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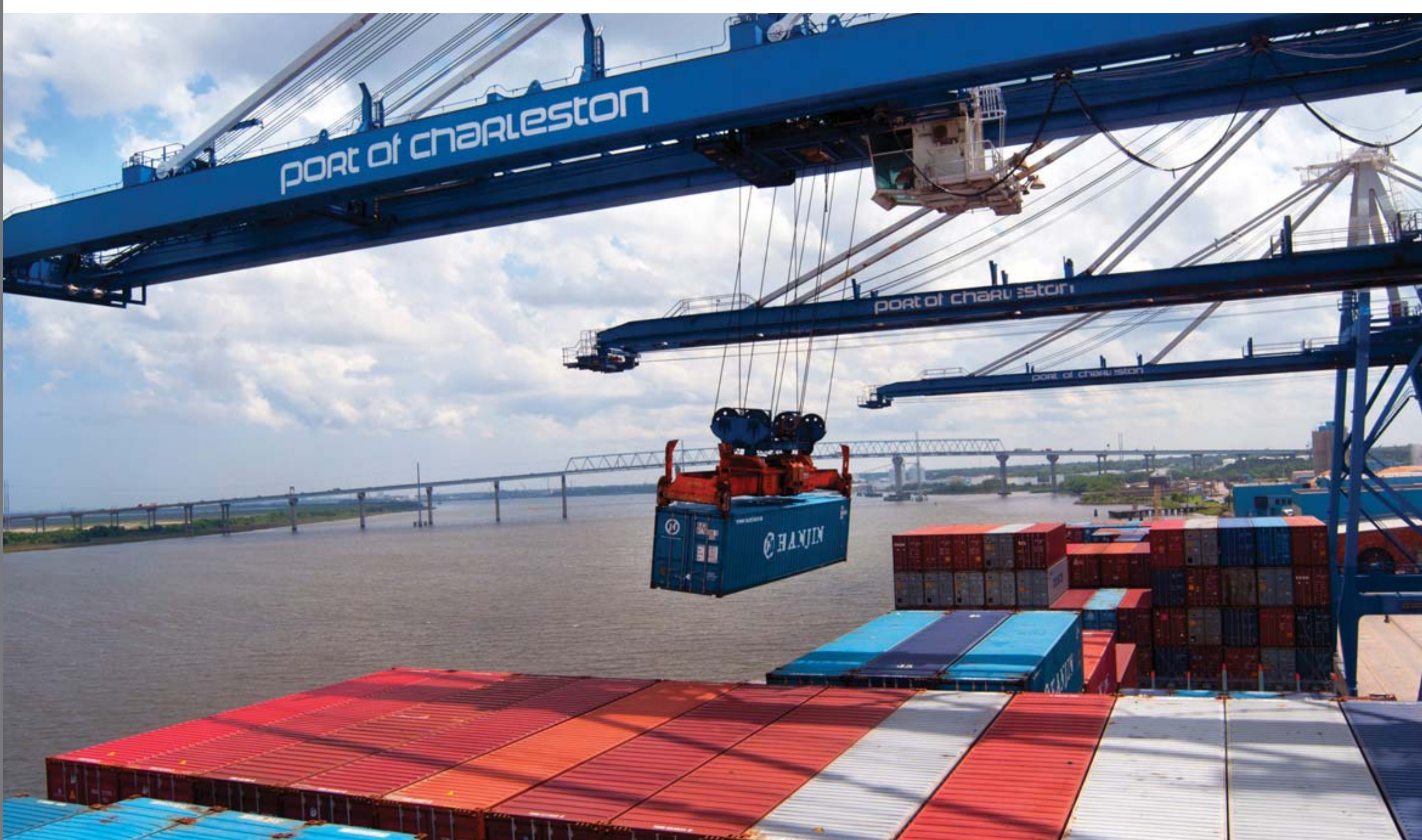
BARRY PARKER DISSECTS ONE THE MOST DISRUPTIVE EVENTS EVER TO IMPACT THE INTERMODAL SUPPLY CHAIN. THERE IS MORE PAIN TO COME, LESSONS TO BE LEARNED – AND CORRECTIONS APPLIED.

