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Shippers, forwarders face a new, harsher world in ocean shipping

Peter Tirschwell | Dec 23, 2024, 9:53 AM EST

Earlier this year, the commercial director at a congested Asia port apologized to an ocean carrier for the trouble caused. The response from the ocean carrier? "Don't worry, it's OK."

It's OK? What about delays caused to the carrier's customers and its reputation with those customers as a reliable service provider? Not important.

Indeed, the message from the carrier was actually that the congestion was helpful in removing capacity, handing carriers another external shock that sent rates soaring.

In a nutshell, that is the new world of ocean container shipping that shippers and forwarders will be dealing with in 2025 and likely well beyond.

It's a world where prior patterns of cyclicality, while still a factor, must now coexist with non-cyclical forces of external shocks combined with a long-beleaguered set of carriers that learned valuable lessons in assertiveness from the pandemic that they are putting to use.

"Carriers have transformed from being weak and ready to be beaten up all the time [pre-2018] to becoming bold and assertive," said veteran forwarder and carrier executive Sanjay Tejwani, now heading consultant 365 Logistics. "Carriers feel they have been at the receiving end for many years and now it is time to level the playing field between them and their customers."

Chief among the lessons carriers learned, well-reflected in the carrier's reaction to the congested terminal in Asia, is that disruption is okay. Although external shocks such as COVID-19 and the diversions away from the Red Sea and Suez Canal were gifts that fell into carriers' laps — things they were not responsible for but reaped the benefits from — they had started down this road well before the pandemic by ramping up blank sailings within alliances, Tejwani said.

"Carriers became emboldened by the fact that a few of them controlled a large amount of global capacity and we started to see better capacity management from 2018 onwards," he said.

And as Maersk CEO Vincent Clerc told investors Oct. 31, carriers still have other cards to play if the market weakens in 2025, including ramping up blank sailings, scrapping vessels and returning chartered tonnage to owners. His message challenged the theory that overcapacity is looming in 2025.

How sustainable is 'newly lopsided paradigm?'

All of this amounts to a dramatic, indeed historic, paradigm shift: carriers benefiting, on what increasingly seems to be a sustained basis, at the expense of their customers. But that begs the question: How sustainable is this newly lopsided paradigm where carriers benefit from external disruption while flexing their muscles at every opportunity and customers suffer the consequences?

The Ocean Shipping Reform Act of 2022 (OSRA-22), although limited in scope, showed the ability of shippers to push back via government action.

And some carriers are themselves recognizing that things may have gone too far. Could it be that the zero-sum gain within containers, where one party's gain is the other's loss with no mutual value creation occurring, is reaching its limits?

“Going into 2025, transit times and schedule reliability will become even more important,” Yael D’Angeli, Zim’s global head of strategic accounts, wrote recently on LinkedIn. “It will be taken into account more heavily during the tender process, along with rates and other criteria.”

Such is the sorry state of schedule reliability — which has never really recovered post-COVID-19, according to Sea-Intelligence Maritime Analysis — that Maersk and Hapag-Lloyd saw an opportunity to fix the problem via the hub-and-spoke Gemini alliance.

This approach flips the script on the status quo, with the Gemini pact aiming to consistently deliver 90%-plus schedule reliability by deconstructing lengthy, delay-prone loops into interconnected component services transiting through carrier-controlled hub ports.

That level of reliability isn’t just a talking point or press release. If achieved on a sustained basis to the point that it comes to be trusted by shippers, it will rise to the level of shipper value creation by allowing them to take out inventory.

“For a supply chain to take out meaningful inventory costs, the reliability of the ocean leg … should be at least 95%, because below 95% the retailers will not trust the supply chain enough to take inventory cost out,” a former Maersk executive told the *Journal of Commerce*.

“Why is that so important? When the client says if I only ship with Maersk I can reduce my global inventory cost by half, it’s a half a billion in savings. So, Maersk says that comes at a cost,” the source added. “Thus, the aim for 95% reliability is not casual or by coincidence. Rather, it links directly to what everyone says they need to deliver to take out buffer stock.”

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