Battered and battling

The ASEAN region, just like everywhere, is struggling. **Ravindra Galhena** spoke to, and canvassed the views, of several ocean carriers serving the area.

The ASEAN region comprises 10 countries (Singapore, Malaysia, Vietnam, Laos, Myanmar, Brunei, Indonesia, Cambodia, Thailand and Philippines) most of which can be categorised as manufacturers producers for the developed world.

Since Q3 08, output has slowed and exports softened, with ocean carriers' utilisation levels, particularly on core tradelanes to North America and Europe, falling as a consequence.

'The whole ASEAN region has been affected, with several estimates putting the decline in container traffic volumes as high as 20% (March year-on-year comparison). In general, those countries with the highest proportion of manufacturing activity have encountered the worst results, with those focused on agricultural weathering the storm more effectively.

Inevitably, many ocean carriers are concerned about the situation, with Arnold Wang, chairman of Evergreen Marine Corporation (EMC), saying: 'Weakening consumer confidence in the US and Europe has caused a huge impact on the export-oriented economies of the ASEAN countries. With this contraction in cargo demand, the shipping market is suffering.'


Dhrubajyoti Das: Guarded

Thailand and Vietnam have been among the worst affected by the crisis in the region, with key containerised commodities, such as coffee, rubber, cashew nuts, wooden products and porcelain declining from between 10% and 45%. The import volumes have declined by over 20% and over 27% for plastic resins and chemicals in Q1 09 compared with Q1 08.

EMC's executive was particularly worried about Thailand, which is an important market for Taiwan's leading liner group.

He told *CI:* 'Thailand is probably the worst-hit country. Apart from the impact of global economic downturn, political unrest has interrupted supply chains and deterred foreign importers from purchasing products from it. The export trade is severely affected.'

Dhrubajyoti Das, the commercial director of Samudera Shipping Line (SSL), agreed with Wang. He said: 'In the ASEAN region, the worst hit place is Thailand. This is not only due to the economic downturn but also because of the political disturbance.'

While a Maersk Line spokesperson talked more generally about the region, the prognosis was similar.

'The market is really bad,' he said, 'but relatively speaking, we believe, we are better positioned than most. Being part of the AP Moller – Maersk Group, we have a stronger financial platform than many other ocean carriers.

'We have launched a plan not to just handle the challenges associated with the global recession, but also to ensure that we will be even stronger and more profitable in the long-term. We have launched initiatives and increased our focus in this area well before the current crisis hit the global economy.'

SSL, which runs several intra-Asia and feeder services in the ASEAN region, has also taken action in dealing with the downturn, which Das said had affected his company's cargo liftings and freight rates on several corridors.

He elaborated: 'We have not been exempt to these general economic conditions and have taken steps to rationalise our services as the demand has declined.'

The executive indicated that SSL's volumes had decreased by 23% to 278,000TEU in Q1 09 compared with the corresponding period of 2008.

Das added: 'We have terminated our China-India, Korea-Malaysia Straits and West India Express services. We have also reduced the number of vessels deployed on our Bangkok service from four to three.

'We believe the termination of these services will eliminate future losses that we foresee arising on the routes, while the reduction in the number of vessels will improve our load factors to/from Thailand and should help lower our unit costs.'

EMC has also downsized its operation, with Wang explaining that its fleet deployment programme was determined by profitability expectations on each tradelane.

Wang elaborated: 'Chartered vessels have been returned to owners on their expiry dates and we are also engaged in negotiations to adjust service charges at our terminals, the canals, intermodal service providers, etc.'

Wang and Das are both keen to negotiate more attractive terminal/stevedoring charges as they find it difficult to pay the existing charges with the current freight rates.

The EMC executive stressed: 'In order for us to maintain the sustainability of the whole shipping chain, there needs to be a corresponding adjustment in terminal charges given the declining freight rates. We are in discussion with our terminal operators to reduce the cost burden and we are making positive progress.'

In contrast, MCC's chief is not happy with the progress achieved. 'Renegotiating with terminals is part of our overall cost reduction efforts and we are continuously in discussion with our suppliers, but, to be honest, it is still far from what is desired.'

Wang claimed that as far as the ASEAN region was concerned no staff lay-offs had occurred.

He also looked at the situation from a slightly different angle and pointed to the efforts of several carriers (including Evergreen) to implement price recovery measures.

He told *CI:* 'In April, the success of rate restoration programs provided us with a good indication of a recovery in trading conditions on numerous routes, including the hard hit Far East/Europe trade.

'As the peak seasons approach we believe cargo volumes will further increase in the coming months.' However, the executive warned that the ASEAN region would lag behind the recovery elsewhere in the Far East, most notably in China.

Das also alluded to a 'recovery of sorts'. He explained: 'We have started to see the start of a pick-up in trade, principally, we think because of inventories in Europe, for instance, needing replenishing. This is taking place across the board – from China as to South East Asia.'

The latter area is extremely important for SSL as this is the region that provides it with the majority of its cargo volumes.

