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Commentary: Liner Job Losses: As Real As It Gets

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Many of us read with interest the financial results of ocean carriers and wonder, “Wow, how can they keep doing that?” Losing money that is. Some who pay attention to these matters, I’m going to guess, take a jaundiced view — “It couldn’t happen to nicer guys.” Maybe a third group doesn’t really think much about it. “During the course of time,” they might think, “ocean carriers come and go. They make money at times, lose money at times. So what?”

Maersk Line’s June 1 announcement that it was laying off 400 employees just may have changed some views, but I doubt it. Some 400 people working for a highly successful company suddenly were out of jobs. And if the rumors are true, another major carrier will make a similar announcement, this time said to involve 500 people.

Such figures serve as a reality check: They’re no longer just figures on a piece of paper; they’re people whose families depend on their income and benefits. Let’s hope the industry recovers, and those out of work are rehired quickly.

But I think these are signs of structural problems in the industry and, combined with reported losses and other financial matters, the industry may be in more serious trouble than most would believe.

Take, for example, the fact that in the past two-plus years, so-called major carriers have announced vessel orders, yet none were built for those carriers. They couldn’t get the financing. In a sense, that might have been fortuitous: If they had, their balance sheets would be worse than they are.

Midsize carriers are trying to find ways to remain relevant by joining alliances and super-alliances — after all, being part of something big is better than not being at all, right? And it does spread the risk, doesn’t it? Or does it just lessen the downside as well as the potential upside?

Some carriers apparently can withstand losses for a period of time, but that bears this question: Why be in a business where the idea is to lose money long enough for your competition to go out of business? Can you make it up in the long run? Container shipping for decades has been marked by boom-and-bust cycles, but the investments were nothing like we’re seeing today.

Some of that investment is in hardware that can and has taken a beating from the standpoint of real dollar value. Consider the 10 13,800-TEU ships Evergreen is building at an announced price that is $40 million less per vessel than those bought just two or three years ago. So not only are those 2- or 3-year-old vessels losing money for the ongoing operations of those who bought them, but the assets are losing value dramatically.

Several business friends point to the lack of consolidation in the industry — if the atmosphere is so bad, why be in it? Why haven’t more chosen to leave? That’s a great question and in some ways easy to answer: Some governments want their so-called national flag fleet for business and political reasons.

Other nations seem less interested in that, choosing to watch certain segments of their businesses slip to marginal returns, at best. But what about those with no real governmental attachment, pure commercial enterprises that exist based on profits and losses? Those are the companies — and there are plenty of them — most at risk. What do they do? Why are they still in it?

You have to look back to 2010 for the answer, I think. Carriers were coming off a year in which they lost $20 billion collectively, by many experts' estimates — $16 billion among the publicly traded companies issuing financial reports, and $4 billion by those privately held that make no public financial disclosures.

But in 2010, the carriers collectively (minus one) anchored more than 575 container ships for a lengthy period, bringing the supply-demand ratio to a point where they could raise rates, not once but multiple times during the year. Guess what? They all made money, a lot of money, so those who may have been on the brink at the end of 2009 decided to stick it out.

But they changed tactics again in 2011. They didn't anchor more than 500 vessels. They didn't raise rates, and instead lowered them to ridiculous levels while fuel prices rose to record highs. Huge losses ensued, again. And 2012 started off where 2011 ended, with more huge losses.

There is again some glimmer of hope for carriers. Some rate increases have held. The trade markets are plodding along as expected, but with concerns about the strength of the peak season. Something the press hasn't played up is the increasing rate of vessel scrapping, with the average age of scrapped vessels dropping from 28 years to 25 in the past couple of years.

And, for the first time in several years, shipbuilders' order books are light, with the percentage of global capacity the smallest it's been in nearly eight years. And fuel prices have dropped significantly over the past few months.

But are these signs of real recovery or just another temporary blip of improvement in a flawed industry? Ask the 400 former employees of Maersk. They know what's real and what isn't.

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