A SPECIAL SUPPLEMENT TO
Logistics MANAGEMENT

SPECIAL REPORT:
Top 30 Ocean Carriers

TOP 30 Turn up the volume

Now that pricing has been restored and capacity restrained, the leading vessel operators are staging a comeback. What lessons have they learned from the recent recession and dismal earning cycles? Here's what the top analysts are saying.

By Patrick Burnson, Executive Editor

Special Report: Top 30 Ocean Carriers

In the school of hard knocks, the tough will survive. Those who prevail, however, are the ones who hit back harder. That's what shippers should be expecting from the Top 30 ocean carriers this year; and analysts are warning shippers that when it comes to contracting in 2011, the gloves are off.

Shippers saw evidence of this on October 1, when Mediterranean Shipping Co. (MSC) began increasing freight rates on its services between North America and Europe and the Mediterranean. The Geneva-based carrier, the second largest container shipping line, says that the general rate increases are necessary "to preserve the existing comprehensive range of services" and "to advance freight rates towards a sustainable level."

This blow was delivered just after MSC imposed a peak season surcharge on all shipments from the Far East to the U.S. East and West Coasts. However, MSC was hardly alone in making this move. Maersk Line—the largest carrier of U.S. imports—had warned shippers in mid-summer that it was going to impose a similar surcharge to ensure space in the Asia-U.S. trade lanes.

What Peak Season?

While it may appear to shippers that there's less space aboard ocean vessels, it's not necessarily the case, say analysts at Alphaliner, a Paris-based ocean cargo consultancy. They note in a recent report that capacity has simply been moved from one trade lane to another as demand dictates.

During the first six months of 2010, the active containership volume had risen by 15.3 percent, jumping from 11.5 million twenty-foot equivalent units (TEU) on January 1 to 13.32 million TEU at the end of June.

The 178 million TEU increase includes new ship deliveries (0.74 million TEU) and the reactivation of idle ships (1.16 million TEU), while 0.12 million TEU of cellular capacity was removed through scrapping and conversions. The total cellular fleet (active and idle) has reached 13.67 million TEU, up from 13.06 million TEU at the beginning of January.

Despite the influx of new buildings, the idle capacity dropped from 1.51 million TEU at January 1 to 0.35 million TEU at the end June. According to Alphaliner analysts, this was largely due to the higher-than-expected recovery in demand in the first half of the year and to the impact of "extra slow steaming," which has absorbed an additional

Top 30 Ocean Carriers

(Operated fleets as per August 10, 2010)

Rank	Operator	Teu*	Share (%)
1	APM-Maersk	2,098,945	14.6
2	Mediterranean Shg Co	1,726,269	12.0
3	CMA CGM Group	1,136,112	7.9
4	Evergreen Line	615,295	4.3
5	Hapag-Lloyd	603,447	4.2
6	APL	598,134	4.2
7	CSAV Group	534,760	3.7
8	COSCO Container L.	530,859	3.7
9	CSCL	464,384	3.2
10	Hanjin Shipping	404,141	2.8
11	MOL	381,662	2.7
12	NYK	369,351	2.6
13	Hamburg Süd Group	358,709	2.5
14	OOCL	349,180	2.4
15	K Line	318,409	2.2
16	Yang Ming Marine Transport Corp.	315,798	2.2
17	Zim	310,306	2.2
18	Hyundai M.M.	282,272	2.0
19	PIL (Pacific Int. Line)	250,284	1.7
20	UASC	207,806	1.4
21	Wan Hai Lines	179,776	1.3
22	HDS Lines	99,617	0.7
23	MISC Berhad	80,268	0.6
24	TS Lines	76,641	0.5
25	Sea Consortium	58,619	0.4
26	CCNI	55,857	0.4
27	RCL (Regional Container L.)	53,411	0.4
28	Grimaldi (Napoli)	52,459	0.4
29	KMTC	48,219	0.3
30	SITC	37,453	0.3

*Twenty-foot equivalent units
Based on existing fleet and orderbook TEU capacity available on board operating ships. All figures are consolidated.
Source: Alphaliner

0.32 million TEU in six months.

"The pace of scrapping has slowed down considerably since last year's highs," says Alphaliner analyst Stephen Fletcher. The number of container vessels scrapped in the first six months of this year has reached 111,000 TEU. He adds that another 8,500 TEU were removed through conversions of cellular ships into other ship types (bulk carriers and sheep carriers).

"All major carriers saw their active capacity increase in the last six months," states Fletcher. "NYK was the only carrier in the Top 30 to have recorded a decrease in active capacity as it embarks on its new strategy of reducing its exposure to the liner trades."

While shippers may be heartened to hear that fewer ocean cargo vessels are being scrapped, and newbuildings are ramping up, some analysts are beginning to doubt if demand will sustain growth. The good news released recently by Alphaliner about more carrier activity had been countered by Drewry Shipping Consultant's latest Container Forecaster, which posits the idea that an inbound "Peak Season" may fail to materialize.

"By no means do we see a precipitous fall, but there will be an impact," says Neil Dekker, editor of the quarterly *Container Forecaster*. "The danger of a weaker recovery has been concealed by the fact that ocean carriers believe they have entered a real recovery phase."

Furthermore, warns Dekker, there is every possibility that utilization factors will decline, "which in turn will have a knock-on effect on freight rates."