BY BARRY PARKER

The Hanjin Shipping debacle, brewing over time and seeing a full blown eruption in late August, is still ongoing. The company voluntarily opted to enter ‘receivership,’ followed by a Chapter 15 bankruptcy filing in the States, shortly after the initial bombshell. The move provided a template for Hanjin vessels to dock, and cargo to be discharged. By late October, most (but not all) stranded cargo had been unloaded; chartered-in ships had gone back to their owners, and Hanjin was seeking to raise money by selling off discrete portions of its business. As the drama unfolded, the Port of Long Beach (where Hanjin was historically a major player) showed September 2016 volumes down by 16.6% from the comparable 2015 figure. But, that’s only one part of the sordid story.

Underwater, Dragged down by Debt

By the numbers, Hanjin was severely overleveraged at a time that container shipping’s slump had also continued to deepen. Analysts at AlphaLiner, a specialist in the container trades, offered, “The company is the seventh largest liner in the world, with 98 vessels totaling



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IT IS TIME FOR ALL OF THE STAKEHOLDERS TO TAKE A HARD LOOK AT THEIR PARTNERS WITHIN THESE SHIPPING ALLIANCES. AND, WHEN THERE IS TROUBLE, THE PARTNERS SHOULD STEP IN TO HELP.

– William Doyle, U.S. FMC Commissioner

609,500 teu as well as 44 bulkers and tankers. It charters in 61 ships." Drewry Shipping, an independent consultant with finance expertise, weighed in and said, "The debt burden was just staggering and it doesn't surprise us that [lead creditor] Korea Development Bank effectively decided to pull the plug. As of end 2Q16, Hanjin had a total debt of $4.2 bn and net gearing ratio of 8.7x, and cash at hand being $156.5m."

By many accounts, Hanjin was beyond the point of being saved. For example, VesselsValue, the sister firm of a London (UK) based shipbroker, said that Hanjin's owned vessels were worth approximately $1.7 billion. As its implosion began, its debt to asset ratio (which considers its 37 owned vessels) of 250% was 3-½ times the 70% considered to be "aggressive" by ship finance experts. Those multi-billion dollar financial parameters nevertheless pale in comparison to the numbers surrounding the implications of Hanjin's collapse on cargo supply chains. Hanjin was moving just under 8% of trans-Pacific trade from Asia into the U.S. and 10% of the flows from Asia into Europe. And, the WSJ estimated that Hanjin was handling 3% of the global box trade.

Many industry participants were surprised when Hanjin threw in the towel, but some were not. Matthew Kobussen, Director- Global Logistics at Baltimore-based Customs Broker and NVOCC Samuel Shapiro & Company, talked about reading the tea leaves in the months preceding the collapse, telling ***Maritime Logistics Professional***, "In July and August, Hanjin was very aggressive in trying to get share – they were chasing the market very hard. Clearly, some companies gambled and lost."

Terrible Timing:

As the crisis unfolded, the most immediate problems concerned the disposition of cargo aboard Hanjin vessels, and vendors owed money at the time of the filing. Analysts estimated that as many as 500,000 containers were stranded aboard Hanjin vessels, with cargo belonging to an estimated 8,300 consignees worth $14 billion. According to Samuel Shapiro's Kobussen, South Korean companies LG and Samsung had 'major' exposure, adding, "The Chapter 15 filing definitely helped speed things along; we are looking at delays of several weeks – maybe a month, but not months and months. There are still vessels on the water; for these, there may be delays of two months," he said in October.

The timing of Hanjin's descent could not have been worse, coming during the peak season as retailers stretch supply chains, building up inventories for the end of year shopping rush. Clifford Adler, President of Kurt S. Adler Co., a high volume importer of Holiday season decorations and ornaments, told ***Maritime Logistics Professional***, "This is a bad situation because Christmas will not wait for these containers and some of our customers may cancel some of their orders. We didn't even have a contract with Hanjin, but got stuck on these ships through a vessel sharing agreement that Yang Ming (with which we do have an agreement) has with Hanjin."

