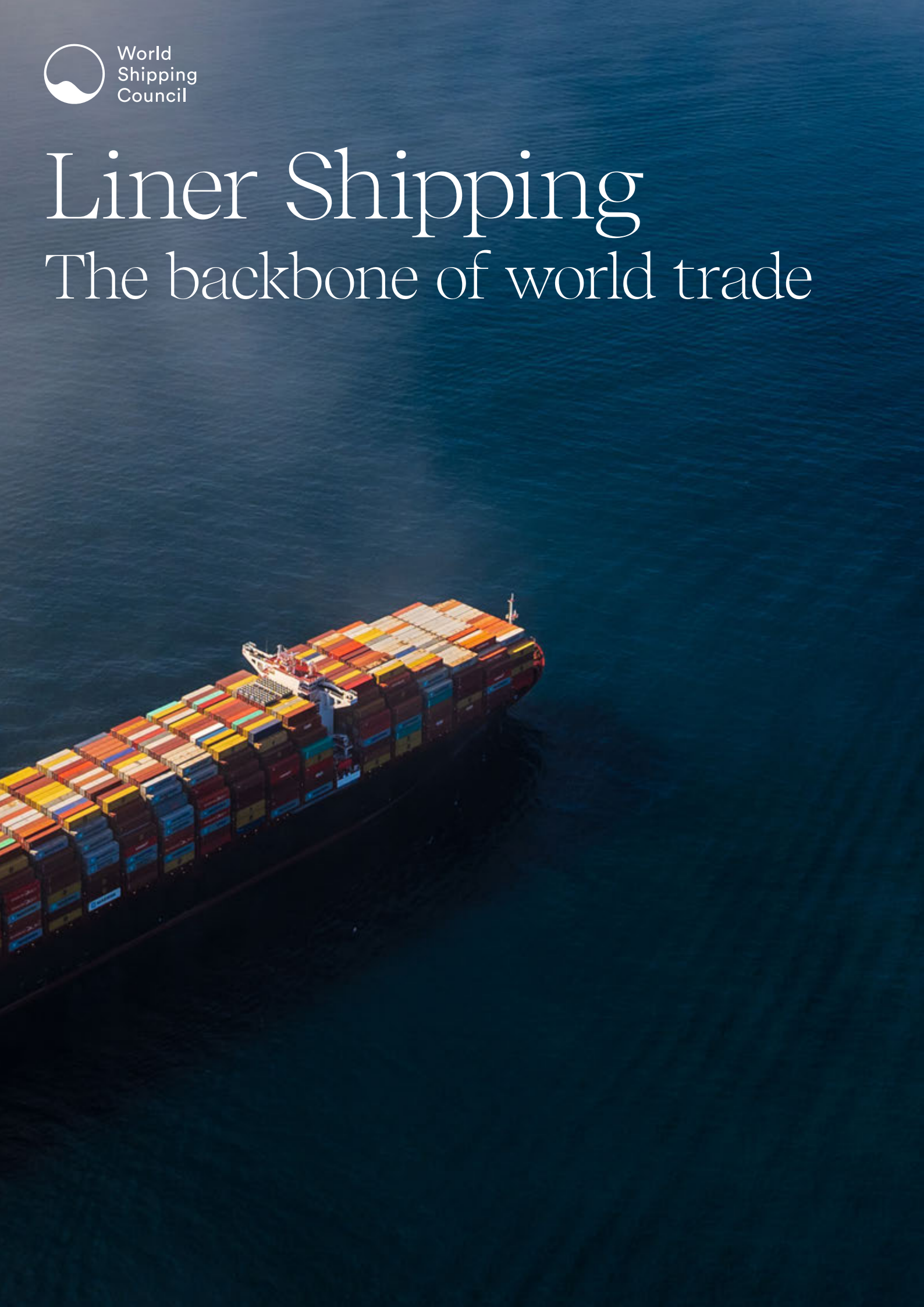
World Shipping Council

Liner Shipping

The backbone of world trade



World Shipping Council

The World Shipping Council is the united voice of liner shipping, working with policymakers and industry groups to shape the future growth of a socially responsible, environmentally sustainable, safe, and secure shipping industry.

90% of everything we buy comes by ship. World Shipping Council members are the international container and roll-on roll-off carriers that make global trade possible by offering cost efficient and effective transport for everything from raw materials, food and machinery to consumer goods like clothes, furniture and electronics.

We are a non-profit trade association with offices in Brussels, Singapore and Washington, D.C.

Read more at www.worldshipping.org

Executive Summary

World Shipping Council

Every day, tens of thousands of containers arrive at seaports from countries all around the world.

