



# Market Report 2/2024



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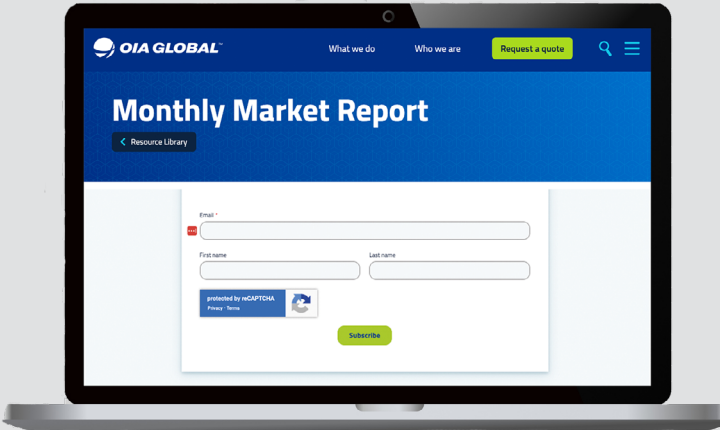
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### Note

All monetary figures are shown in United States Dollars (USD) unless stated otherwise.



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# Disruption



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## Red Sea Shipping Crisis

The Houthis of Yemen—supported by Iranian intelligence and technology—have targeted 40+ merchant ships with drones and missiles during the last three months. The maritime industry's first response was to wait it out, but **many people now realize the issue will not disappear anytime soon**. The CEOs of two major companies (Maersk & DHL) reiterated this sentiment, saying they expect the Houthi threats to **disrupt** shipping for weeks or months longer.

### MILITARY ACTION

- The U.S. and its allies continue to **raid** and **seize** weapon materials bound for the Houthi rebels but seized missile components have not ended the attacks.
- Unfortunately, there is an inherent futility in having <50 naval ships trying to **patrol** >2,200km of coastline.
- The U.S. military's Central Command forces continue to destroy the Houthi's anti-ship ballistic missiles as they are preparing to launch.

### MARKET TRENDS

- The Red Sea crisis **created** a capacity crunch and containers are becoming sparser each day. The decline in container tonnage has **increased** freight rates in many instances.
- Many sources expect freight rates to quickly **decline** when Asian factories close during annual Lunar New Year celebrations, which begin 10 February 2024.
- Most carriers implemented general rate increases (GRIs) in January and many of the price increases held.
- Importers are struggling to **access** containers at origin.
- Exporters from Asia should expect limited access to capacity.
- Demand for charters and feeder vessels is **rising**.
- Most ocean carriers have **stopped** offering long-term agreements in the Asia-Europe market because the ongoing disruption is making it impossible to assess the factors that often determine a fixed contract rate.
- Several smaller Chinese shipping companies have been opportunistically **re-deploying** their vessels to service the Red Sea and the Suez Canal, leveraging China's perceived immunity from Houthi attacks.

### INSURANCE

- Some ship insurance companies are starting to **deny** coverage for U.S. and U.K. merchant ships against risks in the Red Sea.
- Insurance premiums have **increased** from 0.1% normally to 0.5% of a ship's hull value.

### DIVERSIONS

- More than 500 vessels **carrying** 7 million containers have already **diverted** away from the Red Sea Corridor. According to Linerlytica, 350+ ships have been directed around the southern tip of Africa since 15 December 2023.
- Commercial ship transits via the Suez Canal have **dropped** to the lowest levels since the Ever Given blocked the waterway in 2020.
- Many ships are **re-routing** east-west trade lanes through the southern hemisphere whereas others are creating "land bridges."
- Diversions around the Cape of Good Hope have **spurred** an increased interest in air freight.
- 2M Alliance partners (Maersk & MSC) **told** shippers that their vessels should return to weekly departures soon after adjusting for the longer distances around Africa.

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Container fleet capacity is **expected** to grow +/- 10% in 2024 while demand growth for container shipping will hover between 3-4%.



Dry van **contract rates**—including a fuel surcharge—**dropped** to their lowest levels in nearly three years.



Many retailers are **reviving** “just in time” (JiT) inventory management strategies. Inventory levels surged during the pandemic, but many companies are now reluctant to rebuild their stockpiles.



