tip of the iceberg in terms of low-probability, high-impact events. For most of the shippers, it would be futile to make detailed plans for all these eventualities. Instead, it would be a matter of looking back at the lessons learned in 2020-21 and having the ability to adapt to such events should they occur.

Contact Lars Jensen at lars.jensen@vespucci-maritime.com.