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# Scrapping, slow steaming, demand will limit capacity overhang: Clerc

*Capacity totaling 2.5 million TEUs has been delivered so far this year, while just 75,998 TEUs of vessel capacity has been scrapped, according to data from S&P Global. Photo credit: Katiekk / Shutterstock.com.*

**Greg Knowler, Senior Editor Europe | Nov 4, 2024, 12:06 PM EST**

Ocean carriers are on track to nearly double profit levels this year, and despite a wide supply-demand imbalance through 2025, there are increasing signs that excess capacity fears have been overblown, according to Maersk CEO Vincent Clerc.

Carriers will sail into 2025 facing capacity growth of 9% against volume growth of approximately 3%, according to data from *Journal of Commerce* parent S&P Global. A similar supply-demand imbalance existed late last year, and carriers were expecting the excess capacity to have a devastating impact on rate levels until the Red Sea diversions absorbed surplus supply, while strong demand filled all available ships at highly elevated rate levels.

Data from shipping association BIMCO has forecast cargo volume this year will grow between 4% and 5% against a 16% growth in capacity.

Even if the traditional shorter route via the Suez Canal is again viable in 2025 and all the absorbed capacity is released back into the market, the supply-demand imbalance will not be as dire as expected, according to the Maersk executive.

In a third-quarter earnings call with analysts last week, Clerc outlined a series of factors that are bending the capacity curve back in favor of the carriers and will lead to an improved supply-demand balance next year despite the large capacity overhang.

“Demand is significantly stronger, so unless you expect that to reverse and go to negative growth, the whole base has also moved,” he said. “The fact that there is no sign of an inventory correction or a sharp decrease around the corner is maybe more optimistic than it was a year ago.”

With ocean networks now all sailing at full speed, Clerc said significant cost, fuel consumption and environmental benefits would come from slowing down vessels. And that, he added, would have the extra benefit of absorbing large amounts of capacity should the Red Sea and Gulf of Aden be deemed safe for shipping.

## ‘Virtually no scrapping’ for past five years

Another factor that would permanently remove capacity from the market was increased vessel scrapping.

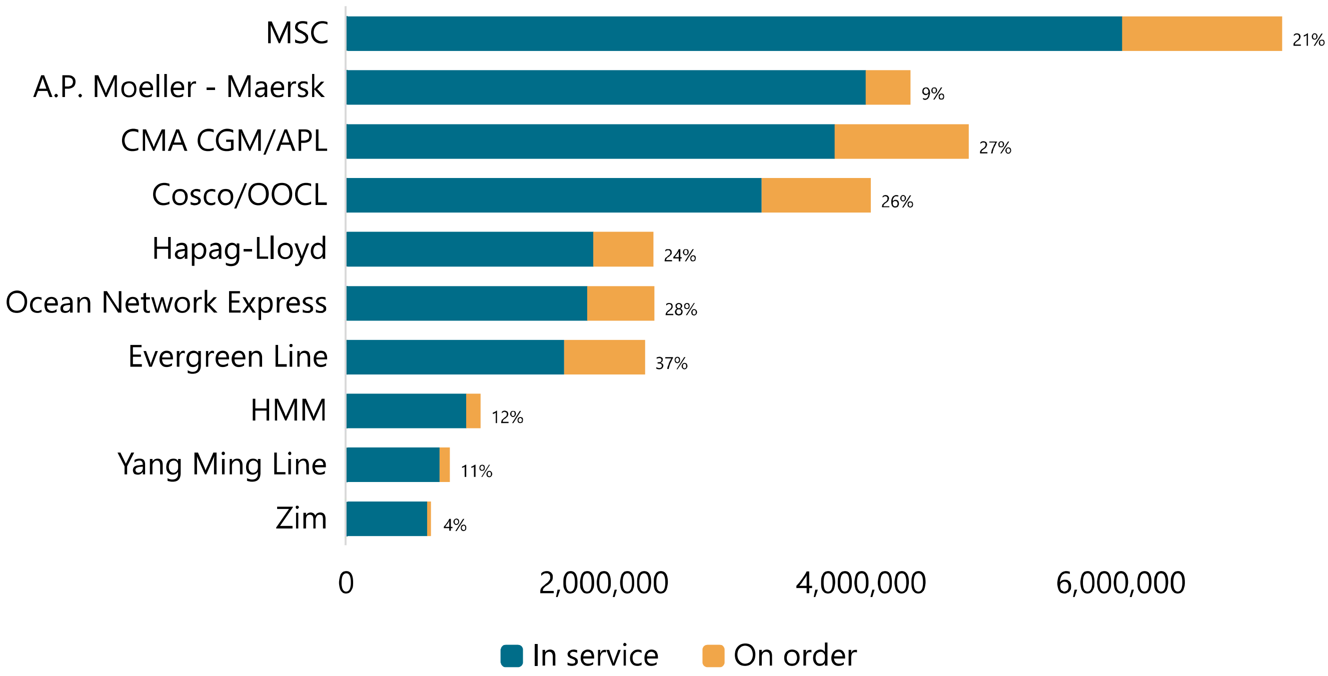
“There has been virtually no scrapping for the last five years and there are a lot of ships that are either at, or nearing, their end of life and are only hanging on because of the incredibly high freight rates that we have seen,” Clerc noted.

