

Managing Covid Congestion in the Global Supply Chain

9th Busan International Port Conference

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Contents

- **A perfect storm**
 - Unprecedented demand
 - Congestion on land
 - Container shortage
- **Carrier actions**
 - Capacity maximised
 - Customer outreach
 - Container deployment
- **Moving towards normalization**

A perfect storm

Unprecedented demand

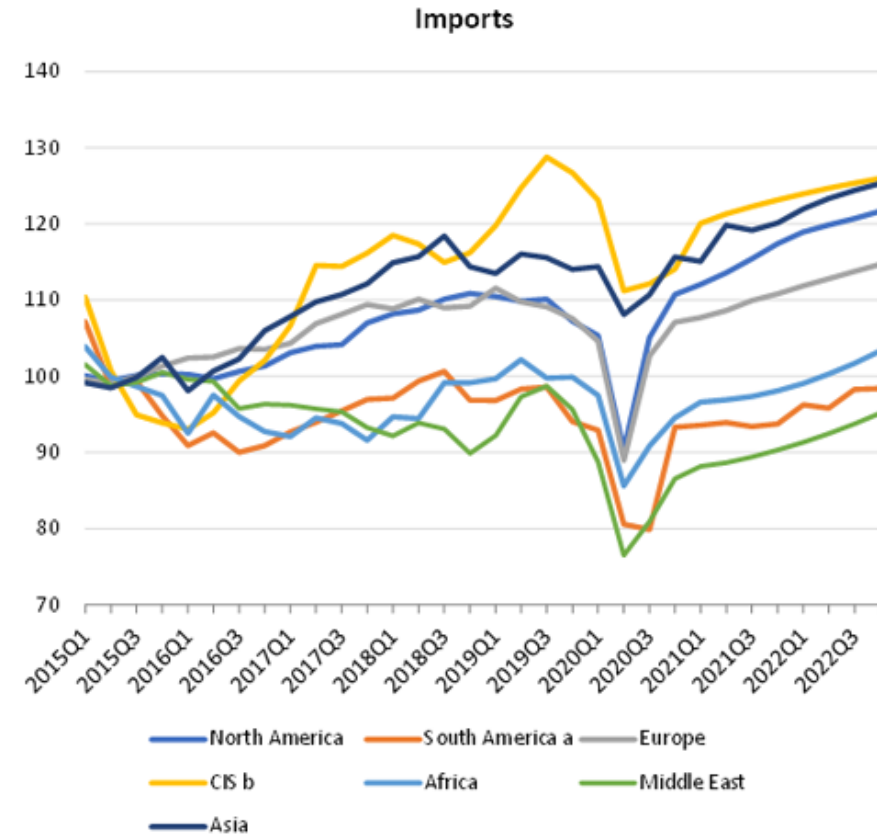
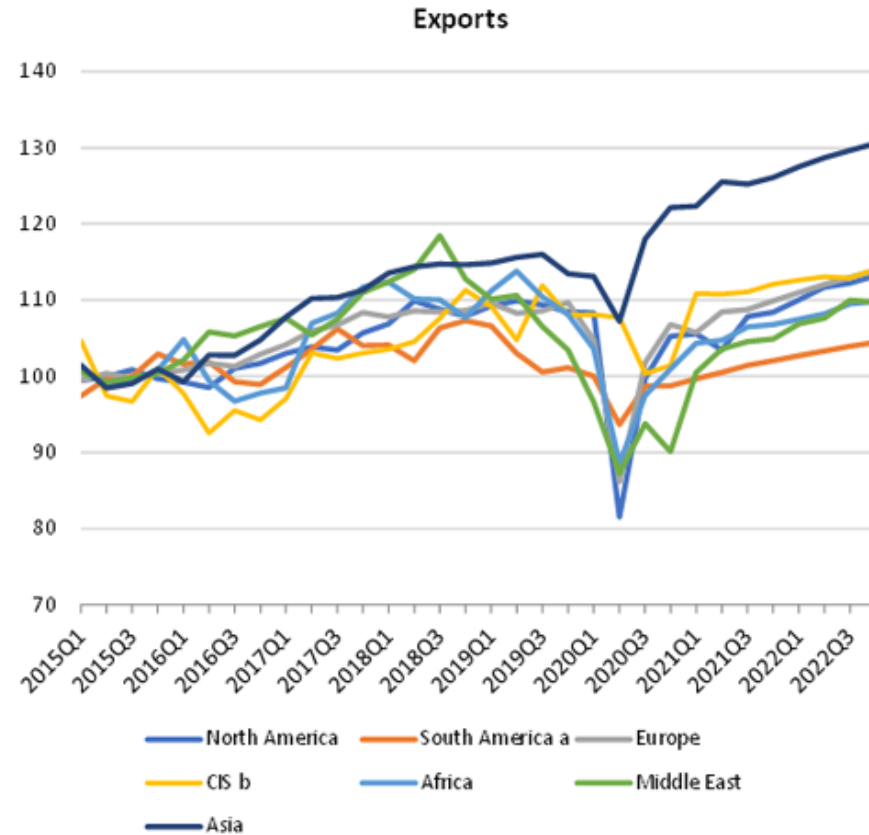
- Volatility & volume:
Sharp drop in demand in 1H 2020 followed by extreme sustained demand peak since Q3 2020
- Disruptive demand:
Biggest increase in demand for recreational goods and electronics from Asia to the US (and Europe), exacerbating trade imbalance

