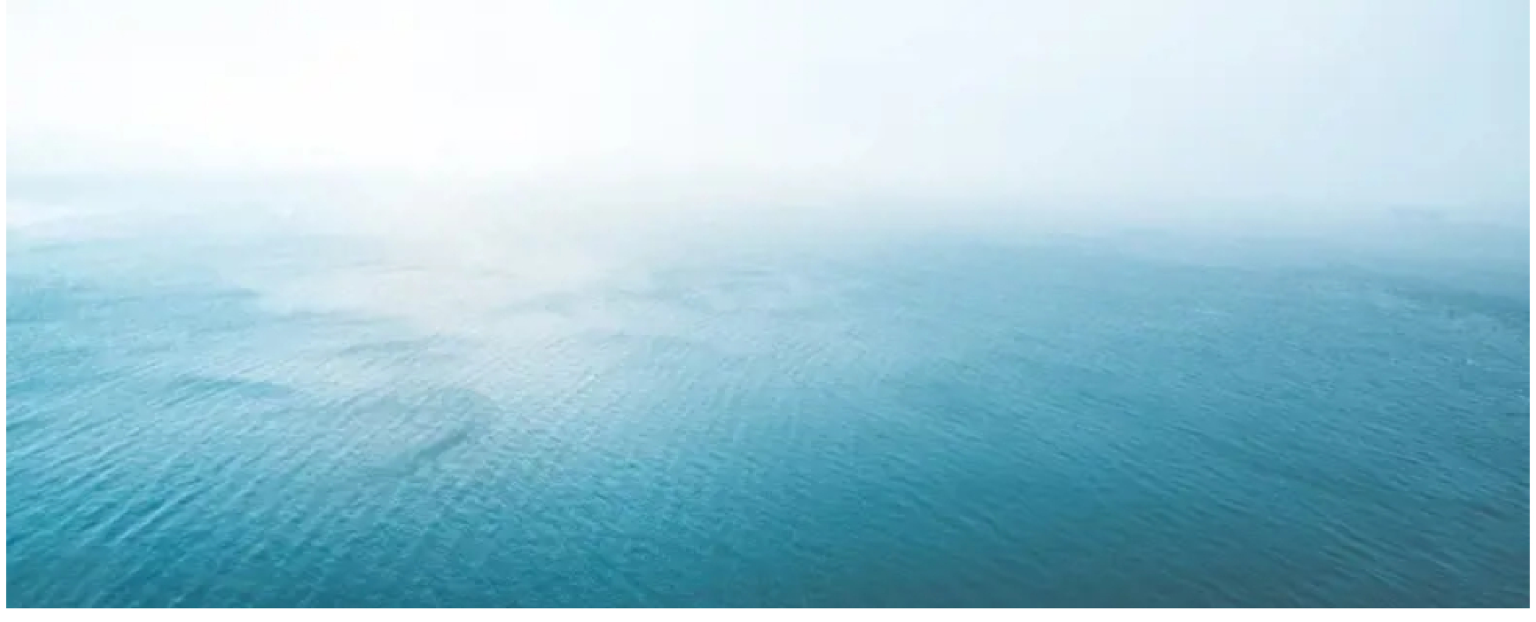
News

Transpacific trade - latest update

25 Mar, 2019 | Share



We expect some areas of uncertainty ahead regarding the Transpacific trade, and we want to keep you informed up front on what we are doing to assist and how we see the situation.

The situation

Based on the outlook of the economy, the demand on the Transpacific trade is expected to continue to be strong while supply remains stable, which would indicate a fairly balanced supply and demand for 2019.

However, the uncertainty concerning the escalating trade conflicts, financial volatility and political uncertainty has resulted in the fact that carriers are cancelling numerous of Transpacific sailings in March and April, to keep the pressure up on space available as there are early signs of weakened volumes.

The decision the "Ocean Alliance" made to introduce several blank sailings alone will result in some 74,000 teu pulled from US west coast services and more than 35,000 teu from those destined for the east coast. This amounts to some 15% of the capacity the "Ocean Alliance" would normally have offered over the four-week period of the cancellations.

What will change?

Transpacific shipping prices have fluctuated over the last few years, driven by uncertainty in the market and a number of economic and trading events. Among other things, January 1, 2020, the International Maritime Organization (IMO) brings in new regulations for Sulphur oxide emissions that will add extra costs. Adding to the above a landscape where mergers, bankruptcies, new alliances and general restructuring have been taking place indicates there will be continued volatility in the market.

Specifically, we anticipate a fuel cost rise as fleets move to more environmentally sustainable options, and more generally, we anticipate disruption to some service networks, especially if carriers cannot recover the resulting higher costs from the cargo owners.

How does it impact your business?

With the fluctuation in fuel prices, the ocean carriers will no longer offer long term contracts with fixed fuel rates, but will introduce offers with floating bunker clauses.

We expect to see disruptions in the schedules when the vessels are taken out to prepare for the IMO 2020 compliance regulation. During this time, there will be reduced capacity on all trades, and consequently most likely we will see a heavy pressure on space on the running vessels.

As we anticipate changes through the year, Scan Global Logistics is not currently offering contracts with fixed all-in rates. The fluctuating fuel charges are subject to monthly or quarterly reviews, LSS (Low Sulphur Surcharge) is charged per outlay and PSS (Peak Season Surcharge) is subject to mutual agreement. All of these changes are made not only to support the rise in fuel cost, but to ensure the IMO directive is implemented as well as to ensure the shipping services will be available and sustainable across the whole network also in the future.

In short the message is

- No long term contracts with fixed all-in bunker rates
- Floating bunker with monthly or quarterly reviews
- LSS (Low Sulphur Surcharge) charged per outlay - model to be defined
- PSS (Peak Season Surcharge) subject to mutual agreement
- Mutually agreed volume commitment and allocation

What is Scan Global Logistics doing to help?

We are working hard at finding the most competitive agreements for our customers. You can help us by providing the most precise estimates for future volume and needs. To find the most competitive agreement, clear information of total cargo volume including information of volumes per port pairs per week, and advanced forecast and planning is appreciated.

Being able to forecast future volumes is one of the key factors to secure commitments and allocations from our service provider. It helps planning the utilization on the vessels and allows us to forecast trucking needs and facilitate labor weeks/months in advance for the pre and post moves –which leads to more competitive offers.

We appreciate your continued understanding and collaboration.
We will keep you updated!

All content in this letter represents the author's opinion and recommendations and is given without any liability whatsoever.

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