

## Green rules, tighter capacity make case for 2024 rate boost: Hapag-Lloyd CEO



*The start of the IMO's carbon index for shipping will take older ships out of fleets and reduce vessel speeds, according to Hapag-Lloyd's CEO. Photo Credit: Thorsten Schier / Shutterstock.com*

Michael Angell, Associate Editor | Dec 7, 2023, 3:30 PM EST

Ocean freight rates will need to rise 25% in 2024 to cover higher operating costs for carriers and new carbon emissions fees on the shipping industry, the chief executive of Hapag-Lloyd said Thursday.

Rolf Habben Jansen, during a company webinar, also said that a glut of new ships in the global fleet could be absorbed quickly due to container services being diverted from the drought-hit Panama Canal and the need to scrap older vessels due to a new ranking system that will require shipowners to boost the fuel efficiency of their fleets.

Habben Jansen said there's more potential for rates to rise from their current four-year lows due to import demand holding up better than expected and the lack of

available ship capacity in the market.

Citing Container Trade Statistics (CTS) data showing that container volumes through the first nine months of 2023 are only slightly below the same level as last year, he said space on ships is tight, forcing some cargo to be delayed at origin. Moreover, ocean carriers do not have more ships to readily deploy with idled vessels only representing about 1% of global ship capacity.

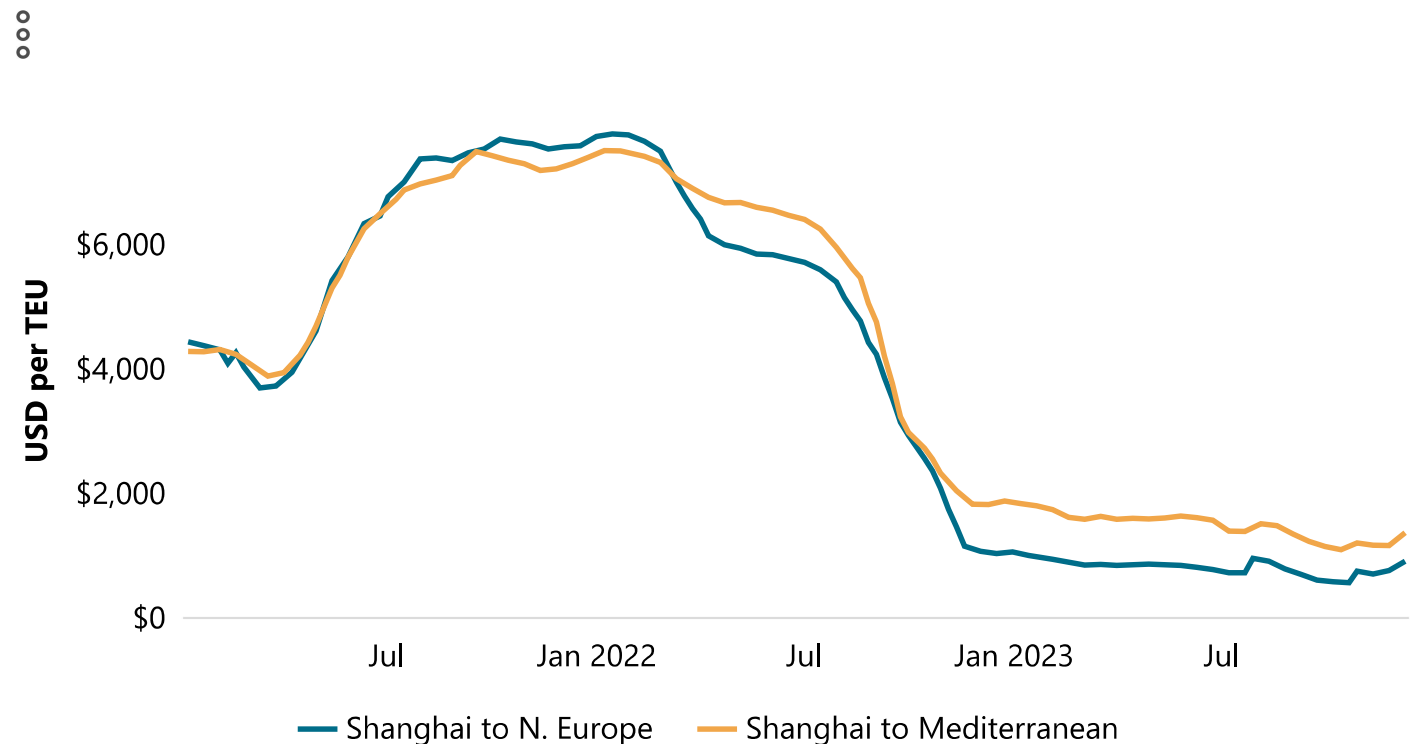
“Market utilization is high as reported by most carriers, which means the ships are full,” Habben Jansen said. “There are also reports out there of boxes being rolled.”

“Most of the talk was about a big gap between supply and demand, but I don’t see that,” he added. “Demand in the second half of 2023 is in line with what we expected earlier, more or less at 2022 levels.”

With demand flat for ocean freight, shippers have been able to get rates back down to levels last seen around 2018 and 2019, Habben Jansen said. The Shanghai Containerized Freight Index’s (SCFI's) global composite freight rate for December is sitting at a four-year low of \$1,000 per TEU, he noted.