Congestion on land

- Ports congested by increased amount of vessels, cargo and empty containers
- Capacity reduced by Covid-19 protective measures and by employees ill or in quarantine
- Inland congestion due to lack of trucks, railcars, and storage space

Container velocity issues

- Containers tied up in storage as high demand and shift to e-commerce overwhelm wholesalers and retailers
- Containers trapped in ports



Source: WTO & UNCTAD Volume
Indices by Region (2015Q1=100)

Historically high demand exceeds capacity and stresses the entire supply chain

- Networks remain at full capacity, on the ships, at ports and on land
- Unbalanced growth
 - exacerbates the East-West trade imbalance
 - causes build-up of empty containers in the wrong place

Port and inland congestion reduce vessel capacity

Number of waiting container vessels



- More than 20% capacity loss in Asia-USWC trade due to San Pedro Bay port congestion
- In addition to the high volumes, congestion is increased by
 - Lack of qualified labour (illness, quarantine)
 - Necessary Covid-19 routines
 - Covid-19 closures (Shenzhen, Ningbo)
 - Pile-up of empty containers
 - Containers not moved on due to Inland transport congestion

Inland Congestion is having knock-on effects

Warehousing

- With the spike in e-commerce, warehouses have issues handling the increased volumes
- Companies are leaving the goods in containers, using boxes for storage also on chassis
- Containers and chassis dwell longer, adding further delays to the global supply chain

Terminals

- Companies use terminals for storage, only picking up the best paying or otherwise important containers

Trucking

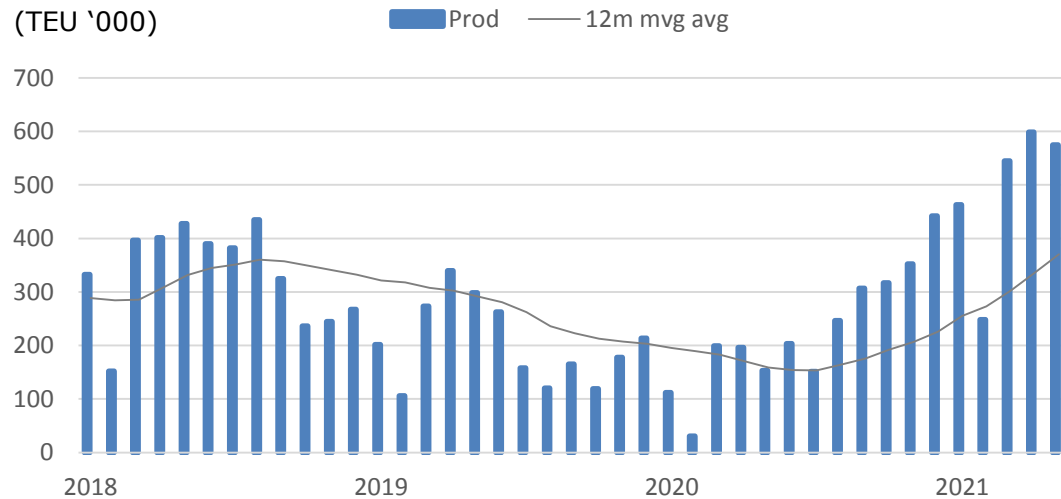
- Turn time for a trucker at ports increased by 90-120 minutes
- Diverting containers to different ports often prohibitively expensive
- Truck driver capacity reduced due to Covid-19 infections
- Trucking capacity, appointments, and chassis availability exacerbated by missed truck appointments

