TSA

Transpacific Stabilization Agreement

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ASIA-U.S. FREIGHT RATE INITIATIVE CONTINUES WITH PHASED INCREASE

Two-stage adjustment over December-January is seen as prelude to upcoming contract negotiations.

Oakland, CA / November 21, 2013 – Transpacific container shipping lines see late holiday season shipments in December and the pre-Lunar New Year period in January as pockets of particular strength in the Asia-U.S. trade and as an opportunity for badly needed revenue recovery, with a recommended two-stage increase in freight rates.

Member lines in the Transpacific Stabilization Agreement (TSA) have adopted guideline across-the-board increases of US$200 per 40-foot container (FEU) effective December 20, 2013, and $300 per FEU effective January 15, 2014. With freight rate levels in the trade still well below sustainable levels in the trade, even after achieving partial success with a previous November 15 increase, carriers say it is critical that they take full advantage of any periods of strong demand and continue to build a healthier revenue baseline for upcoming contract negotiations.

"The central truth in this market is that every carrier is operating at a loss," said TSA executive administrator Brian Conrad. "Some may achieve net profit from cost cutting, but the revenue line in each case is lower, and that has long-term service implications for customers." Conrad acknowledged the difficulty of raising rates in a highly competitive market, but said that pressures on carriers from capital markets and parent companies to improve profitability are gradually overtaking supply-demand considerations.

"There is an unrealistic perception that we have a huge capacity gap from Asia to the U.S. and therefore that rates charged in the short term transactional market, should serve as benchmarks for the entire trade in 12-month contracts," Conrad said. "This thinking devalues the service provided, ignores rising fuel, equipment and operating costs, and has now begun to affect the ability of container lines to access capital markets and even government support for the future."

TSA lines say they cannot accept contract demands for 2014-15 rates that are based on, or below, current short-term levels, and they cannot agree to provisions that extend free-time allowances, absorb a portion of chassis-related costs as carriers are exiting that business, or mitigate fuel surcharges. The revenue situation is sufficiently serious, they add, that irrespective of perceived supply-demand and other market conditions, they see the scheduled December and January rate adjustments as setting the table for significant additional increases contained in 2014-15 contracts.

TSA is a research and discussion forum of major container shipping lines serving the trade from Asia to ports and inland points in the U.S. TSA members include:

APL Ltd.
China Shipping Container Lines
CMA-CGM
COSCO Container Lines, Ltd.
Evergreen Line
Hanjin Shipping Co., Ltd.
Hapag-Lloyd AG
Hyundai Merchant Marine Co., Ltd.
Kawasaki Kisen Kaisha, Ltd. (K Line)
Maersk Line
Mediterranean Shipping Co.
Nippon Yusen Kaisha (N.Y.K. Line)
Orient Overseas Container Line, Ltd.
Yangming Marine Transport Corp.
Zim Integrated Shipping Services

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