Gemini vs MSC - titans look to reshape container market

A high stakes battle is taking shape in container shipping with Maersk and Hapag-Lloyd going head-to-head against MSC and other alliances with very different philosophies.

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Credit: Hapag-Lloyd

At a Glance

- Hub and spoke versus direct services
- Gemini Cooperation aims to offer premium service with 90% schedule reliability
- MSC's big advantage is fleet size

The launch of Maersk and Hapag-Lloyd's Gemini Cooperation will bring a new dimension to the container sector, a hub and spoke feeder service that is guaranteed to arrive within its scheduled arrival time.

Effectively Gemini is prepared to offer a premium service with industry high schedule reliability of over 90%. Competing with Gemini will be the traditional direct call services led by the world's biggest operator, MSC and two other groupings, the Ocean and Premier Alliances.

MDS Transmodal highlights the vast quantity of capacity that the two groups are armed with, which could see one of three outcomes, a battle royal will be declared for freight in a market with far too much capacity, leading to the tried and tested rate war. An effective race to the bottom.

Alternatively, Maersk and Hapag-Lloyd could be very successful in meeting schedules and will lead the way into a new method of delivering the world's goods. Or, perhaps more likely, a draw will be declared and cheaper freight will head to the direct lines, while the premium products will be shipped on Gemini's premium services.

"It is very difficult to predict what will happen," admits Drewry Shipping Consultants analyst Simon Heaney, who adds the possibility of a US East Coast port strike, which could start in January, into the mix will complicate matter further.

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Heaney believes the rewards for Gemini could be very high if the two carriers can achieve their stated aim, to deliver freight with over 90% schedule reliability, where the industry standard is staggeringly low, at around 50% reliability for some operators.

It is a theme taken up by Xeneta chief analyst Peter Sand: "I understand that there will be plenty of redundancy in their [Gemini's] network. I'm hearing that there will be extended delivery times to allow for on time deliveries."

Shippers want end-to-end reliability so Gemini's services will be under very close scrutiny, Ocean Alliance and MSC these will be considered safe choices, argues Sand.

"It will be a disaster for Maersk and Hapag if they don't meet their delivery times," added Sand, "Shippers, however, will want to see the proof of the pudding… it would be a massive loss of face if they failed."

According to analysts Sea Intelligence while Maersk and Hapag-Lloyd had the best schedule reliability among the top 13 lines in August 2024 they only managed levels of 54.7% and 54.3%, far below the 90% they are aiming to achieve jointly with Gemini.

Given that both Hapag-Lloyd's and Maersk's credibility is on the line Gemini's extended scheduling may also be supplemented by ousting any other customers from the carriers' hub ports, allowing mainline and shuttle vessels to be worked without delay.

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Costs in this hub and spoke system will inevitably be elevated, though none of the three lines contacted, MSC, Maersk and Hapag-Lloyd, had anything to contribute on this subject, and the next year and 2026 are not shaping up to be a high profit periods for container shipping in general, with chronic overcapacity, and newbuilding frenzy that began three years ago and is continuing today, expectations are that absorbing the coming capacity will be very tough for the lines.

"The market gravity over the medium term will mean that market forces will prevail," said Sand, "Different strategies will not prevent a fierce battle between carriers, if you dial back 12 months you can see rates falling, we should expect a highly competitive rate environment in the short to medium term."

Sand argues that the diversions around the Cape of Good Hope have absorbed the excess capacity so far, but that the market has now effectively used that required excess tonnage.

MSC's big advantage is the size of its fleet which has increased massively since the pandemic. The Swiss-based carrier has a little over 6 million teu loaded and ready roll.

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Like MSC, the new Premier Alliance, ONE, HMM and Yang Ming, will operate direct services on the Pacific and Asia/Europe trades, in a five-year deal due to begin in February next year. But currently these three carriers operate a combined 3.47 million teu, with a further 791,270 teu on order.

Only the Ocean Alliance of Cosco, including OOCL, CMA CGM and Evergreen, with a combined total of 8.72 million teu could offer similar levels of service to Gemini and MSC.

This is a fair amount of firepower ranged against Gemini, with all carriers wanting to raise vessel utilisation to profitable levels, even as freight levels fall in relation to the available space.

Cost cutting has always been the mantra in container shipping, particularly after the 2008 currency crisis, but MSC has "always had a creative fleet management policy when compared with its peers," according to Darron Wadey, an analyst with Dynamar.

"This is something that goes back to how it started in the early 1970s with second hand ships; it was not until 1996 that MSC received its first newbuilds," said Wadey.

Even in 2016 some 20% of MSC's fleet was comprised of older tonnage, said Wadey.

That may be about to change as regulation steers carriers towards more efficient tonnage.

"The juxtaposition of increasing emissions regulations whilst employing a significant proportion of older ships is one that could induce a change in MSC's employment of nearly superannuated vessels," claimed Wadey, adding, "it would not be a surprise if the share of older ships does reduce, especially over time."

Wadey believes that a rate war is not just possible but is "likely", he said: "the atypical demand patterns of 2023-24, influenced by a variety of disruptive events of which the Red Sea situation is the most significant and chronic, have only delayed the inevitable."

Some 590 vessels remain on order, much of that tonnage is due for delivery by the end of 2026. And with the market shifting down through the gears demolition will need to be ramped up, but as Sand points out, "Nobody can be shielded from fundamental over-capacity. Market forces will prevail."

Unless of course there is another disruptive event.