

[Air Cargo](#)

Do ocean carriers have a future in airfreight?

by [Stuart Todd](#) about 21 hours ago

Container ocean carriers have moved into air freight. Is it a flight of fancy or a long-term strategy?



Europe's three leading ocean shipping groups, Maersk, CMA CGM, and MSC, have pursued a fast-paced strategy in recent years that has transformed them from simple "box" carriers for international trade into something approaching 'one-stop shop' logistics players. Such diversification moves were triggered largely by COVID-19 and

the resulting supply chain chaos in its wake, which in turn brought into sharp view the need for both ocean and air freight capabilities in shipping goods around the world.

The unprecedented disruption to box ship schedules engendered by the pandemic sent freight rates skyrocketing, generating 'super' profits for the carriers and giving them the financial clout to set up airlines, purchase and lease aircraft, and acquire forwarders, LSP, and e-commerce fulfillment specialists.

The move into air freight, with the operation of wide-bodied freighters on major inter-continental trade lanes, was, as one of the Big Three put it, designed to offer "customers a new range of comprehensive, agile and customized solutions". But it was also driven by the attraction of spectacular yields that could be had as rates, like those in ocean freight, hit record highs during the pandemic.

Normalized Post-Pandemic Airfreight Market

However, Maersk, CMA CGM, and MSC are today operating in a 'normalized' air freight market, radically different from the one they entered. The airlines they set up are now confronted with tougher market conditions, with capacity once again outstripping demand.

With carriers' core ocean shipping business posting losses as rates fall amid a supply and demand imbalance, cost-cutting is high on the agenda after what have been golden years in the sector. Air freight, being a marginal activity within their portfolio of services, could be considered a prime area for the axe to fall.

"In general, when companies are making a lot of money they tend to look more at diversifying services in their portfolio. But when markets are tougher, they tend to move closer to the core again because the pressure on them is building," Niall van de Wouw, chief airfreight officer at market intelligence platform, Xeneta, told AJOT.

"I can well imagine that the CFOs of these carriers are scrutinizing everything that is not truly ocean core. So yes, the air freight market has changed but just as importantly, the ocean freight market has changed too."

Maersk, CMA CGM, and MSC were each approached by AJOT to respond to questions on the outlook for their air freight activities and whether their commitment to the segment remained intact. Even though market conditions are far from ideal, there is no evidence that they are ready to throw in the towel. "Without speculating on what the ocean carriers' strategy will be going forward, what we can say is that it is very, very difficult to make money from flying freighters," van de Wouw noted.

"The comparison often made is Cargolux and if you would look at their margins, outside of COVID, they are very low single digit, and you could argue maybe even less than the cost of capital.

"Air freight is an unforgiving market in many ways. Unless you run a very, very tight ship and you know exactly what you're doing, it's very difficult to make money over time, the last few years have been exceptional."

Market Turbulence

CMA CGM's cargo airline, CMA CGM Air Cargo, has had something of a turbulent three years in business with several changes in its top management, mostly recently the departure of air logistics veteran Peter Penseel, who has quit as deputy CEO and set to join Delta Cargo as SVP and president.

The abrupt termination of an intended decade-long partnership with Air France KLM Cargo after only one year has been explained by the failure to obtain regulatory approval to operate in the US market but there has also been speculation that the alliance ended because of losses at CMA CGM Air Cargo.

Whatever the reasons, the collapse of the partnership cannot be considered anything other than a major setback for the fledgling airline's ambitions while raising the question of whether it has the experience and the commitment to go it alone. (See AJOT's Q&A with CMA CGM Air Cargo's CEO, Damien Mauzadier.)

As for Maersk, the Danish giant underlined that its foray into mainstream air freight would see it replicate the structure that it had within its ocean fleet and was part of a strategy to provide customers with an 'integrated logistics' offering.

The "owned controlled capacity, powered by Maersk Air Cargo, is designed to make supply chain journeys more resilient and intuitive.... When combined with our ocean, inland, warehousing and customs services, it will power your supply chain in more ways than one," it told customers.

Commenting on the integrator model espoused by Maersk, Alex Irving, equity research analyst and director, of European transport, at Bernstein, told AJOT, "Ocean shipping with port terminals I think is a good idea but it's not obvious to me that there are meaningful synergies between a container shipping line and air cargo operations."

Long Haul or a Short Flight?

"Might they (the European ocean carriers) give up (on air freight)? Maersk probably not, given how committed they are to the integrator strategy. The others – possibly. I would think they could find buyers for the planes they have although this would be more driven by strategic considerations, rather than by cyclical factors of supply versus demand. I do think we'll get stronger demand coming through (in air freight) as the macro climate improves."

Compared to its peers, MSC came late to the air freight party, so to speak, but it has made up ground since then. In a webcast by Cargo Masterminds, earlier this year, Dannie Javel, the Switzerland-based group's SVP Air Cargo, evoked "a very exciting journey and very rapid growth" with the in-house airline putting together a fleet of four B777Fs, wet-leased from Atlas Air, in the space of around 14 months.

He highlighted the advantage of starting from scratch and not being hampered by legacy systems, "However, the responsibility is on us to make sure we build

something for the future and not from a habit."

He continued: "I'm a strong believer that wide-body capacity will always be needed for global trade. and we continue to work 'surgically' on those opportunities which we believe best suit our triple sevens, based on the profile and the commodity to offer a very focused premium product selection."

However, he did not downplay the "challenging" market MSC Air Cargo finds itself in today, particularly on the supply side with Asia passenger demand returning and with it significant belly cargo space.

"But the overall sentiment still looks positive for the next couple of years and the market should refine back to a normality of decent average market yields," he added.