

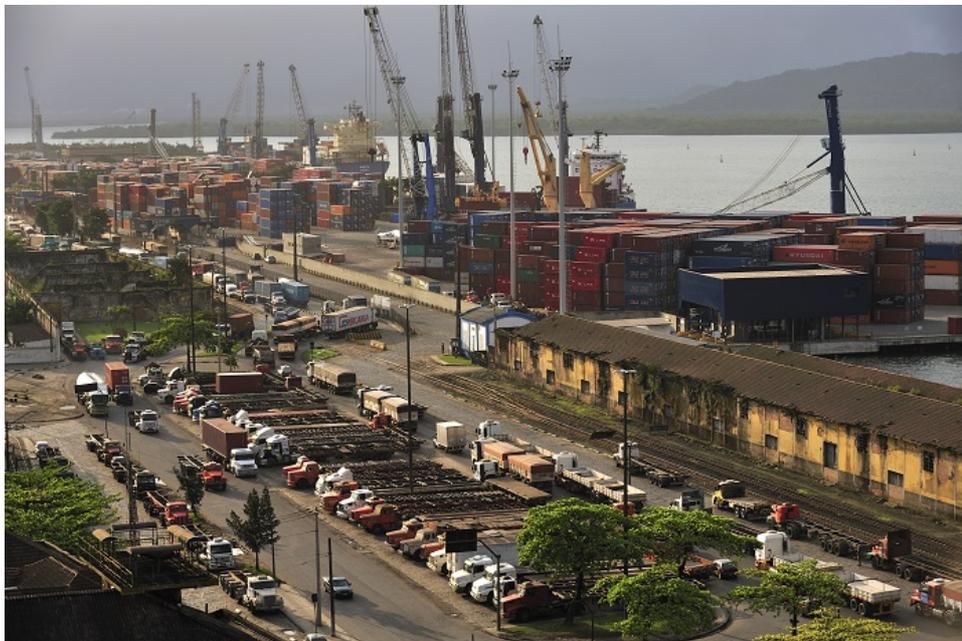


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Service shake-up cuts ECSA-Asia capacity amid rate slide

Rob Ward, Special Correspondent | Nov 30, 2018 4:22AM EST

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"There was some talk that capacity might be added but with rates starting to slide, this idea soon dissipated and everyone has been quite disciplined; and now there is clearly a small, overall capacity cut with a bit more to follow over the next couple of months," said one carrier line manager. (Above: The port of Santos.) Photo credit: Shutterstock.com.

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With spot rates sliding heading into the slow season, the dozen ocean carriers serving the east coast of South America (ECSA) have changed up their vessel-sharing agreements (VSAs), cutting capacity 3 to 4 percent. The changes come amid reports of Brazilian coffee and cotton exporters scrambling for outbound capacity out of the ports of [Santos \(https://www.joc.com/port-news/south-american-ports/port-santos\)](https://www.joc.com/port-news/south-american-ports/port-santos) and [Vitoria \(https://www.joc.com/port-news/south-american-ports/port-santos/santos-corruption-sting-fuels-brazil-port-privatization-push 20181112.html\)](https://www.joc.com/port-news/south-american-ports/port-santos/santos-corruption-sting-fuels-brazil-port-privatization-push).

Until recently, freight rates on the usually volatile trade lane have held up. Long-term rates from Asia to ECSA held on average of \$1,900 per FEU from April to November, with short-term rates fluctuating between \$1,200 and \$1,800 per FEU, according to rate management platform Xeneta.

But the spot rate from mainland [China \(https://www.joc.com/geography/china\)](https://www.joc.com/geography/china) to ECSA fell below \$1,000 per TEU for the first time in more than two years, to \$996, a 15 percent drop from the prior week, according to the Shanghai Containerized Freight Index (SCFI) published under the [JOC Shipping & Logistics Pricing Hub \(https://www.joc.com/market-data\)](#). Just four weeks ago the spot rate jumped 12.1 percent, to nearly \$1,500 per FEU, from the week prior, and spot rates were as high as \$1,900 in late August.

"There was some talk that capacity might be added but with rates starting to slide, this idea soon dissipated and everyone has been quite disciplined; and now there is clearly a small, overall capacity cut with a bit more to follow over the next couple of months," said one line manager for a carrier with vessels operating on the trade.