Rail

- Off-dock rail ramp connections delayed due to reduced chassis and trucking capacity
- Rail capacity not flexible enough to divert large volumes from one port to another
- Restrictions imposed on the volume of traffic accepted daily to reduce congestion

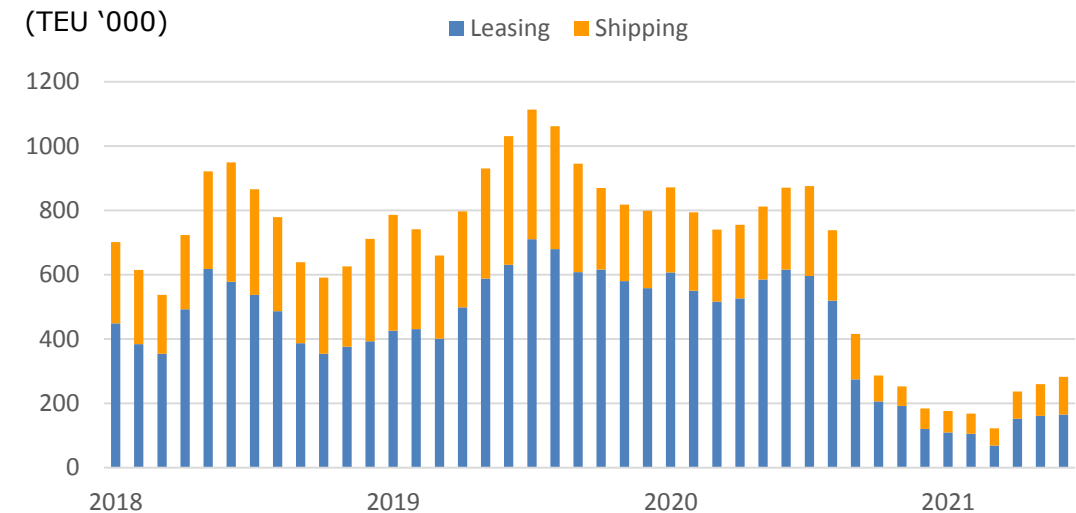
Record container production fails to ease velocity issues

Monthly dry container production: + 95% in China



- Dry container factories fully booked through Q3 and lead-times from order to production are 4-6 months
- Actual production in May marginally down due to national holidays
- YTD production reached 2.4 million TEU dry containers vs 690k during the first five months of 2020
- 40'hc accounts for 90% of the YTD 2021 production (vs 63% at the same time last year)

Factory stock



- All empty containers at factories are owned or booked by shipping lines, pending pick-up
- Factory stock increased to 283k TEU by early June as a result of the high production activity in recent months

Source: Leasing companies

Carriers are doing everything to meet demand

Capacity maximised

- All available vessels are deployed
- All charter vessels have been snapped up
- Vessels redeployed to trades with most demand
- Sweeper vessels deployed
- New tonnage ordered but delivery a few years away