## THE GEMINI COOPERATION

Maersk and Hapag-Lloyd **signed** a new long-term operational collaboration agreement—the **Gemini Cooperation**—which is set to begin in February 2025. The collaborative **endeavor** combines both companies’ fleets and will **cover** seven major trade routes, including Asia-U.S. West Coast, Asia-U.S. East Coast, and Asia-Northern Europe.

- 3.4M TEUs (60% Maersk, 40% Hapag-Lloyd)
- About 290 vessels
- The agreement has no expiration date but will be for the minimum 36 months + 12 months’ notice period.



Following Transnet’s collapse, the South African government is attempting to improve the situation by introducing more competition. South Africa’s National Treasury will **collaborate** with Transnet on initiatives to revive its operations and financial viability. It’s estimated that Transnet Freight Rail (TFR) will need to invest >Rand 50B in the next five years to increase capacity and improve performance.



The German government’s new budget **contains** widespread expenditure cuts for rail investment. Long term the country hopes to use more truck tolls to support rail infrastructure funding.



In 2023 Mexico **surpassed** China as the United States’ largest trading partner.



Qatar looks to **secure** its position as the largest liquified natural gas (LNG) exporter. Hudong-Zhonghua Shipbuilding **reached** terms with QatarEnergy for eight of its QMAX designs, with each of the massive ships **maintaining** a 271,000cbm transport capacity.



## Services

- ⊕ Qatar Navigation (Milaha) added its Upper Gulf Express (UGX) service to King Abdul Aziz Port in Dammam. This service will [connect](#) Saudi Arabia with five regional and global ports: Sohar (Oman), Jebel Ali (UAE), Hamad (Qatar), Shuwaikh (Kuwait), and Umm Qasr (Iraq).
- ⊕ Zim Integrated Shipping [launched](#) its first standalone express container service between Asia and Canada's Port of Vancouver. Zim's Pacific Northwest Xpress (ZPX) service [augments](#) the carrier's slot-sharing agreement with MSC for service to Canada's west coast.

### 🔄 CMA CGM'S SHORT SEA LINES DIVISION

- The Tyrrex 2 service [changed](#) from Malta to Western Italy, Sicily, Malta, and Algeria.
- The TMX 2 service [rescheduled](#) between Turkey, Malta, Italy, France, and Algeria.

## Mergers & Acquisitions

### FRENCH AIR PARTNERSHIP NEVER TAKES OFF

French shipping group CMA CGM and carrier Air France-KLM are [scrapping](#) an air cargo partnership after U.S. antitrust regulators [denied](#) their approval to operate North American routes, [barring](#) the joint venture from one of its biggest potential markets.



Vietnam's leading shipbuilder, SBIC (formerly Vinashin), will be [declared](#) bankrupt after multiple efforts to restructure the company have [failed](#).

A U.S. federal judge [backed](#) the Justice Department's efforts to [block](#) JetBlue Airways Corp.'s \$7.6B [takeover](#) of Spirit Airlines Inc. on antitrust grounds.

BlackRock [will pay](#) >\$3B in cash to investment fund manager Global Investment Partners (GIP), with the deal including several supply chain businesses: Italian high-speed operator Italo-NTV, wagon leasing company VTG and Australian freight operator Pacific National.

## Transport Technology

Methanol-powered engine orders [became](#) the most popular alternative-fuel choice in 2023. DNV's Alternative Fuels Insight platform shows 138 orders for methanol-powered ships in '23, beating LNG for the first time (130 orders).



Crowley [delivered](#) the United States' first all-electric, ship assist harbor tugboat, named [eWolf](#), which is set to operate with zero emissions, matching the full performance capabilities of conventional, fuel-powered tugs. It's only the third tugboat of its kind to enter operations worldwide.



# Technology



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## Infrastructure



Kazakhstan **began** construction of its third railway connection with China, with the double-track railway expected to be completed in 2027. The 272km line will run in a south-easterly direction from Ayagoz, Kazakhstan to Bakhty on the Chinese border before continuing toward Chuguchak in the Tacheng prefecture. The new rail line should boost freight capacity between Kazakhstan and China by more than 2/3, reaching about 48M tons per year, in addition to relieving congestion at the two preexisting border crossings.



