WHERE'S THE LOGIC?

■ By Gary Ferrulli

JUST WHEN IT looked as if ocean carriers were nearing a recovery of some sort, with rate increases taking hold in the Asia-Europe and trans-Pacific markets, some contradictory reports emerged. Carriers stopped taking bookings in the Europe-to-Asia trade because of a backlog at European terminals, then announced another round of rate hikes apparently because of the heavy booking volume. Logical, right? But in the same trade, rate levels started to slip.

Pessimism surrounds this trade, because overall economic conditions in Europe may not be able to sustain the volumes needed to keep pace with new capacity expected to come on line this year. As with the stock market, the pricing has thus begun to anticipate the expected overcapacity. Why take advantage of the overbooked market now when you can lock up some future market share gains by lowering rates?!

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Just as a rate increase seemed to take hold, PIERS (a JOC sister company) issued an optimistic report on recovery in the housing commodity market — hardware, doors, furniture, etc. — that followed a somewhat subdued set of reports at the JOC's Trans-Pacific Maritime Conference in March.

Housing markets in 47 states had turned upward in terms of numbers of homes sold, decreasing inventory of available houses, increased prices and new home sales, according to the Commerce Department. All this is great news for U.S. imports. Carriers announced more rate increases.

Some may look at all of this and wonder what happened to the "let's get tough and see who lasts" attitude of a few months ago, an attitude built on the belief that predictions of overcapacity looked accurate, capacity management was already 2 years old and rates would fall.

For sure, some capacity has come out; how much is really a function of a snapshot in time that has as much to do with ship speed and rotation as with vessel count. But attitudes apparently changed, rates rose, and a much-needed cash infusion with revenue gains began.

To us highly experienced individuals in this industry, it's a familiar story. Years ago, I heard it referred to as similar to what lemmings do every four years: disappear after a population explosion. Some say they run headlong off cliffs for no apparent reason.

We're no longer in four-year cycles. Indeed, circumstances change much more frequently today. And the collective losses of the container shipping industry seem to be in no danger of becoming profits, at least not in the near term.

One other quick note on the recent quirkiness of the industry centers around FastShip, someone's dream of a super-fast, 36-knot vessel transiting the trans-Atlantic in three days and competing with the traditional ocean carrier and air freight markets.

After 20 years of trying to raise what was supposed to be $2 billion to build four ships and two terminals, one in Philadelphia and one in Europe, and having spent millions on vessel and terminal designs and having a small staff over an extended period of time, the company finally declared Chapter 11 bankruptcy. The remaining group has one last opportunity to get back some of the money it's spent: It's trying to raise money to fund a lawsuit for a form of patent infringement.

To some, the project had some logic when it was first announced, but to most who had been in the industry for any length of time, it was a fool's chase based on the theory that shippers would pay a premium price for a fast liner service.

A decade or so before, Sea-Land Service built fast vessels, the SL-7s, that sailed at more than 33 knots. The idea then was to differentiate Sea-Land from the rest of its container ship competition with super-fast ships that would demand a premium for speed. Problem was, fuel oil was about $3 a barrel when the SL-7s were designed. By the time they entered service, fuel oil was more than $30 a barrel, and the cost was so prohibitive the ships were slowed to 22 knots, losing their market edge.

Sea-Land quickly sold the SL-7s to the U.S. Navy, which, after converting them to roll-on, roll-off ships, used them extensively in Desert Shield and Desert Storm.

Those involved with the FastShip project spent tens of millions of dollars, and never got close to building or operating the ships. One would think that if logic prevailed in this industry, FastShips would never have garnered much interest, let alone the millions spent and lost on the design. But trends in logic within the industry never seem to change. JOC

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