Labor strife, tariffs to shadow ocean shipping in 2025

Alliances shuffle as supply chains realign

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Tuesday, January 07, 2025

Expoect ocean shipping to see some headwinds in 2025. (Photo: Jim Allen/FreightWaves)

Ocean shippers can't be blamed for feeling a little seasick. Port strikes, trade concerns, changing carrier alliances and geopolitics will continue to roil maritime transportation in 2025.

Red Sea

The attacks on Red Sea shipping by Yemen-based Houthi rebels that all but shut down the Suez Canal to major carriers and reshaped global supply chains have shown signs of abating. The attention of Iran, the Houthis' main sponsor, has been distracted by serious domestic issues and Russia, which was reported to have provided maritime targeting data to the rebels, is mired in an expensive war with Ukraine and saw the fall of the Assad regime in Syria, where Moscow maintained naval bases. As a result, the Houthis have shifted their military efforts toward Israel while pressing token attacks on U.S. convoys.

Nearly all major ocean container lines in 2024 began diverting services away from the Red Sea and Suez Canal and around the Horn of Africa, adding as much as two weeks' time to voyages connecting Asia with Europe, the Mediterranean and the United States. But those more expensive routes turned into a windfall worth billions of dollars for carriers' profits, which soared by 600% in the third quarter of 2024 alone. So it's likely container lines will be in no rush to return to the region, at least not right away.

Alliances

There's a shuffling of carriers in and out of cooperative alliances, vessel-sharing agreements and slot exchanges, with new arrangements scheduled to take effect in February.

"MSC basically is going it alone, Maersk and Hapag-Lloyd are in the Gemini Cooperation after Hapag left THE Alliance, which is now The Premier Alliance of Yang Ming, ONE and Hyundai," said Lars Jensen, CEO of consultant Vespucci Maritime, on a recent podcast. "The Federal Maritime Commission (FMC) is still reviewing the competitive impact of Premier, which pushed back the start of its trans-Pacific services to May."

The Ocean Alliance of Cosco, OOCL, Evergreen and CMA CGM is unchanged.

Expect growing pains as the carriers work out cooperation.

"For the alliances — no matter how well-planned out — there will be disruptions," Jensen said. "We are talking about 500, 600, 700 vessels that need to change their rotations. This will not necessarily go smoothly. But by April or May, the new services will be stabilized. The FMC review is not really threatening to the Premier Alliance. In practical terms, no major impact."

Tariffs

While a global debate rages over the effects of threatened tariffs under the incoming Trump administration, changes to supply chains are already underway.

Tariffs on China imports levied during the first Trump administration and expanded under President Joe Biden helped put Mexico ahead of China as the United States' top trade partner. A number of American companies have moved manufacturing south of the border to take advantage of lower labor costs and favorable crossborder facilitation first under the North American Free Trade Agreement (NAFTA) and later the United States-Mexico-Canada Agreement.

At the same time, China has moved aggressively to nearshore production of U.S.-bound exports to Mexico, building manufacturing facilities and entire industrial parks, to take advantage of favorable terms when moving "Made in Mexico" products to U.S. markets.

Beijing has flexed its economic influence in the region through investments in Mexican ocean hubs by Chinese port operator Hutchison Ports and other entities, at Lazaro Cardenas, Manzanillo and Veracruz. The buildup in Mexico spurred the merger of Canadian Pacific and Kansas City Southern to form CPKC, the first North American railroad crossing three borders and offering single line service from Mexico through the American midsection to Canada.

Ocean carriers are changing, too, offering more direct services from Asia to strategic North American gateways.

"We're seeing a surge in manufacturing in Mexico, not in finished products from China but inputs that go into the manufacturing sector," said Gene Seroka, executive director of the Port of Los Angeles. "Here in Los Angeles, we're enjoying some of that business as well. Whether it's cargo that comes into LA and gets trucked down to Mexicali on the Baja Peninsula, or taking a doublestack train over to El Paso to cross the Zaragoza Bridge into Juarez, or continue on into Nuevo Laredo crossing at Laredo, Texas."

