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LOGISTICS REPORT

Megaships Proving a Drag on Ocean Carriers in Trade Downturn

Collapsing demand from coronavirus pandemic restrictions adds pressure to container lines operating half-empty ships

Megaships have become a financial albatross for ocean carriers during the coronavirus pandemic.
PHOTO: JERRY LAMPEN/SHUTTERSTOCK

By *Costas Paris*
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The megaships that were supposed to carry container lines into a new era of efficiency-driven profitability have become a financial albatross during the coronavirus pandemic.

Ocean carriers have canceled hundreds of services, parked ships and sent vessels on longer voyages to eat up capacity and preserve their finances amid diving trade volumes. But the ultra-large ships that have come to dominate container fleets in recent years are sailing half empty as a downturn in demand envelops Western economies under lockdowns.

Shipping-industry experts say the economic disruption from the pandemic restrictions has laid bare a key weakness in the vessels that can carry some 20,000 boxes each and are as long as the Empire State Building is tall.

The ships provide big operating-cost savings on major trade lanes in periods of high demand, but critics say they also box in ship owners, giving them little flexibility to shift vessels around in response to changing markets.

"A very large boxship is like the A380 superjumbo," said Lars Jensen, chief executive of Copenhagen-based SeaIntelligence Consulting, comparing them to the Airbus SE double-decker jets that failed to gain traction in aviation markets. "It only works in specific corridors, otherwise it's too big."

Container ships move the vast majority of manufactured products, and operators touted the behemoths as a tool that would boost global trade. Ship operators said they allow liners to spread operating expenses such as fuel and crew salaries across more shipments, allowing them to offer lower freight rates to customers and effectively decrease the cost of transportation that is a backbone of global trade.

As the coronavirus pandemic took hold and demand collapsed, ultra-large container vessels have been sailing half full or sitting in anchor by the dozens, waiting for the world to open up again.

Liner operators have so far canceled more than 380 sailings since February across the world's busiest trade routes due to the coronavirus shutdowns, and shipping analysts expect more cancellations as rising unemployment and weakening manufacturing and retail markets severely curtail demand.

Denmark's A.P. Moller-Maersk A/S, the world's biggest container line by capacity, according to maritime data group Alphaliner, in 2013 introduced the new generation of ultra-large ships with capacity for 20,000 20-foot equivalent units, or TEUs, a standard measure of container capacity. They were double the size of the largest ships the industry operated just 10 years earlier. That jump-started a competition among carriers to get bigger ships, and the ships are now a mainstay on the world's busiest trade lanes between Asia and Europe.

The biggest ships on order today can carry the equivalent of about 23,000 containers, and designers are working on adding still more. These vessels require big shipping channels, large berths and supersized cranes that only the biggest ports own.

Now even some liner companies seem to be questioning the rationale for the ships.

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> — Rodolphe Saadé, chief executive of CMA CGM

Rodolphe Saadé, chief executive of France's CMA CGM SA, said in a video message Thursday that global trade will change after the pandemic recedes, with production spreading out to more countries, giving rise to more regional trade.

"This crisis will impact world economic flows and necessitate that we all rethink our supply-chain models," said Mr. Saadé, whose company ordered nine 23,000-container ships in 2017. "Supply chains will need to adapt to sharp fluctuations between supply and demand."

Expanding regional trade would depend less on giant vessels operating with carefully choreographed port calls and instead lean on smaller ships that can be deployed more flexibly on point-to-point sailings.

Shipping executives have said the ideal ships for such business are those moving 14,500 containers. They expect demand for such vessels to be higher than other ship types in coming years.

“A 14,000-TEU ship is well suited to be redeployed from one trade lane to another,” said Mr. Jensen. “There will be more demand for this size of ship going forward. Big retailers will be asking for fast deliveries without lengthy transshipments.”

In the meantime, however, shipping lines are absorbing the financial impact by adjusting operations. Mr. Jensen expects the world’s 10 biggest carriers to lose between $800 million and $23 billion this year, depending on how they manage their capacity through the trade downturn.

The liners made a combined $5.9 billion in profits in 2019.

Ocean carriers will have a hard time shifting their broader fleet strategy, however. Shipping lines have many megaships costing upward of $140 million apiece on order—CMA CGM is due to start receiving the first of its next generation of bigger ships this year—and London-based Braemar ACM Shipbroking expects overall container capacity to increase 3.7% this year.

Shipping lines have postponed deliveries in the past but canceling orders would be an expensive proposition, and, in any case, many ships are already under construction and headed into service.

“If you had a blank sheet of paper and planned from scratch, you probably wouldn’t order these ships,” Mr. Jensen said. “But the big liners have invested way too much to sideline them and with the scrapped sailings, cargo owners will have to adjust to slower and less efficient service.”

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