Ultimately, Adler's first vessel arrived on October 13th, a month later than its original ETA. The containers were eventually off-loaded, but a final vessel, scheduled to arrive in late October, had already been arrested three times and its status was still unknown as this magazine went to press.

Enter the Attorneys

Predictably, Hanjin assets, all over the globe, were afforded little respite from the storm. In Vancouver, BC maritime lawyer Shelley Chapelski of Bull, Housser & Tupper told Maritime Logistics Professional, "The Hanjin Scarlet and the Hanjin Vienna were arrested in Canadian waters, at Prince Rupert and Vancouver respectively, in early September. The Vienna was arrested by our firm on behalf of ship docking company. We also act for other creditors against both vessels. After the initial arrest of each vessel by a creditor, various other creditors have filed 'Caveat Releases' which means that the ship cannot be released from arrest without giving that

THE FALLIBILITIES OF SHIPPING, WHICH HAS BECOME AN INVISIBLE DRIVER OF OUR ECONOMIES, IS SURPRISING MANY MERCHANTS WHO HAVE COME TO ASSUME THAT PHYSICAL DELIVERY SYSTEMS WORKS AS SEAMLESSLY AS THE INTERNET APPEARS TO OPERATE.

– Shelley Chapelski of Bull, Housser & Tupper

creditor the opportunity to obtain security for its claim. In effect, each has been arrested by multiple creditors."

Echoing the time frames described by Kobussen and Ludwig, Chapelski also reported that, nearly two months after the original vessel arrest, "Hanjin Shipping has just applied to the Federal Court of Canada to move the Scarlet, while it was under arrest, from Prince Rupert to a discharge terminal in Vancouver with the intention of discharging all of the containers and taking on necessaries. After doing so, it will return to an anchorage in BC. Assuming that the order is granted, the vessel will sail to Vancouver to discharge." She added, "We do not know yet if Hanjin will make the same proposal to discharge the Vienna which is owned by German interests." The lengthy time-frames were surprising. Chapelski added, "We have been surprised how long it has taken Hanjin and the insolvency managers to deal with the ships under arrest in Canada. Having a containership under arrest for almost two months is extraordinary in Canada."

The collapse of Hanjin spawned many other permutations; all requiring negotiation regarding payments and security. Ships were not allowed to dock, and when they did, disputes about holding 'empties' arose. Spot rates for moving containers then rose drastically in early September. Analysts at Drewry wrote that rate assessments increased by 42% to $1,674.00 (for a 40' box) on Shanghai/Los Angeles, by 19% to $2,151.00 on the Shanghai/New York, and by 39% to $1,826 on the Shanghai/Rotterdam route.

Hanjin's competitors quickly instituted new service loops. Owners of chartered ships also moved quickly. Peter Curtis, Chief Operating Officer of shipowner Seaspan Corporation (whose tough stance on renegotiating charters with Hanjin had made news throughout the summer months) told a late-October briefing of journalists in Vancouver, "…We are out of Hanjin now." Seaspan had three wholly owned 10,000 teu ships on ten year charters to Hanjin, along with four managed ships, owned by a related private-equity backed company.

Following the Fallout

By most accounts, the impact of Hanjin's collapse will extend far beyond the present legal tussles. That's because, says Robert Frezza, a Deloitte restructuring expert, speaking at the New York Maritime Forum (NYMF), the unwillingness of the Korean government (with the Korean Development Bank being Hanjin's largest debt provider) to fund a mismanaged company "…is sending a big signal to the rest of the industry." Longer term, the complexion of services and land-based assets will shift.