The integration of more ships and added capacity into the trans-Pacific is likely to proceed without much disturbance, Jensen said.

“There has been more capacity injection in the trans-Pacific [to the U.S.] than Asia-Europe. It is easier to do that there,” Jensen said. “That’s three to four vessels versus 12 in the Europe trade. Newcomers tend to favor coming into the trans-Pacific.”

China’s exports to the U.S. were 8% higher in November from the same month in 2023, and comparable to October’s 8.1% increase, according to data released by the General Administration of Customs Bureau. In contrast, imports declined on weaker consumer demand, and the central government plans to take significant measures to stimulate the domestic economy.

The resilient American consumer has fueled record container flows through China’s ports, the world’s busiest. Shanghai topped more than 40 million twenty-foot equivalent units through October, while overall volume at Chinese ports was up more than 7.6% y/y to 276.4 million TEUs. But persistent congestion has accompanied the surging box traffic, another factor shipping lines have met with blank sailings and rearranged schedules.

The diversification of some supply chains away from China to other countries in the region has also meant a reordering of vessel rotations, something for shippers to continue to watch closely.

More tariff-related change is coming. In December, Mexican President Claudia Sheinbaum signed into law an act that ends “border-skipping” under U.S. statute Section 321 which allows U.S. companies to import goods one order at a time from China to Mexico, for duty-free entry of shipments valued at $800 or less.

China has responded to U.S. tariffs by limiting exports of some rare minerals used in defense and technology-related production. These changes *in toto* will cause manufacturing shifts and further adjustments by ocean carriers.

The dark fleet

Container lines aren’t the only vessels to see changes. Merchant vessels linked to China and Russia have been implicated in several suspected incidents of intentional damage to undersea communications cables, and at least one pipeline. Utilizing commercial shipping is a less expensive, lower profile means for actor-states to carry out nefarious plans that could threaten the global maritime industry.

Of increasing concern is the Russian “dark fleet” — older ships lacking proper insurance with opaque ownership, flagged in countries with permissive, open registries — that are seen as ripe for fraud and a threat to the global maritime industry. Since Russia invaded Ukraine in 2022 the dark fleet has grown to 1,400 vessels, according to the non-partisan Atlantic Council. The International Maritime Organization (IMO) has implemented a number of measures to strengthen flag state and port state jurisdiction and control over the 60,000 commercial vessels currently operating in global trade.

Port labor strife

The good news here, as reported by FreightWays, is that the International Longshoremen’s Association (ILA) and port employers represented by the United States Maritime Alliance (USMX) are expected to resume negotiations on a new master contract covering dockworkers at dozens of ports on the Eastern Seaboard and Gulf Coast.

The restart of bargaining comes just prior to Jan. 15, the end of an extension of the current contract agreed to after a three-day strike by the ILA in October that shut down container handling and vehicle processing at ports from Texas to New England.

Automated container-handling remains a substantial obstacle to completing a new labor agreement. Ocean carriers insist it's needed to bring U.S. ports — the costliest in the world for shipping — up to global efficiency standards. The ILA argues that employers only want to eliminate union jobs, but the USMX counters that increased container volumes would create more dockworker positions.

If an agreement isn't reached by Jan. 15, the sides could extend the existing contract again. Another strike is also possible. But that would occur just days before the presidential inauguration Jan. 20, and while President-elect Donald Trump in December publicly backed the union's anti-automation position, an extended port work stoppage would cast a shadow on the beginning of his second term.

The uncertainty over a new contract, looming tariffs and the Lunar New Year when Asian factories close for several weeks led shippers to frontload imports through the end of 2024. Even as contract talks restart, ocean carriers are advising shippers to clear out loaded containers before Jan. 15, levying surcharges and shifting schedules in case container handling comes to a halt.

Still, as with assorted other disruptions, carriers have found that they can make money even when their ships aren't moving.

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