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Ocean Carriers Battle the Covid Cargo Crunch

Washington, D.C., 14 January 2021 - The unparalleled disruptions to the international supply chain experienced over the last year are not caused by one party in the chain; they are the result of sudden and radical changes to the demand for goods due to the impact of the Covid-19 pandemic. Industry analysts, observers and participants agree on that. To get through this time and stabilize supply chains all parties need to work together, taking a constructive approach rather than assigning blame.

Pulling out all stops

Ocean carriers are taking all available measures to improve the speed and efficiency of cargo movement including employing all available vessel tonnage. When demand dropped some 20-30% in Q2 2020, carriers curtailed services and idled vessels. However, as cargo volume rose, carriers redeployed those assets as quickly as possible. Alphaliner concluded at the end of 2020 that the inactive fleet was at just 2.5%, and more than half of that (62%) represents ships that are in shipyards for repair and other services. Mid-January normally marks the beginning of capacity reductions in anticipation of the Chinese Lunar New Year holidays when factories in Asia close, but that is not the case this year, indicating that carriers will make best possible use of this time to clear volumes out of Asia.

Further, carriers are sharing capacity to maximize efficiency. Vessel sharing agreements are extremely important during times of high demand for vessel capacity. They ensure that all available slots are used even when an individual operator does not have sufficient demand from its customers for a particular sailing. With a vessel sharing agreement, that capacity can then be made available to other partner carriers to offer to their customers.

Contrary to some suggestions, carriers are not abandoning capacity investments for the future. Just recently, Alphaliner concluded that: “despite the fears of a market collapse at the time of the Covid-19 outbreak, 2020 concluded with a significant increase in ordering activity,” with the global order book for new container ships growing to 10% of global capacity.

Factors affecting service reliability

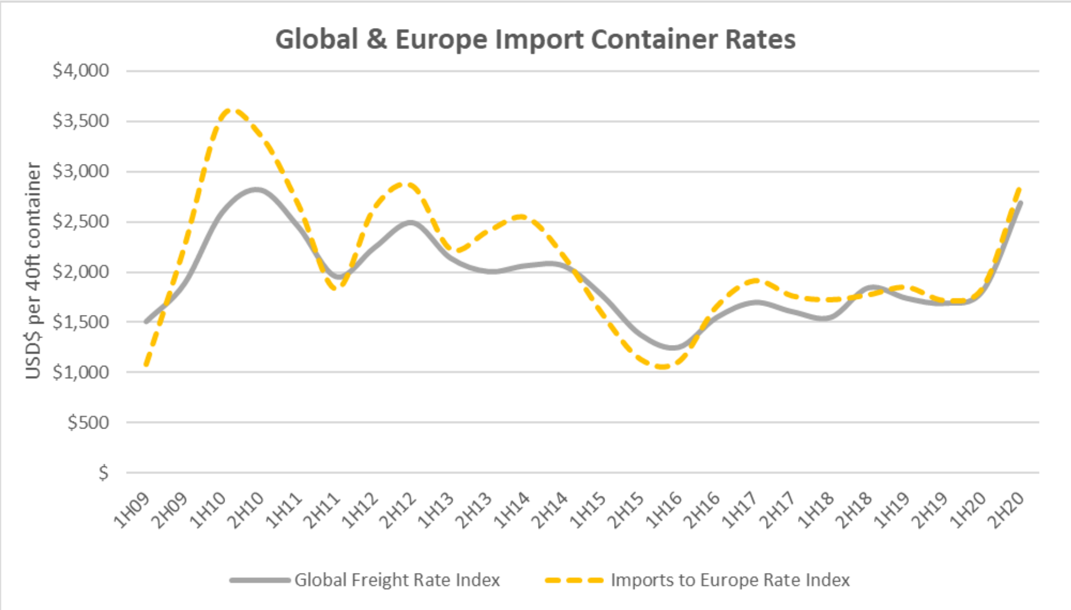
The pandemic has severely impacted access to containers and equipment. As inland transportation, port and warehousing operations have been hit by lockdowns, labour shortages and volume overloads, the positioning, use and return of containers within the global supply chain has slowed. In addition to maximizing vessel capacity, carriers are working to improve access to container equipment. They are speeding the repositioning of excess empty containers and purchasing, leasing, repairing, and dispatching all available containers. Unfortunately, more containers are simply not immediately available, so all steps must be taken to improve the utilization of the existing container fleet.

The delays occurring on land have a direct impact on carriers’ ability to dock and unload ships according to schedule and on carriers’ ability to provide empty container equipment when and where it is needed. It is important that all users of the equipment, including customers and inland transportation providers, promptly return empty containers in order to make that equipment available for the next customer.

Rates fluctuate with demand

Despite actions to increase available vessel capacity, the demand for capacity far exceeds supply. As in any free market, this puts upward pressure on rates. Shippers and forwarders are understandably not pleased, but one must not forget that this is the same market fundamental that kept rates very low for several years. History shows that rates fluctuate over the years as supply and demand shift, moving from high levels fairly quickly as market conditions stabilize.

This pattern is quite evident when looking at Drewry's average global rate index for the past decade. Rates rose in the second half of 2010 during the recovery after the recession years of 2008 and 2009. As vessel capacity and cargo demand came more into balance after that the rates declined steadily until reaching a low in 2016.



[i] Source Drewry, for details see endnote.

Time to collaborate

In global supply chains, manufacturers and retailers normally operate with months and years of forward planning. Carriers invest billions of dollars in vessels and other assets based on expectations for the next 25-30 years. No part of the supply chain is geared to managing the extremes currently occurring, and calling for regulation in such an abnormal situation will not solve our current issues.

All parties are doing what they can to manage their way through this unprecedented pandemic. Unfortunately, they may unknowingly cause issues for other parties in the chain. Closer dialogue is necessary for us all to better understand how to support each other and collaborate for better outcomes. To remove bottlenecks, container velocity must increase, forecasting must be more accurate, and transparency must increase across the supply chain. Ocean carriers are doing their utmost to manage the supply chain disruptions caused by Covid-19 and invite all parties to engage constructively to do the same.

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[i] **Notes:** Drewry's container freight rate benchmarks for multiple trade routes and port pairs are based on averages of representative rates paid by freight forwarders to ocean carriers. The rate benchmarks represent spot market rates for Full Container Loads (FCL) paid by freight forwarders to ocean carriers for a particular month or week. They are affected by seasonal and short-term supply-demand factors, notably by the peak season in the trades from Asia. The monthly/bimonthly rate benchmarks are All In (i.e. all inclusive) and include the base ocean rate, the Terminal Handling Charge (THC) both at origin and at destination, the fuel surcharge (BAF) and all other surcharges levied by ocean carriers. They do not include documentation charges or inland transport costs (except for rates to US inland ramps). The rate benchmarks are for standard dry freight containers.