As Hanjin sought to raise money, the selloff of routes and terminals had already begun. Documents filed in a Korean bankruptcy court showed that Hanjin's Asia to U.S. business (including personnel) was for sale, with bids due in early November. Other filings had MSC looking at buying out Hanjin's stake in a jointly-owned terminal in Long Beach. Sales of owned vessels are also expected. All of this adds confusion to a muddled patchwork of carrier alliances where industry analysts already need a scorecard to keep the players straight.

The recent upward burst in spot slot costs notwithstanding, Gordon Downes, a liner shipping veteran and CEO of the New York Shipping Exchange (NYSHEX), sought to dispel notions of Hanjin related issues taking capacity out of the market. He told MLP: "The container shipping industry has been in decline for some time, and a market correction like this was inevitable. That said;

Hanjin's bankruptcy is not going to solve the excess capacity in the industry because their vessels will eventually find their way back into service."

Separately, and in October, Seaspan Chairman Gerry Wang asked, "Will Hanjin be the Lehman Brothers event for shipping?" Howard Finkel, COSCO EVP, also speaking at NYMF, said in way of an answer, "Unless the rates come up to a decent level, you may see other companies fall." Finkel described Hanjin as a wake-up call, adding, "… We cannot continue to operate like this."

Downes approached the issue with an operational focus, insisting, "As an industry, if we want to avoid these types of disruptions in future, we have to improve the fundamentals. For instance, the lack of contract compliance is a major problem today, causing chronic booking downfalls, shipment rolling and even blanked sailings." That's because, despite the aura of supply chain optimization throughout the world of logistics, the situation in the trenches can be very sloppy. Downes, also a veteran of Maersk, continued, "Merely improving contract compliance will help carriers to better plan their service networks and investments, while helping shippers improve their supply chain reliability. This could save the industry $23 billion of economic waste each year, potentially one of the stabilizing factors our industry clearly needs."

Lessons Learned

A different look at the big picture came from Shelley Chapelski, who said, "The fallibilities of shipping, which has become an invisible driver of our economies, is surprising many merchants who have come to assume that physical delivery systems works as seamlessly as the internet appears to operate." Behind all the legalities and logistical snafus, there is also a human side, she warns, adding, "What strikes me is that creditors expressed concern to me about the effect of their actions on Hanjin's people and customers. Even if Hanjin Shipping does not survive the insolvency, its former employees and cargo customers are bound to show up again when other operations take over its liner services. The creditors did not want to burn bridges with those people and sometimes moved reluctantly to arrest the ships and protect recovery of the debts owed to them."

The aftermath, therefore, contains important lessons for cargo movers. Mr. Kobussen, in discussing the role of the NVOCC, offered, "We have an obligation to our customers; we need to make careful decisions. These can't be at the expense of our customers. It's important to do your research; due diligence and understanding the financials of the carriers is the key. We place a huge value on diversification and the ability to make adjustments on the fly." Within those decisions, a cogent strategy is critical to the final outcome, he said, continuing, "We have contracts with many carriers. We manage them and provide space to our customers. It is a volume thing, but in such situations, you need to manage all the pieces of information so that you can manage the risks."

As with any crisis, the commercial and consumer input to the solution is critical. So, too, is the regulatory angle. William Doyle, a U.S. Federal Maritime Commissioner, also weighed in and pulled no punches. "It is time for all of the stakeholders to take a hard look at their partners within these shipping alliances. And, when there is trouble, the partners should step in to help." That means, he adds, vetting who you do business with, before you engage in those contracts. Beyond this, he insists, "The marine terminals could have moved faster so that shippers could find another carrier to move their goods." Too many cargo owners were hit with horrific demurrage charges when Hanjin was unable to pick up contracted cargo, and the terminals themselves were unable or unwilling to expedite the process.

The ultimate irony of the Hanjin tragedy may well reside in the fact that, within the struggle to extricate even a single container from an arrested boxship, the end-user (consumer) has finally come face-to-face with just how important the global supply chain is to the average person. That it took something as impactful as Hanjin's collapse to do that may be symptomatic of bigger problems, as yet uncovered, within the greater supply chain.

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