

Global Crisis Hits Shipping Industry Hard

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By Thomas Schulz

Shipping benefits from globalization more than almost any other sector. But this has also made it more vulnerable to the global economic crisis. Freight and charter rates have plunged, jobs at shipping companies are being cut and many ships are being parked for months at a time.

The anxiety began in the summer, when the long lines disappeared: the kilometer-long lines of trucks waiting to get into the container terminals outside Los Angeles, one of the most critical bottlenecks of globalization in recent years, or the long queues container ships jostling for spots at the entrance to Hong Kong harbor, often waiting for days for a berth.

Instead, what is backed up today is the once hotly sought-after merchandise, as electronic goods and textiles pile up in Chinese factories, now that consumption has declined, first among Americans and now in Europe. Iron ore and other minerals are piling up in South American mines, because the Chinese no longer need as much of the natural resources to produce goods.

A container ship is loaded in Hamburg, Germany.

Many ships are now sailing half-empty, if they are sailing at all. In fact, shipping companies are pulling more and more ships out of circulation, due to a lack of demand, and placing them at anchor indefinitely. Experts estimate that one-fourth of all ships used to transport raw materials in the Pacific are now idle.

Until recently, shipping was plainly globalization's booming industry, its hammering pulse, pumping more and more goods around the world at an ever-increasing pace. But the financial crisis has brought this activity to an unexpected halt. Although the pulse is still beating, it is no longer the fast and powerful pulse of a sprinter, instead it resembles that of a coma patient.

For months, prices have been falling throughout the industry. In the spring, large commercial shipping companies like Maersk and Hapag-Lloyd were still charging about \$2,000 (€1,600) to ship a container from Asia to Europe. Today, some companies collect only \$500 (€400) for the same service. In the spring, it cost \$30,000 (€24,000) a day to charter a ship containing 2,500 standard containers (TEU). Today, that price has dropped to less than \$12,000 (€9,600). Bulk commodity freighters in the Panamax class commanded a daily charter fee of \$64,000 (€52,000) in June. Today they can be had for less than \$11,000 (€8,800).

Shipping managers and ship owners, hoping to allay fears, argue that phases of substantial booms followed by sharp declines are typical for the industry. Nevertheless, the talk behind the scenes

revolves around the concept of a "perfect storm," in which everything that can go wrong does go wrong, culminating in the worst possible disaster. "The negative conditions we are seeing in the market place are unprecedented in our industry's history," says Ron Widdows, the CEO of NOL, a shipping company. Bertram Rickmers, a German ship owner, concludes matter-of-factly: "The party is over."

Mistrust and Nervousness Are Rampant

This time it is not just the freight and charter rates that have plunged, as in past crises. Now the consequences of the financial crisis are also being felt in the shipping industry. Banks, extremely nervous and in some cases ailing as well, are hardly issuing loans at all these days.

Mistrust and nervousness are so rampant that the shipping of raw materials in some regions of the world has stagnated in recent months, because banks have been refusing to issue the letters of credit -- payment guarantees issued to exporters for cargoes often worth several hundred million dollars -- so critical to foreign trade. The leading players in the raw materials shipping business recently met in London for an urgently convened crisis meeting. "This is a very capital-intensive industry, and capital is currently scarce," says Gus Biesbroeck, the deputy director of global shipping for Fortis Bank.

The boom in recent years was attributable in large part to cheap and abundantly available money. Banks and investors pumped hundreds of billions into the industry, which grew at rates of up to 20 percent a year. The Germans were especially adept at taking advantage of these conditions. Within 10 years, German shipping companies ballooned to proportions reminiscent of the legendary Greek tanker dynasties, and Hamburg became the world's leading center for ship financing. Almost 40 percent of the world's container fleets are German-owned.

According to a list obtained by SPIEGEL, as of the end of August German ship owners and shipping lenders had ordered or taken out options to order an additional 1,550 ships, which are to be delivered in the coming years -- far more than suits many in the industry today.

"Almost all shipping companies have sent teams to the shipyards in Korea and Japan to negotiate cancellations or postponements," says Claus-Peter Offen who, with his 91 ships, is the owner of one of the world's largest private fleets of container ships. He still has 40 new ships on order, including the world's largest container ships, with a capacity of 14,000 TEU. "Our new ships are all fully financed, and 15 of them have already been sold to other companies," says Offen, noting that he has no reason to cancel any of his orders.