The condition of rates

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If carriers don't keep a tight rein on capacity, the rates could fall significantly, although northbound rates from [Brazil](https://www.joc.com/geography/brazil) (<https://www.joc.com/geography/brazil>) have stayed in the \$950 and \$1,100 per TEU range for some months now, several freight forwarders told JOC.com. Rates to ship a TEU from Shanghai to Santos range from \$1,300 and \$1,480 per TEU, and an average of \$1,050 northbound, according to forwarders in Santos and São Paulo.

That's a major increase from the \$99 per TEU rates quoted for Shanghai to Santos in January 2016 but not as high as the record \$3,294 rates registered by the SCFI in May 2017, following a capacity slashing of 40 percent. May 2017, soon after capacity had been culled 40 percent.

South Korean and Chinese regulators' insistence that [Maersk Line](https://www.joc.com/maritime-news/container-lines/maersk-line) (<https://www.joc.com/maritime-news/container-lines/maersk-line>) merge its service with the one operated by Hamburg Sud, which it acquired last year, sparked a chain reaction in the revision of joint services, with launch dates in mid-December.

The new joint service arrangements see Maersk partnering with Hamburg Sud in one joint service; [Hapag Lloyd](https://www.joc.com/maritime-news/container-lines/hapag-loyd) (<https://www.joc.com/maritime-news/container-lines/hapag-loyd>), [Ocean Network Express](https://www.joc.com/special-topics/japanese-liner-merger) (<https://www.joc.com/special-topics/japanese-liner-merger>) (ONE), and [Mediterranean Shipping Co.](https://www.joc.com/maritime-news/container-lines/mediterranean-shipping-co) (<https://www.joc.com/maritime-news/container-lines/mediterranean-shipping-co>). In another; and CMA CGM, Cosco Shipping, Evergreen Line, and Yang Ming with a third major joint service. A fourth, smaller independent service is offered by [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). [HMM](https://www.joc.com/maritime-news/container-lines/hyundai-merchant-marine) (<https://www.joc.com/maritime-news/container-lines/hyundai-merchant-marine>) and [Zim Integrated Shipping](https://www.joc.com/maritime-news/container-lines/zim-integrated-shipping-services) (<https://www.joc.com/maritime-news/container-lines/zim-integrated-shipping-services>) services — both vessel providers under the old VSAs — will have slot charters with the service operated by Maersk Line and Hamburg Sud

Questions circle on whether PIL will maintain its weekly service, reduce to fortnightly, or remove its 11 4,300-TEU vessels from the trade lane altogether and revert to slot chartering. PIL apparently is looking for a mixture of these possibilities as it gauges how the slack season fares following the Chinese New Year — which will begin on Feb. 5 and closes Asian factories for two weeks — and Brazil's Carnival, which lasts the first week in March, according to PIL sources.

PIL will no longer call at the River Plate ports of Buenos Aires and Montevideo but will head back to Asia after calling at Navegantes, part of the Itajai Port Complex in the south of Brazil. The carrier will cut some capacity by reducing its current weekly service down to "around three calls per month for the slack season." From 11 vessels currently operating, PIL will cut back to just eight, which is sufficient for the eight-week port rotation from China to Navegantes, in Santa Catarina state.

"It makes sense for PIL to cut out the River Plate part of their service for operational and cost reasons, and it is good for the market, too," said Leandro Barreto, a shipping consultant for Solve Shipping in São Paulo. **"During the slack season it makes sense to reduce capacity, but it would have been very hard on shippers to have seen PIL go away from the market then come back again around June when the extra capacity and peak season looms."**

He said exporters will be encouraged that PIL will keep serving the trade, albeit with less capacity, particularly with outbound slots scarce over the last few weeks at several Brazilian ports.

Barreto said that when the high season revs up again, a full partnership with CMA CGM and/or Cosco makes sense and will probably see larger vessels brought into play for PIL.

It is understood that PIL will pull out of ECSA-Asia its smaller vessels and gradually bring in vessels bigger than 6,000 TEU, and one of its managers was confident about staying in and growing within this trade lane.

"There will be no more River Plate calls for PIL in the SSA service and from mid-December we will start to wind down from calling four to three times per month and then return to weekly from mid-March, after Carnival," said the manager. "And from April we will be looking for partners in a joint venture [JV], possibly [CMA CGM](https://www.joc.com/maritime-news/container-lines/cma-cgm) (<https://www.joc.com/maritime-news/container-lines/cma-cgm>) and/or [Cosco](https://www.joc.com/maritime-news/container-lines/cosco). (<https://www.joc.com/maritime-news/container-lines/cosco>) However, it won't be a case of us joining them; it will be them joining us by adding ships to our roster."

