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'Highest bidder' winning on Asia-Europe ocean trade as space, equipment shortages deepen

Terminal congestion in Mediterranean and Asian ports are disrupting vessel schedules on the westbound headhaul trade lane. Photo credit: Maersk.

Greg Knowler, Senior Editor Europe | Jun 4, 2024, 10:58 AM EDT

Shipping conditions on the headhaul Asia-Europe ocean trade are deteriorating, with space on ships in short supply and rates closing in on pandemic-level pricing, lifted by high vessel utilization, deepening port congestion and shortages in both capacity and equipment.

Asia-Europe was back at "highest bidder time" similar to the pandemic years, according to Marc Meier, managing director for air and sea for Europe, Middle East and Africa at German forwarder Dachser.

While shippers face declining service levels, the soaring rates will lead to a dramatic improvement in carrier fortunes this year if Maersk's revised financial guidance for

2024 is any indication. The carrier now expects full-year earnings before interest, taxes, depreciation and amortization (EBITDA) of $7 billion to $9 billion, a $3 billion jump from prior guidance of $4 billion to $6 billion.

Maersk warned in a customer advisory this week that port congestion — a major contributing factor to its growing profitability — would continue to heavily disrupt the Asia-Europe trade.

“Due to significant terminal congestions in Mediterranean and Asian ports, we are experiencing substantial delays in our vessel schedules,” the carrier noted. “This congestion has resulted in extended waiting times at various ports, impacting our ability to maintain regular schedules.”

Singapore’s Maritime and Port Authority (MPA) last week said the congestion there is the culmination of months of disruption as carriers curtail or blank services, discharging cargo in the hub and other ports because vessel diversions around southern Africa mean they no longer call at Middle East or Red Sea ports.

Growing frustration

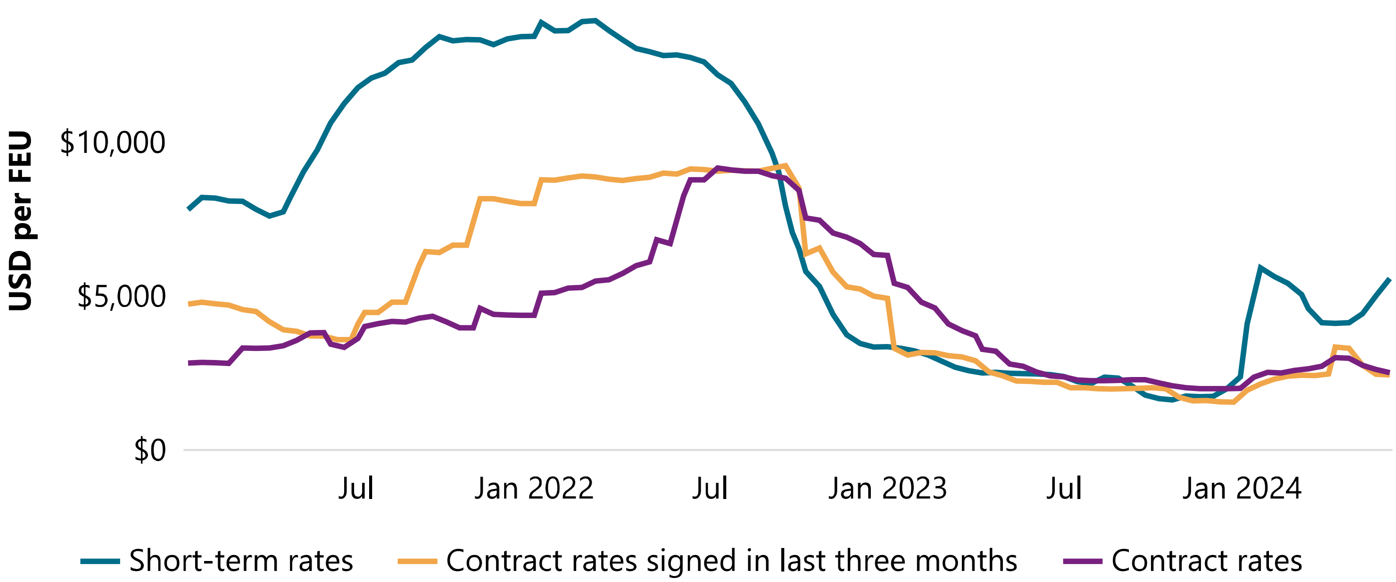
The steady rise in rates and the opportunistic behavior of carriers is causing growing frustration among cargo owners as they struggle to find both equipment and space on ships leaving Asia. Even having cargo under contract does not guarantee loading.

“It’s getting worse,” was how the logistics director for a large European importer described the market.

“The carriers start with huge cuts then offer high rates of over $8,000 per FEU to get the allocation back, and if you don’t react fast enough it is followed by immediate cancellations that force you to reallocate orders to other liners or go to the spot market,” the source told the *Journal of Commerce*.

Cargo owners holding contracts with carriers that were signed in the past three months would have secured the deals at approximately $2,000 per FEU on Asia-North Europe and about $2,500 per FEU on Asia-Mediterranean, according to data from rate benchmarking platform Xeneta.

Asia to Mediterranean short term rates soar above contract prices
Average Asia–Mediterranean container freight rates, under short-term contracts of 32 days or less and long-term contracts of 88 days or more signed in the previous three months, in USD per FEU



Source: Xeneta

1M 6M 1Y YTD MAX

Related data for this chart
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But with average spot market prices now well over $6,000 per FEU on some rate indices, forwarders are reporting carriers only honoring their most strategic accounts, with other agreed allocations not being met and many beneficial cargo owner (BCO) contracts being canceled altogether.

"We have some strategic agreements that are still intact, however not close to the capacity that we need," Meier told the *Journal of Commerce*, adding that the forwarder was fully booked through July.

'War between shippers and carriers'

The head of ocean business for a Europe-based forwarder said some shippers had firm allocations with penalties levied for not filling weekly volume, for no shows or for cargo rollovers, and carriers were sticking to those contracts. But many shippers had loose agreements and the carriers were, in return, "loose" in supporting those contracts.

"If a contract rate was signed at $2,000 per FEU and it is now $6,000, the carriers will look for any reason to not honor the deal, such as volume not arriving as agreed over the past three months, or cargo not showing up at all, or the shipper waiting until the last minute to sign a contract," the forwarder said.

"Make no mistake — there is a war between shippers and carriers, with shippers dreaming of three-digit rates and carriers taking revenge when demand shifts," the source added.

An Asia-Europe trade executive for a global forwarder said holding a key account with a carrier helped in the current situation when the spot market rose far above the long-term rates.

"Yes, it's a matter of rate, as always, but also a matter of the agreement or contract that you have and the mix of cargo you are giving the carrier," the source told the *Journal of Commerce*. "Some of the allocations will be honored but the volume is being limited by the carriers."

But Hapag-Lloyd CEO Rolf Habben Jansen insisted in an interview with the *Journal of Commerce* this week that "almost" all contracts were being honored.

"We give people the allocations that they have signed up for, and that goes for both BCOs or [non-vessel operating common carriers]," he said.

Habben Jansen blamed the mounting pressure on available space on ships out of Asia on shippers using all their contracted allocations, which "was not normally the case."

"That means the amount of space that's available for short-term cargo is low and people still want to ship their cargo, so that drives up the rates," he said. "As soon as market demand gets a little bit weaker, we most likely will see less than 100% contract compliance and that will free up space for short-term cargo and have an effect on rates."

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