Box lines face $10bn global loss this year, warns MOL president

Keith Wallis - Wednesday 27 May 2009

THE world's container lines could be heading for collective losses of $10bn this year, according to Mitsui OSK Lines president Akimitsu Ashida.

He said first quarter results from the world's biggest carriers showed they made total losses of around $2.6bn. Mr Ashida said this was likely to top $3bn if the financial performance of smaller carriers was taken into account.

Extrapolating the first quarter figures over the full year, Mr Ashida said lines could face a total "$10bn loss" in 2009.

Mr Ashida said the first quarter is typically a slack period, with relatively low cargo volumes, while more cargo is expected in the second and third quarters.

But even if there is a recovery in container volumes, he said the large volume of newbuildings that are expected to enter service would depress the market and affect financial performance.

"More cargo in the second and third quarters will be offset by new capacity," Mr Ashida said yesterday during the Asian Shipowners' Forum, which attracted 118 delegates from shipowner groups in Asia.

Evergreen Marine chairman Arnold Wang said the bottom in the container trades would be reached in the second quarter.

He said carriers including Evergreen Marine had achieved a $100 per teu increase in rates on Asia-Europe routes. Although they initially pushed for a $270 per teu increase, the $100 per box rise "was not so bad", given box ships were operating at considerably less than full capacity.

He said rates in Asia-Europe trades would continue to improve, while the results on transpacific trades "were not so good".

Pointing to the container shipping market in general, Mr Ashida said cargo volumes were down by an average of 20% even though more than 500 containerships, totalling around 300,000 teu, were laid up. By comparison, the number of newbuildings coming into service this year would boost capacity by 13%.

Mr Ashida said there is about 33% of excess capacity. “The gap between supply and demand is widening,” he added.

Mr Ashida said the only options for carriers faced with this capacity imbalance was to increase the amount of tonnage in lay-up, slow steaming and negotiating newbuilding delivery delays with shipyards. For MOL’s part, he said the company was cutting costs by $200m, but this would only go some way to improving profitability. Ultimately, “rate recovery is the only way” to return to the black, Mr Ashida said.

While there was no discussion within the shipowners’ forum meeting yesterday about possible rate increases, the shipping economics review committee did talk about other options including changes in the bunker adjustment factor.

Mr Ashida, who is retiring as committee chairman to be replaced by NYK Line president Yasumi Kudo, said the chief executives of Asian container lines were urged to handle the downturn in the container trades “in a rational and patient manner to ensure the sustainable operation of the liner business in these trades”.

Asked if the relatively strong intra-Asian trade could be affected by carriers redeploying larger vessels into the sector, Mr Wang doubted most Asian ports could handle the large ships. As a result, he doubted business in the intra-Asia trades would worsen.

• Mitsui OSK Lines may bid for an overseas bulk shipping business as asset valuations tumble in response to plunging demand and freight rates.

“We’re willing to spend several tens of billions of yen on an acquisition,” Kenichi Yonetani, a senior managing executive officer at the group, told Bloomberg.

“This year is a chance for people who can buy,” Mr Yonetani said. “We don’t see a problem in getting financing from banks to pay for our investment.”