'Since South East Asia's feeder traffic routed through Singapore is essentially Europe-related, the ultimate pull factor has been firming consumption/demand in Europe. We hope that this trend is sustainable in order for the shipping industry to feel the real impact of increasing demand,' Das said.

But, Sea Consortium's managing director, Tristan Howitt, was not optimistic about prospects. He said: 'There are some indications of a recovery taking place in some places in China, but part of this is attributable to the annual peak and we may find a rude shock afterwards. Volumes perhaps came below their new natural level for a while as people de-stocked.'

Tim Wickmann, ceo of MCC Transport Singapore, agreed with Howitt. 'In the best case scenario the accelerated slide has come down but it's still too early to say if the market is on the path of recovery,' he said.

'Analysts are cautious and have referred to this as the "minimum inventory replenishment phase" rather than a "trend reversing" indicator.'

Carrier executives though appeared more hopeful of growth intra-regionally, with EMC's Wang, in particular, seeing benefits accruing from the stimulus package introduced in China and growing levels of domestic demand in the country.

'The trade growth from this sector (intra-Asia) has proved helpful and is making up for some of the decline experienced in traditional markets, for example, to Europe and North America,' he said.

Howitt though sees demand as being much quieter. 'The new levels of consumption are way below the peaks of last summer and there is no real indication that they will return for quite a while yet,' he said.

'Any improvement in vessel utilisation is largely because tonnage has been removed and not because volumes have grown.'

Referring to freight rate falls, MCC's Wickmann said: 'Intra-Asia corridors are a mix of very short haul (one day transit) and long haul (10 days transit). It is therefore extremely difficult to generalise the rate levels.

'There are corridors where structural overcapacities have brought the rates down by as much as 20%-25% while others have seen declines of just 5%-10%, compared with March/April last year.'

These figures suggest that regional trades have held up better than linehaul routes where average revenue per TEU on corridors such as South East Asia/northern Europe, South East Asia/Mediterranean and South East Asia/North America have slumped by between 30% and 40% in many cases.

Indeed, according to the Maersk spokesperson, in some trades current rates do not cover the variable costs of providing the service.

The poor and still deteriorating trading conditions have led to staff culls at some carriers, with APL trimming its global headcount by about 10%, including some significant reductions at the Singapore head office.

Sea Consortium, the specialised common-user feeder company, which is also based in Singapore has made changes too. 'We have reorganised a couple of back-office departments as part of normal changes,' Howitt said.

However, he stressed that no redundancies had occurred because of the economic crisis alone. 'Indeed, we have been recruiting new people into operations and sales, as we need to make sure we have the best possible people in place.

'Teams are needed so that we can expand out network and move quickly and efficiently when the recovery comes. There is a great deal of good, but worried, talent out there, and we will take advantage of this.'

Both Maersk Line and MCC Transport also have some sort of readiness in terms of staff placing and positioning in place.

'The ASEAN region will have a multiplier effect the moment the global downturn reverses. We tend to agree with economists who are now cautiously optimistic about the future growth in the region. The timing of reversal may vary, but best case is early 2010,' MCC transport's chief concluded.

Everyone in the loop is waiting for the turning point. But, when this will be, is the burning question.

Singapore struggles

The main ocean carriers based in Singapore – the principal maritime and logistics centre for the region – are all encountering very choppy waters at the current time.

APL, Regional Container Lines and the island's largest privately-controlled shipping group, PIL, are, though, clearly focused on surviving.

Consequently, the past six months have seen the companies implement aggressive cost-cutting measures, while focusing on margins and tailoring their respective networks to the softer trading (particularly export) conditions.

APL, which is controlled by the NOL Group, was the first company to take prompt action, with 1,000 staff being cut (about 10% of the workforce) and significant amounts of capacity lopped off services since October 2008.

NOL president, Ron Widdows, explained: 'The negative conditions we are seeing in the market place are unprecedented in our industry's history. This necessitates these very difficult decisions.'

On the capacity front, the main action taken by APL has included:

- A 25% capacity cut in the Asia-Europe trade, including the suspension of the carrier's China Europe Express service
- A 20% reduction in the transpacific, including termination of the PS3 service and revamp of the PCX operation
- Suspension of the intra-Asia SSX loop (Singapore Subcontinent Express)
- Laying up tonnage

The cuts in the longhaul network have been taken in conjunction with APL's partners (Hyundai Merchant Marine and Mitsui OSK Lines) in the New World Alliance.

APL sees the consortium as an important element of its operations, along with its investment in systems and practices that enable it to focus more effectively on the higher yielding cargoes. Nonetheless, the carrier recently experienced losses of USD245 million for Q1 09.

Regional Container Lines, the Bangkok-stock listed intra-Asian carrier is also losing money. The carrier incurred a loss of THB837 (USD23.1) million in 2008, compared with a profit of THB3.8 billion (USD128 million) in 2007. This was despite a 6% growth in containers lifted (2.9 million TEU).