Customer outreach

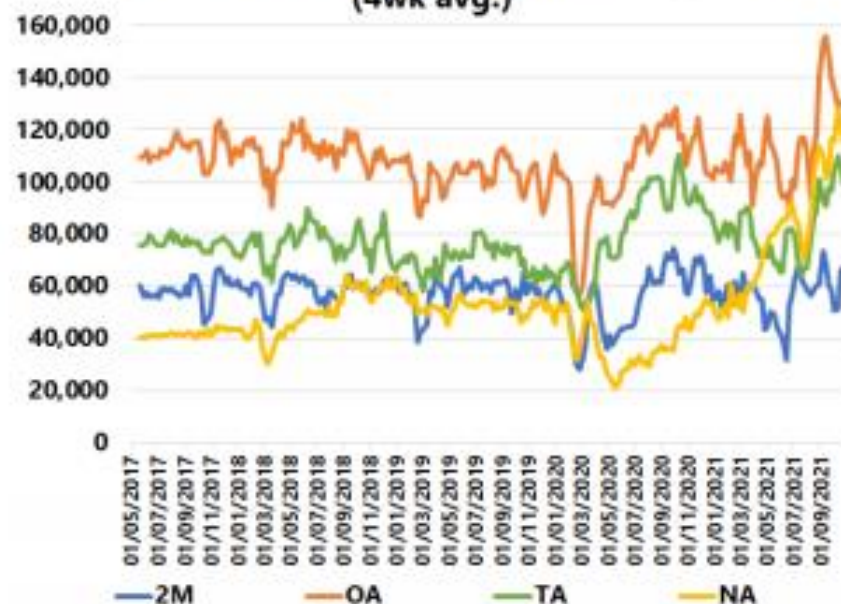
- Carriers are keeping customers informed as best they can in a very unpredictable environment
- On-line resources put in place or upgraded to provide customers with timely and accurate info

Container deployment

- Carriers have bought and leased all available containers
- New containers ordered but manufacture and delivery take time

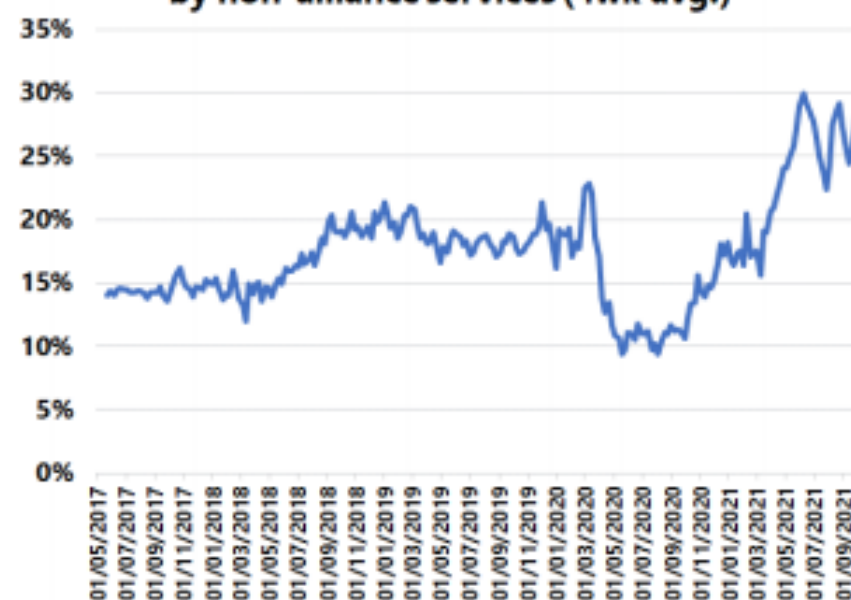
Adding capacity and new market entries

Fig. A6: Asia-NAWC weekly offered capacity (4wk avg.)



- Alliances add vessels to trades to meet demand

Fig. A7: % of Asia-NAWC capacity offered by non-alliance services (4wk avg.)



