How Vessel Lay Ups Affect Global Freight Rates

by Michelle Kelley - Friday, November 21, 2008

Declining growth in the world's ocean freight market has led several major ocean carriers to seriously consider reducing the size of their active fleet for 2009.

Maersk is "very likely" to lay up container vessels at the beginning of 2009, after volumes in the Asia to Europe market dropped drastically this year, reports the Journal of Commerce Online.

The 15 member carriers of the Transpacific Stabilization Agreement plan to reduce cumulative capacity by about five percent in the fourth quarter of 2008, and then by an additional two percent during the first quarter of 2009, reports Shipping Digest.

In addition, Neptune Orient Lines (NOL), which owns the container shipping company APL, has announced plans "to trim capacity and withdraw a number of vessels from service," says NOL president, Ron Widdows (via Taiwan News). According to Widdows, APL's capacity will be reduced by 25 percent in the Asia to Europe trade and by 20 percent in the Transpacific.

Over the past year, the downturn in the global economy has led manufacturers to slow production and shippers to ship less. As a result, ocean carriers have found it increasingly difficult to fill empty vessel space. They've had to lower rates to more appropriately match declining demand. However, rates are now so low, that in some cases, they may not even cover a vessel's operational costs.

In response to these market conditions, carriers are laying up their vessels to contain costs. By reducing capacity, carriers are helping to bring supply in balance with demand. Expect to see more and more carriers jumping on board with this strategy as market growth slows to a trickle in 2009.

http://mohawkglobal.com/global-news/how-vessel-lay-ups-affect-global-freight-rates/