Hanjin unraveling as US import rates set to soar

JOC Staff | Aug 31, 2016 10:40AM EDT

The exit of Hanjin Shipping from global trade will further cut capacity that liners have been working to steadily reduce.

The bankruptcy and apparent unraveling of Hanjin Shipping on Wednesday — the world's seventh-largest container line — following the withdrawal of support from its creditors after a lengthy period of financial distress, will cause an immediate upward adjustment in US import rates and untold headaches for shippers, sources told JOC Wednesday.

A set of sharp trans-Pacific spot rate increases will take effect on Thursday, as the ocean carrier announced it has put a hold on container loadings on ships, and forwarders and Hanjin's alliance partners are canceling bookings with the Korean liner and frantically seeking to divert freight to other container lines and the alliances in which Hanjin does not participate. JOC was told that Cosco, partners of Hanjin in the CKYHE Alliance, have ceased making bookings on Hanjin ships, as did a major forwarder according to what it told JOC.

Evergreen Line, a CKYHE member, told customers Wednesday that none of its cargo would be loaded onto Hanjin ships and that Hanjin cargo wouldn't be loaded onto the Taiwan-based carrier's ships.

Gemini Shippers on Wednesday warned its members of likely disruptions and delays of cargo riding on Hanjin ships and through its bill of ladings. With capacity from Asia to the US East and West coast already tight, the nonprofit serving various retail shippers urged its customers to book space at least three weeks in advance.

Trans-Pacific eastbound rates were already trending higher in recent weeks owing to higher utilization amid the peak holiday shipping season, and now they will go higher still. According to one large forwarder, carriers as of Sept. 1 will implement a $600 increase per 40-foot-equivalent unit for freight all kinds (FAK) cargo to a level of $1,700, representing a 54 percent rate increase from Asia to the U.S. West Coast. The rate to the East Coast will go up by $800 per FEU to $2,400, a 50 percent hike. Similar increases were announced to Vancouver, Prince Rupert, Houston, Mobile, and inland ports such as Chicago, Detroit, Memphis, Fort Worth, and Kansas City. This comes on top of recent increases that have largely held; spot rates to the U.S. West Coast have climbed from $753 per FEU in late June to $1,153 in the latest reading from the Shanghai Shipping Exchange's Shanghai Containerized Freight Index, a 53 percent increase.

Carriers will likely achieve these increases, and perhaps more to come, given that Hanjin, according to one larger forwarder, was carrying 20,000 TEUs to 25,000 TEUs in the trans-Pacific eastbound trade. The withdrawal of its capacity will create a rush of volume to other carriers who are already operating at 90 percent to 100 percent utilization.

According to the Agriculture Transportation Coalition in a member advisory on Wednesday, “There is currently, overall for all carriers, about 8,000 TEUs to 10,000 TEUs of unused capacity (in the) trans-Pacific eastbound. So if Hanjin ceases operations, suddenly we are in [a] massive demand-over-supply situation. Impact on westbound shipments will be significant, but may be less than for eastbound imports.”

“It is expected that rates will increase and capacity will tighten as previous Hanjin customers look for space with other carriers. This will create significant demand on a market which is already suffering from a lack of available space.” said Bruce Chilton, director of trade managment at freight forwarder Marisol International in an email bulletin.

In other words, although it's a constaint refrain that a bankruptcy won't alter container shipping overcapacity, in the short-term, significant capacity will be temporarily removed until the Hanjin ships find new owners and get deployed in new services. That could take months, and with the peak shipping season already under way the market impact will be immediate.

The rate increases come as the Hanjin business appeared to be coming apart on Monday. One large forwarder on Monday told JOC it was immediately cancelling all bookings with Hanjin. Another forwarder said it was told by Hanjin officials that the company is entering bankruptcy and to cease booking with the carrier. One forwarder told JOC on Wednesday that it is “devanning containers that are loaded at origin to get it on other carriers.”

In a customer announcement on Wednesday Hanjin said, “All containers intended to load on vessel are put on-hold for loading as per instruction of our Head office to avoid further problems that may incur at transshipment port.” It further stated, “Advance booking confirmation which has been released will also be put on-hold. Kindly refrain from sending out truckers to our CY [container yard] for empty container withdrawal, our CY has been advised not to release empty containers to truckers.”

“While Hanjin Shipping has not yet officially announced the court receivership, all new bookings, ground operations and loading processes have ceased,” Marisol's Chilton said.

Shippers on Wednesday were scrambling. According to one U.S. agricultural shipper, "We are currently pulling containers from the port and rail, and cross-docking product into other carriers. We have exposure with containers on the water and at ports right now. This is consuming a great deal of time and we are trying to be proactive with our communication with our customers."

Some saw the writing on the wall and took action in advance of the bankruptcy. Two non-vessel-operating common carriers doing business with Hanjin dramatically pulled back their exposure to the ailing carrier in June, according to an analysis of the latest data available via PIERS, a sister product of JOC within the maritime and trade business of IHS Market. Between May and June, Seattle-based Expeditors, the largest trans-Pacific NVOCC, went from shipping nearly 2,100 TEUs to moving under 100.

Vilden Global Transportation Solutions also pulled back its exposure in the same period, going from 2,334 TEUs to 663 TEUs. Expeditors and Vilden didn’t respond to requests for comment. Unlike Expeditors and Vilden Global Transportation Solutions, the third- and fifth-biggest movers of NVO cargo for Hanjin, Orient Express Transport, Orient Star International and an undisclosed NVOCC that commands the top spot increased their exposure. Translink, the fourth-biggest source of NVO business, reduced its monthly volume from 1,750 TEUs in May to 1,374 TEUs in June.

United Arab Shipping Co., a fellow CKYHE Alliance member of Hanjin, told customers Tuesday it was closely monitoring their cargo that is aboard Hanjin ships and has taken emergency contingency planning of such cargo.

China Cosco Shipping told JOC Wednesday morning that it hadn’t heard of any of its customers’ cargo on Hanjin ships being seized.

“We are trying to get all the information we can. Our first objective is to protect shippers,” said Howard Finkel, executive vice president of China Cosco Shipping Americas. “We have to find out legally what we can and can’t do.”

“We’re going into brand new territory so there are a lot of questions that need to get answered. This is going to hurt,” Finkel said.

A Hanjin bankruptcy, according to Alphaliner, would be by far the largest container line collapse in history, dwarfing prior bankruptices such as Cho Yang in 2001, Hainan POS in 2013, Grand China Shipping in 2013 and U.S. Lines in 1986. Hanjin operated a peak of over 600,000 TEUs of capacity at its peak, compared with barely 100,000 TEUs by U.S. Line and well less than 100,000 TEUs by Cho Hang. "Hanjin Shipping's potential bankruptcy would be the largest container shipping failure in history, dwarfing all previous carrier bankruptcies in absolute terms," it said on Tuesday.

The bankruptcy begins what will be a “complex insolvency process,” said the UK law firm Psydens, which issued aninitial advisory with preliminary details on shippers’ options. A big issue for shippers will be getting cargo released from terminals that are owed money by Hanjin and will use loaded containers as leverage to get paid. One forwarder told JOC on Wednesday that it has containers that have been refused release by the terminal because of unpaid balances owed to the terminal by the carrier.

"In a receivership situation, the party going into receivership cannot trade (accept cargo) once they know they are insolvent. Hanjin appeared to find this out on Tuesday when it was reported that key lenders had withdrawn their support," Psydens said.