- New carriers have entered the trades with high demand
- Carriers launched 12 new non-alliance services on Asia-North America West Coast

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What carriers can't control



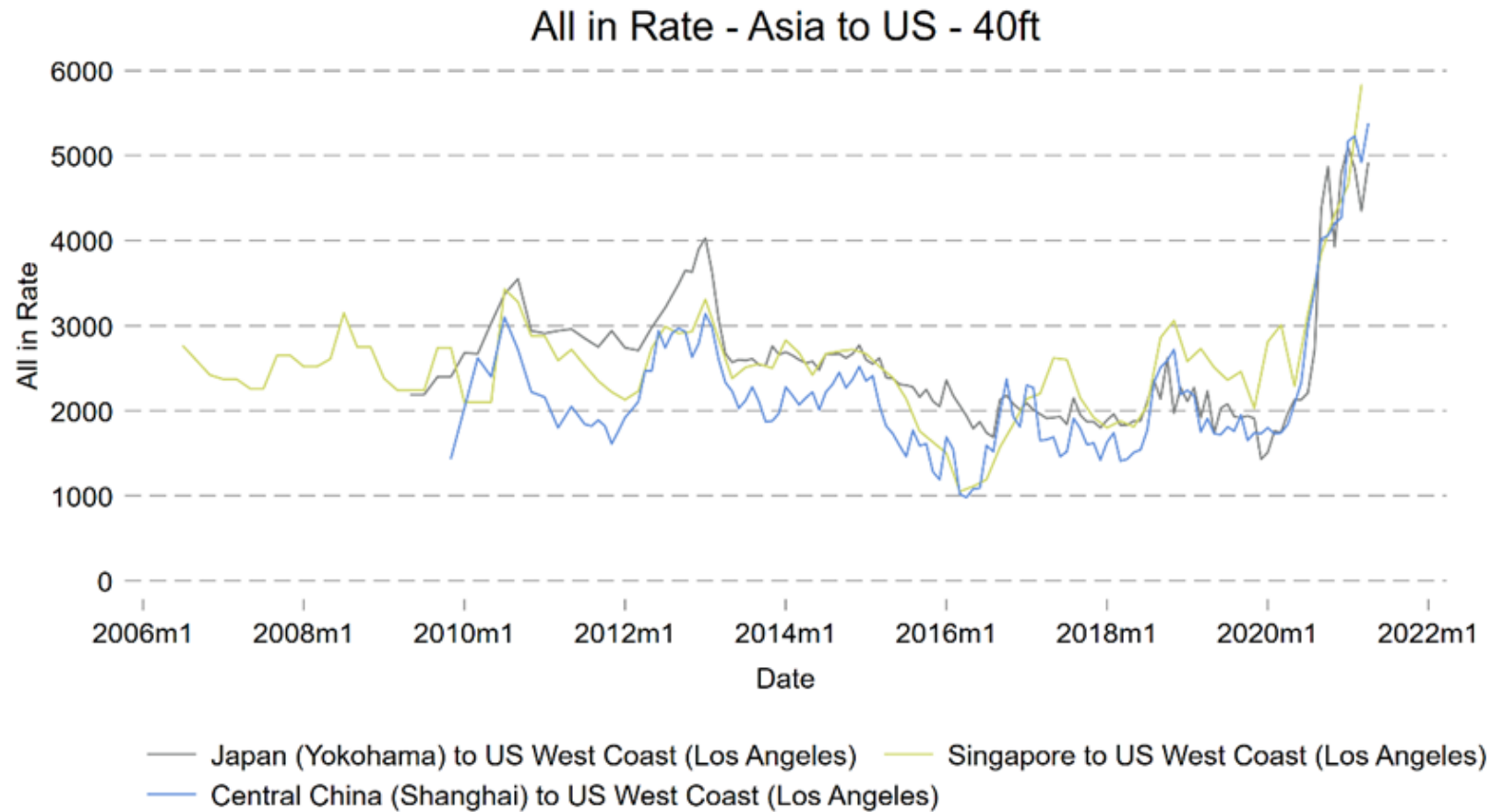
Port congestion and infrastructure issues constraining the efficient repositioning of empty containers to back to export economies



Port congestion due to labor shortages and increased customs inspection. Crew change challenges



