Economic winter beckons as container lines feel the heat

Container shipping's long hot summer is ending with a distinct chill according to Danish Ship Finance (DSF)'s latest market review.

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The review highlights an orderbook down 30% in 2025, compared to last year, and a market outlook that is decidedly frosty.

In addition to souring market fundamentals with capacity growth outpacing volume demand by some way, the transition to clean energy is adding to carrier woes with the costs of low or zero carbon fuels set to increase following the IMO's April decision to introduce a carbon pricing.

According to DSF volumes increased 7.6% between 2020 and 2024, while extended voyages added a further 12.3% to demand.

"However, fleet capacity surged by 33% during the same period – far outpacing demand growth. Still, the market experienced high freight rates as the active supply of vessels was reduced by supply chain bottlenecks," reported the DSF market review.

Following the US government's introduction of tariffs, 10% on all economies and until 14 May 145% on China, now reduced to 30%, Pacific trade in particular has ebbed away, while other major trades have also been affected as carriers shifted capacity out of the Pacific in an attempt to bolster spot rates ahead of the closing of the contract season.

Uncertainty created by Washington's tariff regime has been exacerbated by the recent agreement at IMO's Marine Environment Protection Committee (MEPC), which will see the implementation of global carbon pricing for the first time in 2028, aimed at incentivising low or zero carbon fuels.

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That change in regulation, introducing carbon pricing, has been long anticipated in the industry, but for owners the major challenge in preparing for this change has been the failure of regulators to define which fuel will dominate, which in turn would drive demand and stimulate production.

Instead, carriers have decided to hedge by opting for dual fuel LNG engines on newbuildings that can easily be adapted for ammonia or methanol, the two most likely net zero emission fuels, candidates.

As a result, dual fuel LNG engines now compose 55% of the current container ship orderbook, according to DSF statistics, for which owners will start to pay carbon fees within two years.

Yumin Han, researcher for the shipping team at South Korean NGO Solutions For Our Climate (SFOC) concludes: "The growing number of dual fuel vessels being ordered signals the shipping industry's response to mounting regulatory and environmental pressures. Rather than a passing trend, this shift reflects the sector's recognition that fuel transition is no longer optional but inevitable."

IMO carbon fees will be paid on a per tonne basis, estimated to deliver 8% cuts in maritime emissions by 2028 rising to 30% by 2035, raising up to $13 billion in annual revenues.

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According to DSF the growing uncertainty in the market and extra costs "will likely temper shipowners' appetite for new vessels until more clarity emerges."

Han argues that dual fuel engine vessels allow vessel owners and operators to order low emission fuels, creating demand for these new fuels.

"However, what matters is whether these vessels actually run on green fuels and the actual timeline for doing so. Dual fuel ships that continue to operate on fossil fuels are, in effect, no different from conventional vessels when it comes to emissions and offer no real contribution to decarbonisation."

SFOC believes that for the carbon pricing policy to be effective there needs to be rigorous enforcement of the regulation, followed by the rapid scaling up of green fuel production with greater incentives for operators to switch fuels.

"Without this, dual fuel technology risks becoming a loophole for delay, rather than a catalyst for change," said Han.

The question for SFOC, then, is whether the regulation will incentivise the shift to green fuels with its two-tier system.

By 2028 the greenhouse gas fuel intensity (GFI) measures will be in place with vessel emissions above the GFI base level of 4% charged at $380/tonne of CO_2e for remedial units (RU). Ships that emit less than the direct compliance target in 2028 can generate surplus units (SU).

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The base target will increase annually, reaching 30% by 2035, while the direct compliance level will reach 43% by that year.

SFOC believes: “The [IMO] decision marks meaningful progress in maritime climate governance, the level of ambition remains insufficient. The framework, as it stands, is unlikely to deliver the reductions needed to align the sector with the 1.5°C climate goal, and sustained international pressure will be critical to close the ambition gap.”

Three steps must be taken by the maritime industry for decarbonisation measures to be effective. In the first instance scalable low emission fuels must be available, while Sus for overachieving vessels must be of sufficient value to incentivise the shift and national governments must take measures to “bridge the cost gap between fossil and zero-carbon fuels.”

In this context the MEPC’s special October meeting importance is significantly greater and will ultimately decide the effectiveness of the IMO’s decarbonisation strategy.