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## PIL's break from VSAs complicates Asia-ECSA trade

Rob Ward, Brazil Special Correspondent | Feb 07, 2018 11:00AM EST

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In Santos, the new PIL service will call at the Santos Brasil terminal. Photo credit: Shutterstock.

[Pacific International Lines](https://www.joc.com/maritime-news/container-lines/pacific-international-lines) (<https://www.joc.com/maritime-news/container-lines/pacific-international-lines>) (PIL) has broken rank from the three large vessel sharing agreements (VSAs) that currently share the Asia to East Coast of South America (ECSA) trade lane and is introducing a new fortnightly container service.

What's more, it is a move that some regard as "possibly reckless," but which one expert believes is part of a complicated game of chess that will continue until new configurations are made, following China regulators' diktat that [Maersk Line](#) (<http://www.joc.com/maritime-news/container-lines/maersk-line>) should reduce its participation in the trade lane, now that it has purchased [Hamburg Sud](#) (<https://www.joc.com/maritime-news/container-lines/hamburg-sud>).

In Santos, the new PIL service will call at the Santos Brasil terminal, which bested opposition from Ecoporto and Libra Terminais to win the business. Marcos Tourinho, the commercial director for Santos Brasil, the biggest container terminal operator in South America, said that PIL will bring an "an extra 40,000 TEU per year to our terminal."

The main goods shipped from China to Brazil are electronic goods, toys, consumer goods, machinery and components.

PIL has confirmed to JOC.com that the port rotation for the new service, which will have a 34-day transit time, will be: Shanghai, Ningbo, Shekou, Singapore, Rio de Janeiro, Santos, Paranaguá Navegantes, Singapore, Hong Kong, Shanghai.

The first vessel is now steaming from China toward Brazil, via Singapore, and, at least in the short term, Singaporean-headquartered PIL will remain a slot charterer in the Multicarrer Loop 1 VSA operated by CMA CGM, Cosco, Evergreen and Yang Ming. This is the first time PIL has operated ships on this trade lane since October 2015 — at the height of the "capacity cull" that saw a 30 percent slashing of slots in the trade lane; VSAs also fell from seven to just three, at that time, which enabled carriers to return to profitability.

Moreover, rates had fallen to \$100 per FEU, as a result of the overcapacity. Currently, rates fluctuate between \$2,400 and \$3,000 per TEU, according to the [Shanghai Containerized Freight Index](#) (<https://www.joc.com/maritime-news/international-freight-shipping/scfi-shanghai-containerized-freight-index-20121207.html>) (SCFI).

The Kota Gunawan, a 2,601-TEU ship that's 214 meters (702) long and features a 32-meter beam, departed China in January and is due to berth in Rio de Janeiro on February 24 [and then Santos](#) (<https://www.joc.com/port-news/south-american-ports/port-santos>) — the main port for Brazil — on February 25. Carriers hope the extra capacity entering the buoyant—but volatile trade lane will not bring another round of new entrants and/or new capacity that could lead to ruinous freight rates that characterized the 2014 to early-2016 period.

At the start, PIL said it will deploy five vessels, featuring 2,600 TEU to 4,200 TEU, but there is growing speculation that it might bring in some of the new 11,800-TEU vessels that will be delivered to them later this year. A 11,800-TEU vessel would surpass the 8,500 TEU to 11,000 TEU ships that the other three VSAs are deploying, and hence would substantially increase the trade lane's capacity.

The Singaporean carrier is turning its new service at the Brazilian port of Navegantes (at Portonave box terminal) and so will not continue down to Rio Grande, Montevideo and Buenos Aires, as the other VSAs do.

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Robert Grantham, a Solve Shipping consultancy director, based in Navegantes, Santa Catarina, is of the opinion that PIL's maneuver may seem "suicidal" but there is a "negotiating logic" behind it that could see the Singaporean box carrier find an important chair at the negotiating table, when the reduction of Maersk/Hamburg Sud market share comes up for discussion after they are forced to curtail their capacity from the end of this year. This is because the market share of the newly-merged Maersk and Hamburg Sud entity is too big – it is now more than 26 percent — according to China officials.

"It does seem strange to us here in Brazil (<https://www.joc.com/geography/brazil>) that PIL is entering as an independent as it is likely — with ships of this size and only a fortnightly frequency — that they will lose money," said Grantham. "There has been a considerable growth in inbound cargo to Brazil during the past year, certainly from January to November it grew by 16.5 percent, and at times utilization has been close to 100 percent and only time will tell if this has been a reckless move. However, I feel that PIL is jostling for a position at the negotiating table with the other carriers, for the discussions later this year on whose ships will replace the ones that Maersk and/or Hamburg Sud must take out. There could be a lot of high-level negotiating going on at the Intermodal South America conference in Sao Paulo next month."

Container Trade Statistics CEO Rod Riseborough, has also warned against more capacity entering the Asia to ECSA trade lane, as it could cause a rates slide.

"MOL could not make it work and I think the Ocean Network Express [the merger of MOL, NYK Line and K Line] will have more important things to deal with than set up a new, independent service in this trade lane," Riseborough said. Look at what happened to Cosco in West Africa. They put in a new service because rates were rising, but six weeks later they withdrew it and went back to slot chartering with CMA CGM (<https://www.joc.com/maritime-news/container-lines/cma-cgm>).

Still, various sources at PIL said it was "worth the risk" and that rates should remain stable, given the demand.

Grantham said the demand might be there now, but it might fade away after the Lunar New Year ends. That holiday starts February 15 and ends 15 days days later.

If Grantham's theory is correct it's possible PIL's calculations have been totally skewed by the announcement this week that Hamburg Sud and Maersk Line will be starting up a new Asia to West Coast South America (WCSA) service in April, but will be allowed to continue their VSA from Asia to ECSA until "the end of the year."

Most of those involved in this market were under the impression that the VSA contract Hamburg Sud currently has with its partners in this trade concludes at the end of March, but JOC.com, after speaking to Hamburg Sud, has confirmed that it will conclude only at the end of this year.

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