Charter owners’ view on container lines grouping into alliances
Contents

INTRODUCTION 3
SURVEY FINDINGS 4
CONCLUSION 9
CONTACT 9
DISCLAIMER 11
INTRODUCTION

In history transport networks relied on a large degree of cooperation among market players and cooperations have a long history within the liner shipping market.

In view of recent press announcements on the operating alliance P3 to be established between the three largest container liner companies, Maersk, MSC and CMA-CGM, we wanted to find out how container ship charter owners view the formation of the P3 alliance and container lines grouping into alliances.

Although the final form of the P3 alliance is still open to interpretation and approval by several regulatory authorities, we asked container ship charter owners to evaluate its potential impact on the areas “shipbuilding” and “chartering”.

The survey was carried out in December 2013/January 2014 on an anonymous basis. The addressees stand for a sailing fleet of 4m TEU and an orderbook of 1.7m TEU. With more than 50% responding to our questionnaire the results of our survey yield a barometric reading of containership charter owners on this topic.
SURVEY FINDINGS

ON BALANCE DO YOU REGARD THE EFFECTS OF THE FORMATION OF THE P3 NETWORK FOR CHARTER OWNERS AS

- Rather positive 7%
- Rather negative 36%
- Too early to say 57%

The majority of the containership charter owners (57 %) feel that it is too early to judge on balance the effects of the formation of the P3 Network. On the other hand, of those who formed an opinion the majority regard the effects for charter owners as mostly negative (36%).

DO YOU THINK THAT ORDERING OF NEW SHIPS IN THE COURSE OF 2014 WILL BE INFLUENCED BY THE P3 NETWORK?

- Yes, more ordering 43%
- Yes, less ordering 50%
- No 7%

Containership charter owners are still divided in their opinions: While 50 % of those surveyed expect less ordering as a consequence out of the formation of the P3 Network, exactly the same percentage foresees more ordering (43%) or no influence on the ordering activities (7%). For the time being there is no clear trend.
ON WHICH FLEET SEGMENTS WILL POTENTIAL ORDERING ACTIVITY FOCUS?

In case ordering takes place more than 50% of the containership charter owners would see the strongest increase in ordering activity in the Ultra Large Containership segment (ULCS), which might represent the need of catching up with P3 fleet size.

The judgement of the 30% expecting a strong or very strong increase in ordering activity in the segment below 3,000 TEU might be driven by fundamentals which point at an overaged fleet, high scrapping rates, almost no orderbook and thus a decreasing fleet and not by the introduction of the P3. But one has to bear in mind that there is a second school of thought which regard the ongoing cascading down pressure in combination with ongoing port infrastructure projects as rather limiting this size sector prospects and hence the subsequent ordering activity.

However, there is a general agreement on the question how much ordering the Panamax segment has to face: The replies documenting the low order increase are pointing at the current problems the Panamax fleet is confronted with.

WHO WILL PROBABLY ORDER THE NEW SHIPS?

New ships will predominantly be ordered by other alliances carriers which have to match the competitive advantages generated by the P3 carriers.
WHAT SCENARIO FOR P3 LINERS, OTHER ALLIANCES’ LINER COMPANIES OR NON-ALLIED LINER COMPANIES DO YOU EXPECT TO SEE ON THE CHARTERING SIDE IF THE P3 NETWORK COMES INTO FORCE AS PLANNED?

P3 carriers and other alliances’ liner companies are most likely to pursue market disciplinary activities which might help to restore a market equilibrium. Almost 90% of the containership charter owners expect the P3 and other alliances’ liner companies to increase their redelivering activities and to slowdown fresh-chartering-in requirements (75%).

However, non-allied liner companies will increase their chartering-in activity (probably to secure market share), what might intensify market competition.

WILL THE P3 ALLIANCE OVERALL RESULT IN LOWER TIME CHARTER FIXTURES FOR CONTAINER VESSELS?

50% of the containership charter owners are of the opinion that P3 will lead to lower charter rates. Although at the time of the survey 43% regard a clear statement as too early to say, the bias is pointing at a rather negative development of the charter rate level.
Which size classes will be most affected by the P3 network?

Charter rates confronted with downward pressure will be in the already battered Panamax and the smaller Post-Panamax sector while expected rising charter rates in the ULCS and smallest segment are predicting a better future. As a consequence the ordering displays a reluctant activity in the 3,000 – 8,000 TEU segment, while the positive expectation regarding the charter rates development in the sector below 3,000 TEU is also reflected in the orderbook.

In case you are expecting falling charter rates what do you think are the appropriate means to cope with this development?

Falling charter rates will lead to more scrapping which already materialized in last years scrapping figures. According to Alphaliner in 2013 scrapping reached 439,701 TEU, a new annual record as it surpassed 2012 figures of 335,547 TEU.
ALLIANCES WILL HAVE SOME EFFECTS ON CHARTER OWNERS. IN WHICH WAYS SHOULD CHARTER OWNERS RESPOND?

Generally containership charter owners have to cope with the formation of alliances in liner shipping. While P3 represents an evolutionary step in existing arrangements, the G6 and Green Alliance are attempting to strengthen their competitive edge as well.

In order to cope with this development 42% of the containership charter owners intend to strengthen their own position by ordering new tonnage or investing in retrofits. Only 8% is following the liners’ market strategy in forming co-operative agreements. A reason might be that most charter owner regard the topic as partly sensible due to regulatory issues.

DO YOU CONSIDER CONTAINER LINERS ALLIANCES A THREAT TO YOUR CURRENT BUSINESS MODEL?

Containership charter owners were used to the formation of alliances in liner shipping. P3 however seems to tighten the situation, as 43% of the shipping companies think that liner alliances are a threat to their current business model.
CONCLUSION

The results presented here of the 8th Maritime Trendbarometer are clear: The P3 alliance, which will not come into force until the second quarter of 2014, still opens room for interpretation and therefore the majority of the containership charter owners that UniCredit surveyed feel that it is too early to judge the effects of the formation of the P3 Network. But those who take a position regard the effects of the planned P3 Network as rather negative for charter owners.

With respect to the potential impacts on an increase or decrease in ordering activity in 2014 more than 90% are convinced that there will be effects generated by the P3 alliance. However containership charter owners are still divided in their opinions though, for the time being no clear trend is visible. In case increased ordering activity is seen, very large container ships (12,000+ TEU) are particularly in focus. The ordering will mostly take place by other alliances carriers which have to match the competitive advantages generated by the P3 carriers.

On the chartering side P3 carriers and other alliances' liner companies are expected to pursue market disciplinary activities, i.e. increase their redeliveries and slow down their fresh chartering-in requirements. However, non-allied liner companies are set to increase their chartering-in activity, which might foil the market discipline. With respect to charter rate levels the bias is pointing at rather sinking rates. Charter rates confronted with downward pressure will be in the already battered Panamax and the smaller Post-Panamax sector while rising charter rates in the very large and smallest segments are predicting a better future. Falling charter rates will lead to more scrapping which already materialized in last years scrapping figures.

In general the formation of alliances in container shipping will have effects on containership charter owners. In order to cope with this development 42% of the containership charter owners intend to strengthen their own position by ordering new tonnage or investing in retrofits, only 8% are opting for co-operative agreements among charter owners.

Containership charter owners were used to the formation of alliance arrangements in liner shipping. P3 however seems to tighten the situation, as 43% of the shipping companies think that liner alliances are a threat to their current business model.

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