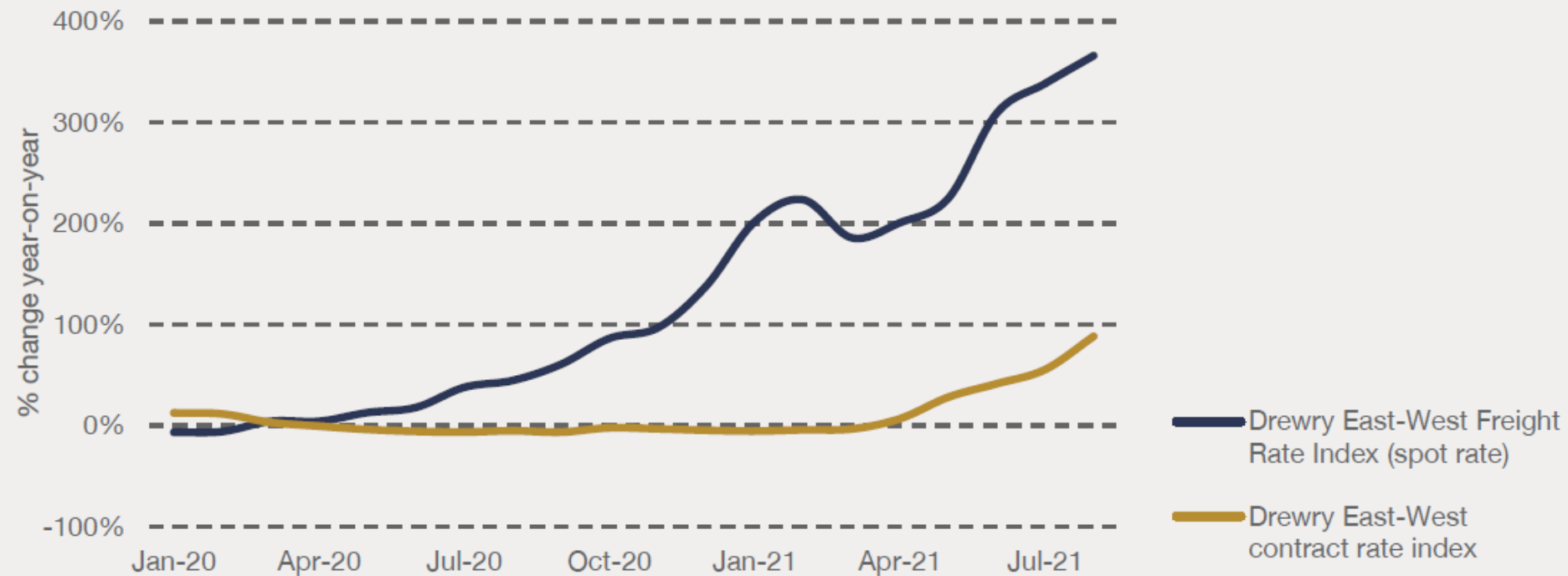
Inland capacity



Source: Drewry

Container rates are driven by supply and demand

Figure 6.5 Development of average East-West spot freight rates and contract freight rates



Source: Drewry

Most containers move under the much less volatile contract rates, not spot rates

This extreme situation will normalize



DEMAND

- Consumer behaviour to normalize as lockdowns ease



CONTAINERS

- New containers under production
- Vaccinations and demand levelling off should improve circulation



VESSELS

- 619 containerships are now on order (61% of those have been ordered in 2021 alone)
- High orderbook to fleet ratio of 20%

What the global supply chain needs now

STABILITY

- All actors need to know that regulatory frameworks are stable and functioning
- This is the platform for working together across the supply chain to resolve Covid congestion issues
- The regulatory process should be based on the norm, not an exceptional situation

AGILITY

- Supply chain actors must be agile in managing their supply chains
- Close communication and collaboration across the different actors in the supply chain is key to creative and low-cost solutions for customers

SUPPORT

- The crew change crisis remains, and we appeal to all governments to recognise seafarers as key workers and prioritise vaccination

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