Outbound incentives

With the Obama Administration putting new emphasis on exports, carriers serving the Transpacific westbound lanes may have a different story to tell. According to Michael Gargaro, senior vice president for ocean freight at cargo consolidator Agility Logistics, carriers are not moving fast enough to accommodate a surge in outbound freight this autumn.

"Capacity shortfalls will continue into 2011," says Gargaro, adding that he directs these comments towards agricultural shippers doing business in Asia. He warns them that this trend will continue as long as carriers deploy capacity based on higher-valued eastbound vessel strings.

Top performing ocean carriers according to AgTC members:

1	APL
2	Hamburg Sud
3	OOCL
4	Hapag-Lloyd
5	Evergreen
6	Yang Ming
7	Maersk
8	K-Line
9	MOL
10	U.S. Lines

Source: Agriculture Transportation Coalition (AgTC) Annual Survey

Meanwhile, the removal of the limited ocean carrier anti-trust immunity seems to be gaining support, says the National Industrial Transportation League's ocean cargo committee chair, Michael Berzon. "At the NITL's Washington Freight Transportation Policy Forum, Congressman Jim Oberstar (D-Minn.), chairman of the U.S. House of Representatives' Transportation and Infrastructure Committee announced that in response to practices by ocean liner carriers serving the U.S. trades, he would propose legislation ending the limited anti-trust immunity that remains in effect," he says.

Currently, says Berzon, it permits the ocean carriers in the U.S. trades to join in discussion agreements where they can compare notes on rates and capacity issues. "If enacted, the end of the limited anti-trust immunity would follow the action taken by European regulators. Since the elimination of the EU Block Exemption, it prohibits consultation by groups of carriers to discuss rates in the European trades," he says.

New players?

Meanwhile, other shippers may be wondering if the barrier to entry for new ocean vessel operators has been lowered. If so, a "no frills" carrier plying the transpacific may lead the way.

Introduced last April, The Containership Co. (TCC) began a "no-frills" service from China to Los Angeles, competing directly with the Top 30 carriers operating in the transpacific. With weekly sailings from Taicang, 40 miles downriver from Shanghai, the bold new company hopes to capture market share by using economies of scale.

For example, by moving boxes by barge rather than truck, TCC can skirt hauling expenses on the outbound side. Once the containers are loaded on to its fleet of five chartered 2,800 TEU vessels, the deployment is point-to-point.

"We don't care to get involved with the inland movement of goods," says TCC chief operating officer Franck Kayser. "Our model is very simple. As a non-asset-based carrier we can charge a fixed price based on a fixed volume commitment. Our customers are the NVOs (non-vessel operators) and BCOs (beneficial cargo owners), so it's a more flexible and agile business model."

So far it's yielding mixed results. TCC's "Great Dragon Service," that operates as a charter with a customer base of about 55, reported a $3 million net loss on $21.2 million in revenue during the first half of its first year in business. Kayser says that TCC still has plenty of cash to carry on; however, he notes that they've added a second route from Ninbo to Los Angeles. "And we have room to grow beyond that," Kayser adds.

Next year may also be the year foreign-flagged vessels will be able to penetrate the domestic market, say analysts. In a move that was widely embraced by U.S. shippers, Sen. John McCain (R-Ariz.) recently introduced legislation again to fully repeal the Jones Act of 1920. This is the law that restricts domestic waterborne transportation to U.S.-built, flagged, and owned ships crewed by Americans.

"The free market economist in me says that this is an idea whose time has come," says Rosalyn Wilson, author of the annual "State of Logistics" report and blogger for sister publication *Supply Chain Management Review*. "Protectionism rarely produces the optimum economic outcome."

She maintains that there is a valid argument for a phased "sunsetting" of the Act to enable our Merchant Marine to restructure and become more competitive. "For instance, relaxing the U.S.-built requirement would enable carriers to purchase ships on the worldwide market, dramatically lowering costs for new vessels," Wilson adds.

Wilson notes that the U.S. went through similar stages with the deregulation of the trucking and rail industry in the 1980s. "We increasingly rely on foreign economies for our goods, and U.S. companies have shown that they can adapt and compete profitably in the global marketplace," says Wilson. "I believe our merchant marine industry could do the same." □

Ag shippers rank carriers

For the past four years, the Agriculture Transportation Coalition (AgTC) has been asking its members to rank ocean carrier's performance in its national survey. The full list of ocean carriers was recently released, together with the complete rankings from the three previous years' survey findings at AgTC's 23rd Annual Conference in San Francisco last June.

"This provides a useful overview of agriculture shippers' view of carrier performance over an extended period," says AgTC executive director Peter Friedmann.

The objective of the AgTC Ocean Carrier Performance Survey is to recognize those carriers that consistently perform well and to "incent" the others to focus their company, personnel, and resources on improvement.

The AgTC has each year extended an invitation to carriers to work with its members to address documentation and other performance practices in order to enhance the shipper-carrier relationship.

"A demonstration of the positive potential of the survey has been the effort of Maersk to address documentation issues," says Friedmann. "Maersk met with agricultural shippers at the AgTC Mid-Year Conference and established a documentation initiative. The carrier heard directly from the AgTC members and discussed the specific documentation metrics required for the shipper to perform under their contracts to their foreign customers," Friedmann adds. As a result, Maersk accepted the invitation to work directly with individual AgTC shippers to improve the documentation function.

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CEO, The Containership Co.