

# The Container Market, October 2011

## Liners: “Quo Vadis?”

Where is the liner industry going? How is it possible at a time when operating losses pile up due to overcapacity that liner operators continue to place orders for mega-ships, thus entrenching overcapacity for years to come? Industry outsiders do not see the rationale of such actions, as was the case of Turkish investor into CMA CGM, Robert Yildirim, who stepped up in October to block the company’s planned splurge into newbuilding markets for another 20 x 10,000 TEU vessels. And yet liner companies maintain a different perspective. As we go to print, Yang Ming’s management is seeking board approval for 5 x 16,000 TEU newbuildings. This announcement came only days after the company reported deepening losses in 2011Q3.

Why do companies stress their balance sheet at a time of weakening markets? Part of the blame lies with the market leader, Maersk, which earlier this year raised the stakes by ordering 20 x 18,000 TEU behemoths to capitalize on economies of scale and fuel efficiency of larger ships, and later upped the ante by expressing “surprise” that companies with less than 3% market share ventured into ordering 13,000 TEU ships and over. In other words, only 8 companies, including Maersk, should be able to compete in the Asia-Europe lanes where mega-ships exclusively trade. If that were indeed the intention of Maersk, its plan was poorly timed and backfired. Asia-Europe proved to be the most lucrative market last year when profitability reached record-highs, so there is no surprise that all operators will defend current and future market share at all costs.

An analysis of today’s orderbook implies that the addition of 10,000+ TEU super-ships alone will extend weekly-capacity deployed today in the Asia-Europe lanes by an average 14% annual clip through 2015, before allowing for the cascading of smaller tonnage to other routes. Even under the most generous conditions, assuming aggressive cascade-down, withdrawals and increased vessel-idleness, this route is likely to underperform other markets in the foreseeable future. With one-third of Maersk’s fleet deployed in the

Asia-Europe lane, the repercussions for the company's shareholders could soon become apparent.

Maersk is one of several liner operators reporting deepening operating losses in 2011Q3. Most named overcapacity as the number one culprit leading to lower margins. And yet, carriers are reluctant to withdraw capacity from Asia-Europe lanes, which have become the worst-performing market sector. According to Alphaliner figures, operating capacity was lowered by 14% in the Transpacific during the period stretching from the start of July to the end of October, while a mere 4% was withdrawn from the Asia-Europe trades during the same time-frame.

Asia-Europe has become the theater for a market-share battle and a relentless price war. Despite mounting losses for all involved and a worsening European outlook it is now a case of who will blink first.