But many are not in nearly as favorable a position as Hamburg ship owner Offen. According to industry estimates, at least one-fourth of all ships under construction worldwide, worth a total of about \$500 billion (€400 billion), either lack sound financing or have no financing at all. Offen believes that there is no financing -- nor is financing likely to materialize -- for a majority of the roughly 2,000 bulk commodity freighters on order.

Abandoned Shipyards

Some shipping companies or shipping lenders are even forfeiting advances paid to shipyards of up to 40 percent of a ship's price, either because they are unable to raise the remaining millions or to minimize current losses.

Some shipping companies are in luck, however, because they ordered ships from nonexistent shipyards. When the large Asian shipyards were overrun with orders in recent years, and delivery times grew to up to four years, many small shipyards, especially in China, were simply created out of thin air. In many cases, contracts to build new ships were signed with these so-called greenfield shipyards, which existed only on the drawing board. "These shipyards will no longer exist today, nor will the ships," says Offen.

Even most of the existing greenfield shipyards will likely disappear quickly today. German shipping industry executives are already reporting on abandoned shipyards in China, where the ships are half-finished and there are no workers in sight.

Nevertheless, so many new ships will enter the market next year that worldwide container capacity will grow by about 13 percent. However, container shipping will grow by only 5 percent -- that is, unless a global recession forces demand down even further.

An increase in load capacity coinciding with a drop in consumption will have disastrous consequences for shipping rates. The Baltic Dry Index (BDI), a standard index for ore and grain shipments, declined from 8,756 points at the beginning of the year to 733 points at the end of November.

Eivind Kolding, the CEO of Maersk, the world's largest shipping line, complains that he now collects all of \$600 (€480) per container between the Far East and Europe. The company is suffering enormous losses with each individual container.

Neptune Orient Lines, the favored candidate to take over the Hamburg-based shipping line Hapag-Lloyd until this summer, has already announced plans to lay off almost 10 percent of its work force. The first of the smaller shipping companies are already going bankrupt.

This explains why shipping companies everywhere are beginning to "lay up" ships, which means parking them for months in a bay somewhere, with skeleton crews on board, instead of continuing to operate the vessels in scheduled service at a loss. Last week the Grand Alliance, one of the largest container shipping company alliances, which includes Hamburg-based Hapag-Lloyd, decided to suspend one of its scheduled services between Asia and the United States, initially for 18 weeks.

Downward Plunge of Charter Rates

The shipping lines will certainly not be chartering new ships for the foreseeable future. As a result, there are not enough customers for the ships, financed and ordered by shipping companies, shipping banks and underwriters. As a result, charter rates are emulating the downward plunge of freight rates.

This is especially problematic for anyone who ordered a ship at the peak of the boom, sometimes at exorbitant prices, but was unable to charter it for several years and is now desperately seeking buyers at drastically lower rates. A container ship with capacity for 1,740 TEU, especially popular among ship funds, now fetches a charter rate of only about \$9,000 (€7,200) a day, even though it only becomes profitable at rates of \$13,000 (€10,400) or higher.

Whether all of the roughly 70 German underwriters of ship funds will survive this crisis seems questionable. They recently attracted close to €4 billion (\$5 billion) in investor capital, a number that will likely drop to only about €1 billion (\$1.25 billion) next year. The industry, previously flooded with cheap money by shipping banks, will have to come up with far more equity capital in the future, says Albrecht Gundermann, managing director of Hamburg fund initiator Maritim Equity.

It is already becoming apparent just how bad things are. Market leader MPC Capital has closed a fund and expects an annual loss of €70 million (\$88 million). Lloyd Fonds, an underwriter, has announced plans to slash 15 percent of its jobs.

"One company or another will certainly drop out of the market," says Offen. Sönke Fanslow, the managing director of Hansa Treuhand, a shipping lender, is convinced that there will be a "market cleansing in all areas related to shipping."

However, there are some, especially the long-established companies in the industry, who view the problems of some of their competitors "with poorly concealed gratification," says one shipping executive. "The funds had money coming out of their ears in recent years, and they ruined prices as a result." Another industry executive says: "Some lost all sense of proportion recently."

Offen estimates that it could take two or perhaps even three years until the shipping markets have normalized once again. In the medium term, says Offen, the outlook remains excellent for an industry that handles more than 90 percent of intercontinental goods traffic. Globalization, he adds, will certainly not reverse itself. "Electronic devices and athletic shoes will still not be produced in Germany again, not even in the future."

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