### Asia-to-Europe spot shipping rates are mired at 2019 lows

Shanghai Containerized Freight Index average spot rates from Asia to European destinations



Source: Shanghai Shipping Exchange

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However, Habben Jansen said that rate level “is definitely not sustainable” because of higher costs for seafarers, terminals and ship charterers. Shippers will have to bear higher fuel costs next year, with Hapag-Lloyd adding surcharges ranging between \$237 and \$446 per TEU on Asia-US trades and \$289 to \$321 per TEU on Asia-Europe trades starting next year.

Shippers, of course, also face the start of the European Union’s emissions trading system (ETS) next year. Aimed at putting a price on the carbon emissions of shipping to and from European ports, Hapag-Lloyd will tack on an additional \$14 to \$131 per TEU depending on the container type and the port pair.

Given the higher costs, “I do think that there is good reason to believe that rates will land somewhere between 25% and 30% above what we [saw] in 2018 and 2019,” he said.

Rates below breakeven “will not last very long,” Habben Jansen added. “There are some indications that the market has bottomed out and short-term rates will come up.”

## New IMO rules, Panama drought to eat capacity

For 2024, Habben Jansen said that container shipping demand will return to its typical single-digit growth rate, with his outlook being 3% to 4% growth next year.

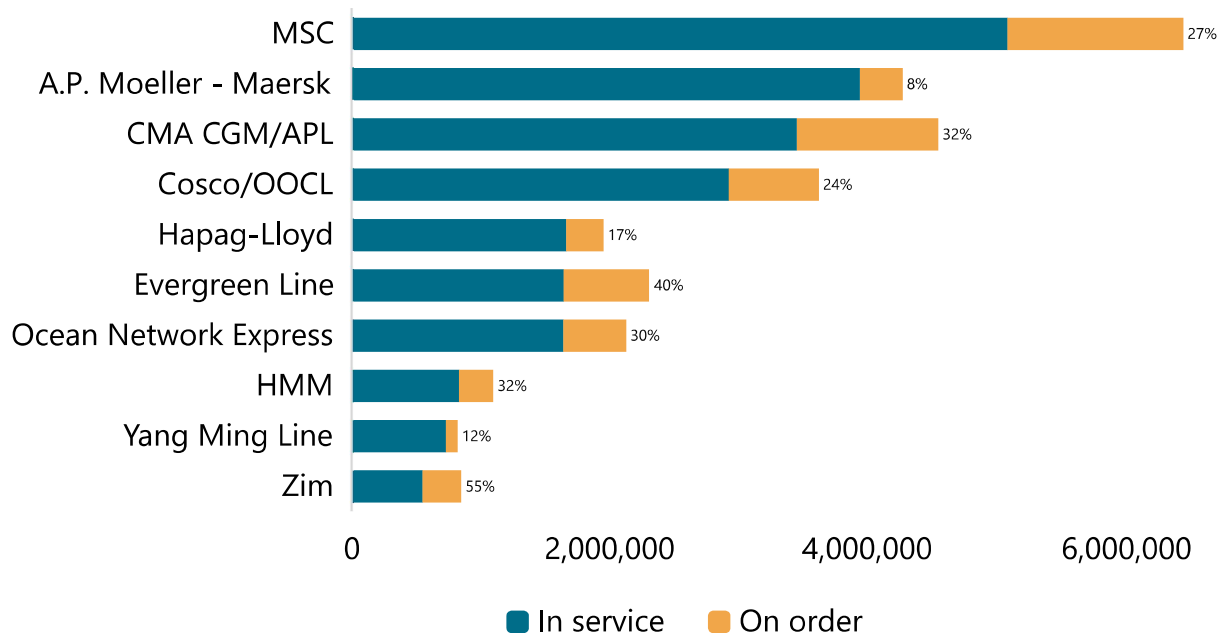
New ships coming into service next year will likely lead to periods of oversupply in the short term, with order book data showing 2.9 million TEUs of new capacity coming into the global fleet. However, other factors will help absorb the new capacity.

Habben Jansen said the International Maritime Organization’s (IMO’s) Carbon Intensity Index (CII) for ships, which will go into effect next year, will force the scrapping of older ships that do not meet the increasingly stringent standards for reducing their carbon dioxide output.

Vessel speeds will also be reduced to meet the CII thresholds, which will also require more ships be put in weekly services to maintain schedules, Habben Jansen said, adding that some vessel deliveries will also likely be deferred.

## Hapag-Lloyd's orderbook is smaller relative to many other carriers

Top 10 carriers' container ship fleet and newbuild capacity on order, in TEUs, with percentage of capacity on order to existing fleet



Source: S&P Global

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“There are quite a lot of ships coming, but we do expect to see some recovery of demand,” he said. “Scrapping, order slippage and CII rules will require people to deploy more capacity. So the market will be a bit more balanced as inventories are declining and return back to normal levels.”

The ongoing drought limiting ship transits through the Panama Canal will also play a role in absorbing new supply.

Hapag-Lloyd and its THE Alliance partners recently rerouted three services from Asia to the US through the Suez Canal due to the draft and transit restrictions on the Panama Canal. Habben Jansen said each of these services will need one or two more ships to keep their current schedules on the longer sea route through the Suez.

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