

Largest Bankruptcy in Container Shipping Leads to Transpacific Disruptions

After its creditors decided overnight to stop lending financial support to South Korea's **Hanjin Shipping Co., Ltd.** the carrier filed for court receivership under Korea's insolvency law. Hanjin, a unit of the Hanjin Group, the conglomerate that also controls **Korean Air Lines Co.**, has been posting yearly losses since 2011 and has been under a debt restructuring program since May.

This is seen as the largest de facto bankruptcy in the industry, as Hanjin is the seventh largest shipping line with a global capacity of 609,500 TEUs across 98 container vessels (with an estimated daily shipping of 25,000 containers).

Effect on Service

Hanjin accounts for around 7% of Asia-U.S. cargo trade, which means that space capacity has severely tightened overnight on the Transpacific inbound and outbound trade.

Severe disruption is expected across the container supply chain as a result of the web of alliances, vessel sharing agreements and slot swaps, which make it difficult to isolate Hanjin freight from the rest of the supply chain. Repercussions will extend to all carriers but especially to Hanjin partners of the CKYHE alliance. Other members of the CKYHE alliance (China Cosco Shipping Corp., "K" Line, Yang Ming Line, and Evergreen Line), have begun announcing that they will immediately pull Hanjin vessels and containers from joint operations on all rotations and set up sub-charter agreements to ensure charter vessels continue sailing. An Evergreen Line press release sent today stated that no cargo will be loaded on Hanjin vessels and vice-versa.

Hanjin also stopped taking new bookings as creditors are threatening to seize ships. There have already been announcements of vessel arrests by order of creditors such as the Hanjin Rome (5300 TEUs) in Singapore and the Hanjin Sooho (11300 TEUs) in Shanghai when creditors ordered ports to deny entry or impound the vessel.

Out of concern that they will not be able to pay terminal fees, and to avoid having ships seized by creditors inside their terminals, ports around the world—including Shanghai, Xiamen, Valencia, Savannah and U.S.'s largest twin container port complex of Long Beach/Los Angeles—are blocking access to Hanjin ships that are currently at sea, leaving vessels stranded as they are unable to berth.

Effect on Pricing

Hanjin's announcement follows last week's GRI announcements by many steamship lines which are scheduled to go in effect this week in an effort to raise long-depressed prices. In addition, premium rates are being negotiated to guarantee space as everyone scrambles to move their cargo during the busiest season of the year.

What will KWE do at this time?

KWE is working diligently to find alternative solutions for shipments currently affected by these disruptions. We are exploring alternative measures to secure space for new cargo, but there is no easy or quick solution based on the size of Hanjin's deployed capacity.

KWE will continue to update its customers with further information as we receive it. If you have any urgent questions or concerns, please contact your KWE office for assistance.