S&P Journal of Commerce

Ocean carriers' ever-tightening grip on capacity control shows no signs of loosening

The view that a certain category of shipper has had enough of blank sailings and poor reliability is behind the Maersk/Hapag-Lloyd Gemini Cooperation tie-up and its promise of 90%-plus reliability. Photo credit: MartinLueke / Shutterstock.com.

Peter Tirschwell | Feb 19, 2025, 7:50 AM EST

The past 25 years of container shipping since the launch of TPM have seen service quality and cost becoming progressively more negative for customers. The reason is this: a slowly building but accelerating assault on capacity, originating both from outside the industry and from within.

Journal of Commerce Analysis

In those early days, capacity was assumed — external shocks were minor and infrequent, and carriers took it as a given that they would provide capacity into a highly fragmented and competitive market, as that is what shippers demanded.

Even then the advantages in capacity limitation were well understood by carriers, even if they could do little to take advantage of it. In the first TPM keynote speech in 2001, then-APL CEO Flemming Jacobs lamented the inability of carriers, in those pre-alliance days, to adjust capacity on a short-term basis. "Flexibility to withdraw ships and services in response particularly to temporary changes [in demand] is limited," Jacobs told attendees.

That reflected carriers' deeply entrenched assumption of capacity provision.

Until the financial crisis of 2008–09, carriers were operating ships at 22 or 23 knots, essentially racing by today's standards. It was inconceivable they would ever slow their fleets down, effectively pulling capacity. The financial crisis and resulting carrier losses triggered a change of heart, with speeds being ratcheted down in coordinated actions to 18 to 19 knots, and only lower since then.

Similarly, until just a few years before COVID-19, many carriers were loath to blank sailings, believing — correctly — that it would adversely affect their customers' supply chains. Now blank sailings and their negative impact on capacity and service are a fact of life.

Carriers' commitment to capacity took more subtle forms as well. In the decades after 2000, carriers' marching orders to those negotiating with US West Coast dockworkers was to keep the ports open and fluid, said former Pacific Maritime Association head Joseph Miniace.

Yet after COVID-19 and the mass withdrawal of capacity due to port congestion that led directly to record rates and profits, the views of carriers changed. Some were unbothered by severe Asia port congestion last year, seeing benefits in the negative capacity impact. This year, they seemed resigned to a strike on the US East Coast, believing they did everything they could to avoid it.

Shippers early on saw the emerging threat to capacity. After US container imports grew 9% on average between 2002 and 2007, prompting early bouts of West Coast congestion, shippers realized capacity was limited. In 2005, beneficial cargo owners (BCOs) including Target, Nike, Macy's and Johnson & Johnson sought to raise the alarm in Washington, an effort led by then-APL CEO Ron Widdows.

"Twenty years ago, we began to see symptoms that indicated that without considerable changes in transport infrastructure, we were headed to a bad place," Widdows told the *Journal of Commerce* recently.

External shocks, internal threats

The assault on capacity has been most forceful from outside the industry. External shocks resulting in massive capacity withdrawals have come from multiple directions: public health crises (COVID-19), geopolitics (Red Sea) and climate change (Panama Canal). The impact of nationalism (trade wars) could well be coming.

But the assault is coming from within the industry as well, taking the form of a gradual acceptance by carriers, made easier by consolidation, that their ability to earn profits depends on capacity withdrawals that run contrary to the interests of their customers. This includes actions they themselves take, such as blank sailings, but also takes the form of growing port congestion due to ships chronically arriving off schedule and capacity expansion struggling to keep up with demand growth.

Following recent suggestions by Maersk that scrapping, returning chartered tonnage to owners and further slow steaming are tools at its disposal, investment analysts have taken notice. JP Morgan on Feb. 7 noted the positive financial impact of capacity withdrawals due to carriers "being able to take decisions to take capacity out given idle and scrap rates remain well below pre-pandemic averages while new environmental regulations in 2026 will likely drive increasing slow steaming."

The view that a certain category of shipper has had enough of blank sailings and poor reliability overall is behind the Maersk/Hapag-Lloyd Gemini Cooperation tie-up and its promise of 90%-plus reliability versus the current global average of 54% as of December, according to Sea-Intelligence Maritime Analysis.

But the potential that carriers have landed on the right side of capacity long term — despite investing billions in new tonnage in recent years — has even more serious consequences for customers going forward.

The reason is energy transition. International maritime regulators committed in 2023 to eliminating greenhouse gas (GHG) emissions from shipping by or around 2050 and will likely implement that by agreeing to binding regulations, including a mandate on carriers to transition to alternative fuels.

“There is a very strong likelihood based on broad agreement that there will be a GHG intensity standard agreed at the [International Maritime Organization], to be implemented in 2028 and becoming progressively more stringent through 2050,” Bryan Wood-Thomas, the World Shipping Council’s vice president for environmental policy, told the *Journal of Commerce.*

Viewed through a lens of capacity being assumed and abundant — in other words, the long-ago status quo — that would be a problem for carriers that have historically struggled to pass along even fuel surcharges to shippers at times of abundant capacity.

But in a market of constant capacity constraint whether due to external or artificial means, the idea of passing along higher alternative fuel costs to customers becomes an increasingly more realistic scenario for carriers.

That alone takes the challenges facing shippers to an entirely new level.

Contact Peter Tirschwell at peter.tirschwell@spglobal.com.