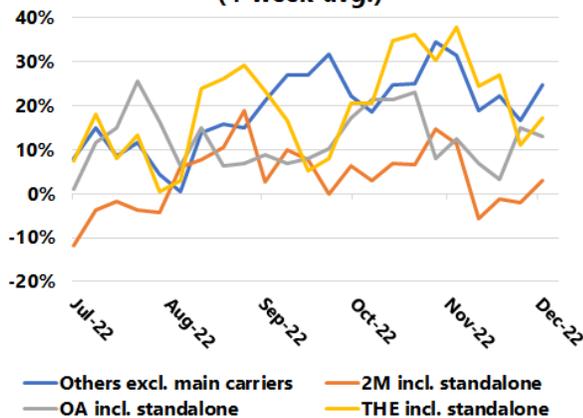


## Who fuels the price war?

As we have shown on many occasions, freight rates are primarily determined by changes in vessel utilisation, which in turn means that when shipping lines deploy “too much” capacity, they effectively contribute to falling rates, and in times of endemic over-supply, such as those we are currently heading into, over-capacity becomes “fuel” for a price war. While there is no objective measure for “too much” capacity, a starting point would be to compare how capacity growth lines up with demand growth.

**Fig. 1: Asia-NAM Cap Growth in excess of Demand Growth (4-week avg.)**



In figure 1, we have calculated the difference in percentage points between demand growth and capacity growth, for the three carrier alliances (including standalone services operated by the alliance carriers) and non-alliance carriers. A positive number means that a carrier alliance has seen their capacity grow more (or contract less) than the market demand, and as such how much they have “contributed” to the structural overcapacity in the market.

The 2M alliance has for part of the time contributed slightly to overcapacity, and for other periods have not contributed at all or have been reducing capacity more than the demand decline in the market. It also appears that MSC contributes more to capacity reductions than Maersk. Conversely, we see that especially THE Alliance carriers, as well as the non-alliance carriers, have contributed the most to the structural overcapacity in the Transpacific market.

This does not necessarily mean that THE Alliance carriers, Maersk, and the non-alliance carriers are at the forefront of driving freight rates down directly. But it does mean that these carriers are more “responsible” for the overcapacity in the market, than the other carriers. Also, a carrier might choose to not reduce capacity if they can fill their own vessels, but the net effect of this is structural overcapacity in the market, which does in turn fuel a price war.

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Sea-Intelligence is a leading provider of Research & Analysis, Data Services, and Advisory Services within the global supply chain industry, with a strong focus on container shipping. Combining strong quantitative analytical skills with a deep understanding of the supply chain industry, based on many decades of experience at all central parts of the Ocean supply chain, Sea-Intelligence supports customers across all stakeholder groups.