“At these rates, any ship can make money, but they are not competitive and as [market rates] start to correct, we’re going to see about 2% to 3% of capacity being scrapped every year, and that will significantly subtract from what is coming in the year ahead,” he added.

Capacity totaling 2.5 million TEUs has been delivered so far this year, while just 75,998 TEUs of vessel capacity has been scrapped, according to data from S&P Global. The average scrapping rate fell to 0.4% of the fleet per year from 2020 to 2024, compared with 1.6% in the 2014–2019 period, as Red Sea diversions extended voyage times and strong demand on the main Asian export trades combined to fill all available capacity.

**Orderbook extends to almost 30 percent of in-service fleet**

Top 10 carriers' global existing fleet and capacity on order




Source: Sea-Web, S&P Global



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"[Maersk] highlighted that supply discipline in the form of slow steaming, blanked sailings and scrapping could emerge once the market returns to a normal level of profitability, as slack capacity in the industry is very low," Parash Jain, HSBC's global head of transport and logistics research, wrote in a market report on A.P. Moller-Maersk last week.

According to Alphaliner, the top 10 container lines operate 683 vessels aged 20 years or older, representing capacity of more than 2.6 million TEUs. Assuming 25 years as the normal commercial lifespan of a sea-going vessel, the analyst said the top 10 operators could use 44% of their combined order book just to replace the oldest ships in service rather than for growth.

Mediterranean Shipping Co. has an order book almost the size of Hapag-Lloyd's in-service fleet at 2 million TEUs, but Alphaliner said 60% of the capacity on order could be used to replace aging vessels.

“The Geneva-based carrier still operates 315 ships which were built in or before 2004 … many of these vessels will become candidates for demolition in the coming years when the newbuildings hit the water,” the analyst noted.

Another issue absorbing ocean capacity, over and above the Red Sea diversions, was worsening delays at ports in Asia and Europe, according to Sea-Intelligence Maritime Analysis. The analyst noted in its Sunday Spotlight newsletter that capacity absorption has steadily increased since hitting a low point in the summer of 2023.

“This is problematic in itself, as it implies the root cause might go deeper than just the Red Sea crisis,” Sea-Intelligence wrote. “Of course, the Red Sea crisis is an important element currently, but the worsening of conditions began before the crisis started in the Red Sea.”

Maritime consultancy Drewry estimates container shipping will report a profit of $50 billion this year, up from $28 billion in 2023. And while it is a fraction of the $298 billion recorded in 2022, the carriers will enter an uncertain 2025 in robust financial health.

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