Current state of the container market
“The perfect storm”

Please note the information contained in this presentation is correct at the time of writing 21/07/2021. However, the market is highly volatile and is likely to change.
Overview

• Last year has seen all modes in the supply chain put under significant pressure

• Issues in the maritime sector are significant and global:
  • A maritime string visits more ports than any aircraft routing ever would
  • Impacts at one location:
    • Create knock on effects throughout the route
    • Impacts vessels of other carriers berthing at same ports
      – Delays, missed calls etc
  • Numerous parties in the supply chain – carrier, ports, tug operators, stevedores, truck operators, freight forwarders, importers and exporters
Problems in the container industry – The Headlines

• “Mid value products getting “priced out” of ocean freight” (02/06/2021)
• “US Box Imports continue setting records” (08/06/2021)
• “Rates crisis favours larger shippers” (15/06/2021)
• “Blanking rise as Yantian disruption continues” (18/06/2021)
• “Further Asia-Europe ocean freight rate rises expected” (23/06/2021)
• “Shippers urges to book early for peak season” (15/07/2021)
Putting the matter into perspective

- Current market conditions are brutal and probably the most challenging the sector has faced in recent years
- Whilst some blame the shipping lines, other experienced forwarders take a more balanced view:
  - “I have been in this business for over 40 years, and no-one, whether a forwarder, carrier, or shipper has ever before experienced what we are now going through”
  - “I do not think that anyone could accuse the carriers of antitrust behaviour. This is a pure supply and demand situation.”
  - “Prices are soaring in other industries as well, and yet there is no talk about collusion elsewhere.”
Why is the current situation such a shock?

• Shipping has become commoditised, rates have been forced down over a 20 year period:-
  • Rates have been at historically low levels over this period
  • Financial crisis of 2007/2008 led to negative rates
  • Last 10 years have seen 20 carriers consolidate to about 6-7 main carriers operating in 3 alliances
  • Capacity reduced to balance supply and demand

• Relative service reliability and low rates encouraged:-
  • Growth in global trade
  • Just in Time – with low inventory levels
Impact of COVID-19 – overview

• Any disruption in the maritime supply chain has disproportionately large and far reaching impacts

• COVID-19
  • Initially affected China, impacted manufacture and exports
  • Then moved to consumption economies impacting imports.

• Subsequent COVID-19 waves have been disruptive and unpredictable:-
  • Reducing capacity and efficiency due to Health and Safety procedures
  • Port closures, e.g. Yantian in June/July 2021
Impact of COVID-19 immediate impacts

• Q1/Q2 2020 – Pandemic outbreak:-
  • Suspension of many business activities
  • Initial global decline in demand was -14%
  • Shipping lines reduced capacity

• Q3/4 – Demand returns:-
  • Rapid recovery of consumer demand from June 2020 onwards

• Disrupted supply chains led to:-
  • Container shortages due to demand/supply imbalances
  • Poor schedule reliability
  • Port congestion – globally 300 container vessels awaiting a berth on 14/06/2021 (76 off Yantian)
Are we at a crossroads?

- Current situation has highlighted that the global supply chain is very brittle:
  - Carrier and port capacity is relatively finite
  - Difficult to increase this capacity quickly
  - All parties need to expand capability at the same time
- Carriers and their customers need to re-evaluate:
  - Their commercial relationships and
  - Agree service levels
Role of demand in the current situation

• Since Q3 2020, maritime leaders have been advising that consumer demand is causing capacity problems.