That would deliver a much-needed capacity injection during the peak season mid-year, added Barreto.

Maersk and Hamburg are decreasing the size of vessels on their merged service from 9,900 TEU to 9,000 TEU, but they are also boosting the number of vessels deployed from 10 to 13. Combining the two services will reduce capacity by about 3.6 percent, according to JOC research and consultant estimates. PIL's reductions and planned cutbacks, from weekly to three times a month, during the weak season will reduce capacity by around 2.2 percent.

Maersk Line — customers happy with ECSA operations

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Antonio Dominguez, the head of ECSA operations for Maersk Line, said that the carriers' customers in the south of Brazil were very happy with the new port rotations because Itajai will now receive a direct call from Asia, instead of transshipments from Europe.

"Santa Catarina is the second-largest region for imports for Maersk Line from the Far East, and we have slashed transit times from 50 days [which was transshipment via Europe] down to 37 to 38 days, which is a tremendous improvement," Dominguez told JOC.com. "This is especially important for importers in the retail, electronics, and tiles sectors."

Santa Catarina is also important for chicken and pork shippers such as BRF Foods, JBS, and Aurora.

Hamburg Sud customers could have previously shipped direct to nearby Itapoa, but now Maersk and Hamburg Sud customers will receive direct Asian calls to both Itajai and Itapoa.

Meanwhile, PIL has been the "X factor" throughout the "wide-ranging negotiations" in recent months, and even now its overall strategy is still not entirely clear in the mid to long term.

Several commentators said that operating smaller ships (ranging from 2,800 TEU to 5,200 TEU and averaging about 4,340 TEU) on the long run from Asia to the River Plate "must have been losing them a lot of money with few economies of scale," especially when the freight rates have been so volatile, with a tendency to fall long term.

Gilberto Santos, vice president for marketing and commercial for ONE, said that "after long and detailed discussions" the carrier has entered a JV with MSC (the lead partner with five vessels), and Hapag Lloyd with four ships; ONE will be providing four vessels, and the first sailing from China will be mid December.

"After long discussions we have a new configuration we are very happy with," Santos said, "but we are not so happy that inbound freight rates are decreasing as the peak season comes to an end, although export freights are good and fairly stable."

Santos told JOC.com that ONE would also have a stake in a second sling on the ECSA-to-Asia trade as it will be taking out some slots on Maersk vessels, but he would not comment on how many boxes were involved in this agreement. However, another source close to ONE told JOC that the Japanese company would be taking out 200 slots northbound and 200 southbound every week.

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ECSA Joint Service Shuttle

The dozen container lines serving the east coast of South America-Asia trade are reshuffling their joint services for a mid-December launch.

- ▶ Maersk Line/Hamburg Sud service with Asia 1 service: (with Hapag-Lloyd, Mediterranean Shipping Co. [MSC], Ocean Network Express [ONE], HMM, and Zim taking slots). Port rotation: Busan, Shanghai, Ningbo, Hong Kong, Shekou, Singapore, Itagua, Santos, Itapoa, Itajai, Buenos Aires, Montevideo, Itajai, Paranagua, Santos, Singapore, Hong Kong, Busan. Rotation in 13 weeks with 13 ships of 8,800 TEU to 9,000 TEU.
- ▶ MSC/ONE/Hapag Lloyd service (ASE, SX1, and Ipanema), also known as loop two, with Maersk Line and Hamburg Sud taking slots. Port rotation: Busan, Shanghai, Ningbo, Shekou, Yantian, Hong Kong, Singapore, Santos, Paranagua, Navegantes, Montevideo, Buenos Aires, Rio Grande, Navegantes, Paranagua, Santos, Ngqura, Port Klang, Singapore, Hong Kong, Busan. Rotation in 13 weeks with 13 ships of 8,700 TEU to 11,000 TEU.
- ▶ CMA CGM, Cosco Shipping, Evergreen, and Yang Ming service with Pacific International Lines (PIL) buying about 600 slots per week (300 from CMA CGM and 300 from Cosco Shipping). Rotation in 13 weeks with 13 ships of 8,000 TEU to 9,000 TEU.
- ▶ PIL SSA service (only to Brazil, not to River Plate, which is now covered via slots in the CMA CGM/Cosco Shipping-led consortium). (See above.) Eight vessels of 4,200 TEU to 6,000 TEU, having taken out three vessels of about 3,000 TEU from the old configuration. Rotation in eight weeks with eight ships of 4,200 TEU to 6,000 TEU.

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