Malaysia broke ground on its \$3.17B (MYR \$15B) Kuala Linggi International Port (KLIP) project. The port will be on the Malacca Strait and **includes** LPG and LNF storage tanks, a shipyard, heavy industry fabrication yard, hard-standing cargo handling area, wharfs, and warehousing facilities.



State-owned Cochin Shipyard in Kochi, India, **inaugurated** a brand new ship repair facility as well as a 310m long dry dock.



APM Terminals Suape will supposedly be the first 100% electrified terminal in Latin America. The port complex's capacity will **increase** by 55% to become capable of handling 400,000 TEUs annually.



Plaquemines Port Harbor and Terminal District in Louisiana **announced** plans to **develop** "a major container terminal" in cooperation with the global port operator APM Terminals.

- For context, the Plaquemines Port is **located** just 20 miles south of the Port of New Orleans and it sits adjacent to the Gulf of Mexico.



Infrastructure projects to expand and improve U.S. truck drivers' access to safe parking will **receive** \$292M in federal funding.





## Sustainability/ESG



The transport sector is responsible for 28% of greenhouse gas emissions in the U.S., according to the Environmental Protection Agency (EPA).

Diversions around Africa's Cape of Good Hope have increased travel distances and subsequently spiked the shipping industry's emissions.

Shanghai International Port Group (SIPG), the exclusive operator of all the public terminals in China's Port of Shanghai, and Taiwanese container shipping company Evergreen Marine signed a memorandum of cooperation on green methanol fuel supplies.

The U.S. government continues to support the country's transition toward zero-emission vehicles with significant funding for alternative-fuel and EV infrastructure.

Ocean Network Express (ONE) ordered the construction of twelve new 13,000 TEU methanol dual-fuel containerships, the first methanol-dual fuel vessels in ONE's fleet.

The United Arab Emirate's (UAE) Khalifa Port will install 48 Biohuts to protect biodiversity beneath the waves. The five-year pilot project is scheduled to begin in Q1 '24 at CMA CGM's upcoming terminal, with the project including a comprehensive monitoring phase.

Several Japanese firms recently signed a joint venture agreement to try and enhance the liquefied hydrogen supply chain that's currently in development by Japan Suiso Energy (JSE).



The transport sector is responsible for 23% of global greenhouse gas emissions, according to the Intergovernmental Panel on Climate Change (IPCC).



# Trade & Compliance



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## Laws/Legislation



On 26 January 2024 the U.S. government **halted** the **approval** of new licenses for liquefied natural gas (LNG) exports. For now, the pause has exceptions for “unanticipated and immediate national security emergencies.”



The Biden administration **awarded** \$623M in grants for EV charging infrastructure projects across the nation. Congress approved \$7.5B in the **2021 infrastructure law** to help meet the administration’s goal of 500,000 publicly available chargers by 2030.

A group of 29 U.S. senators **requested** information on Amazon’s Delivery Service Partner (DSP) program to analyze alleged worker mistreatment, negotiation and non-compete tactics, and the company’s legal liabilities, or lack thereof.



The U.K. government’s newly formed “Critical Imports Council” will **give** companies and officials a forum to **identify** risks to critical imports and develop plans to protect them.



The United Arab Emirates (UAE) will have updated shipping requirements for all goods being imported into, exported from, or transiting through the UAE. Effective February 29, 2024, the 6-digit Harmonized Commodity Codes (HS code) must be **added** in the FWB and FHL messages for all shipments in their Advance Cargo Information (ACI) Program.



The European Commission and various EU Member States and agencies **launched** the **European Ports Alliance Public Private Partnership** to combat drug trafficking and criminal infiltration.



Cyprus’ government **launched** the “One-Stop Shipping Centre,” a service that’s intended to elicit more registration of ships under the Cyprus flag and boost competitiveness of the Cyprus Register of Shipping.

## Tariffs/Surcharges

### EGYPTIANS IMPLEMENT SUEZ FEES

Egypt’s government raised waterway transit fees through the Suez Canal to boost income and compensate for reduced traffic.



- The Suez Canal’s revenues are **reportedly** down by 40% from the beginning of this year as compared to the same period in 2023.
- Price increases have **accelerated** on routes that traditionally use the Suez.
- Traffic volumes were **down** 30% between January 1<sup>st</sup>-11<sup>th</sup> as compared to a year ago, according to Osama Rabie, the head of the Suez Canal Authority.





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