• In the 5 months until 31/05/2021 container lines had globally shipped 73.3 million TEU:
  • 13.99% increase on the same period in 2020
  • 5.9% increase on the same period in 2019

• In May 2021 the lines shipped 15.2 million TEU
  • 14.3% increase on May 2020
  • 1.7% increase on May 2019
USA - additional factors

- America is the World’s largest consumer market:-
  - In the 12 month period to July 2021 consumer demand increased by 10%
  - Previously increases in consumer demand has never exceeded 4.7% in a 12 month period
- US business is replenishing very low inventories
- These two factors have created demand and contributed to imbalances in the global container market
Impact on rates/service

Most direct consequences of the current situation are:-

- Increased rates
- Rolled cargo
- Carriers prioritising loading profitable cargo above restituting empty containers
- Other issues in support industries e.g. lack of drivers to collect/deliver cargo
Rates—demand led increases

• Spot rates have increased by a factor of 10 over a 12 month period

• Headlines:-
  • Freight rates on the Asia-Europe trade lane of the Shanghai Containerised Freight Index breached the $6000.00 per Teu for the first time ever in June 2021
  • Lloyds List reported on the 15th July that spot rates were approaching $18000.00 to $20000.00 for a Feu.
Rates – other impacts

• Traditionally spot rates have been a small part of the market
• Most large cargo interests have long term contract rates
• Mixed picture:-
  • Some forwarders indicate rates are honoured but no allocation increases at the contract rate are possible
  • Some forwarders are stating that their allocations have been cancelled in June
• Complaints that lines are prioritising most profitable cargoes
Rates – other impacts

• Higher rates leading to price inflation:
  • Freight cost is included in duty calculation
  • Increased cost of shipping

• Most significant impact will be on low value but bulky cargoes e.g. assembled furniture and some sports products such as kayaks etc.
Rates - final thoughts

• Current level of rates are not sustainable:
  • Anticipated that high levels will be maintained until the end of 2021
  • Possibly until Chinese New year 2022
• Most agree that “new normal” rates will be at a higher level than pre-pandemic
• Some business models will become unsustainable
Carrier reliability

Key:-
Solid Red is May 2021
Hatched Red is May 2020
Carrier reliability -continued.

- Global schedule reliability as on time arrivals dipped in May 2021 to 38.8% compared to 74.8% in May 2020
  - Most reliable carrier was Maersk with a schedule reliability of 46.2%, Evergreen was the worst with a reliability figure of 25.1%
- Average delay for late vessels was 5.86 days
- Some vessels arriving from the Far East to Europe are more than 20 days late.
- Ever Given incident in the Suez Canal added to an existing problem but did not cause it
Impact of high volumes and late arrivals

• Immediate impact is to increase congestion at ports:-
  • Berths may not be available
  • Many ports have productivity issues due to COVID restrictions
  • Operational planning is difficult
  • On shore workforce and equipment shortages
  • Slower processing times increase quay rent and demurrage costs
Additional impacts of the current market conditions

- Carriers are omitting ports from their call pattern
  - 2M are omitting:
    - Rotterdam for 7 weeks during summer 2021 on three Asia to North Europe loops
    - Hamburg from their AE7/Condor loop for 4 weeks
- The Alliance has “Temporarily” omitted Rotterdam from eastbound FE4 loop
- In the UK Felixstowe and Liverpool have experienced problems
## Likely ongoing impacts for 2022

<table>
<thead>
<tr>
<th>Rates/charges</th>
<th>Capacity</th>
<th>Schedules</th>
<th>Equipment</th>
<th>Possible remedies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates will remain high - possibly increasing</td>
<td>Will remain tight</td>
<td>Delays anticipated</td>
<td>Shortage of containers</td>
<td>Book early</td>
</tr>
<tr>
<td>More surcharges in part to cover higher charter rates</td>
<td>Limited additional allocation</td>
<td>Changes to routing</td>
<td>Productivity issues due to COVID</td>
<td>Maximise container utilisation</td>
</tr>
<tr>
<td>Additional port fees, quay rent and demurrage etc</td>
<td>Lack of onshore transport capacity</td>
<td>Speed reductions</td>
<td>Restrictions on where to collect/deliver</td>
<td>Some cargoes may be suitable for bulk movement</td>
</tr>
<tr>
<td>Cancellation of agreements</td>
<td>Carriers will not take low yield freight</td>
<td>Blank sailings</td>
<td></td>
<td>Use a freight forwarder</td>
</tr>
</tbody>
</table>
Thank you for your attention

If you have any questions regarding maritime issues, please contact Robert Windsor at:- r.windsor@bifa.org