Containers and other cargo are carried aboard liner ships – container and roll-on-roll-off (roro) vessels – which offer regularly scheduled service on fixed routes - much like a bus or train service. Liner shipping is the backbone of global supply chains and because of shipping, developing economies have been able to export their products across the world, creating jobs and improving living standards.

Asia is at the epicentre of the international container shipping market with the Asia trade regions representing some 70% of the more than 170 million TEUs of international container trade that transits the globe. The Intra-Asia trade alone accounts for at least one-quarter of the global market.

A perfect storm

The COVID-19 pandemic that hit the world in 2020 triggered a "perfect storm" for global container shipping, putting a strain on supply chains and disrupting global trade. The normally stable and predictable patterns of product demand, sourcing, production, and distribution were thrown into fundamental disarray, overwhelming global supply chains.

The impacts are being felt across the world and in liner shipping in the form of constant challenges for crew changeovers, congestion in ports and throughout inland supply chains, as well as poor container velocity.

The container supply chain is made up of multiple businesses and individuals, each of which are taking steps to ease the disruption facing supply chains. The challenge for all parties is to find ways to make the current system work better. To remove bottlenecks, container velocity must increase, forecasting accuracy must improve, and transparency must increase across the supply chain. These are operational measures that require constant dialogue between service providers and shippers to support each other and collaborate for better outcomes. Ocean carriers recognise the part they must play in that and are actively engaging to meet shipper demand and ease the flow of goods.

Supporting Supply Chains

In the short term, the most important actions governments can take are to facilitate crew changes, recognise seafarers and shoreside workers as key workers and ensure their prioritize their vaccination against COVID-19. These steps, together with continued investment in port and logistics infrastructure, educational resources, and ensuring regulatory predictability will contribute to resilient global supply chains in the long term.

Serving the World 24.7.365

World Shipping Council

For centuries, shipping has connected the world, building prosperity through trade.

Trade is how we reach out and connect with new people, places and cultures. It's how we share goods, ideas, skills and technologies. Throughout human history, trade has opened our world and our minds.

At its best, trade is an accelerator for knowledge sharing, peace and prosperity.

Scheduled liner shipping services started in the latter half of the 19th century when the innovation of steam propulsion enabled carriers to give their shippers assured dates of delivery. Liner shipping was the world's first truly global industry and, in many ways, makes it possible for the global economy to work. Connecting countries, markets, businesses and people, international shipping allows for the buying and selling of goods on a scale not previously possible. And as consumers, we have become used to having goods from all parts of the globe readily available.

A history of innovation

In the early 20th century two important inventions changed the world by modernizing how we transport products - the container and the roro vessel. The invention of the roro vessel in the 1930's meant that vehicles could be driven into and be safely stowed inside what is essentially a giant floating parking garage. High and heavy machinery and other cargoes can be placed on rolling trailers and brought on-board. Today roro vessels can carry up to 8,000 cars at once.

Before the invention of the container in the 1950s, products were shipped loose or packaged and bundled in ad-hoc ways. Crates, sacks and barrels had to be manually carried off the ship, punishing work with high waste and damage. The first steps towards containerization came during the second world war when Australian and U.S. military forces used standard sized wooden containers to speed up supplies.

Malcolm McLean, widely hailed as the inventor of the shipping container, was a road haulier who saw an opportunity to cut costs and speed up the movement of goods by using standard-size boxes. He expanded into shipping, converting two oil tankers into the world's first container ships. The first was the SS Ideal X. On its maiden voyage as a container ship in April 1956, it carried 58 containers from New Jersey to Texas in the U.S. The concept gained support, and the first ISO container was born the same year. Built of steel, reinforced corners made it possible to stack the containers without causing damage. They were uniform in size, theft-proof and easy to load.

Focus on efficiency

Today there are more than 7,000 container and roro ships operating in liner services across the world. Liner ships have the capacity to carry several warehouses worth of goods, which makes each journey very efficient. With carriers constantly looking to increase efficiency, larger vessels have been developed to serve the busiest trade lanes such as Asia-Europe and Transpacific. The container carrying capacity of the largest ships has increased more than 1200 percent as compared

to 1968 and today the largest liner vessels can carry up to 24,000 twenty-foot containers (TEU).

The needs of a rapidly growing world population can only be met by transporting goods and resources between countries. The liner shipping industry has made this process more efficient and changed the shape of the world economy. This benefits consumers by creating choice, boosting economies, and creating employment. Likewise, costs for businesses and consumers are kept down and operating efficiencies are improved and this in turn minimizes impact on the environment.

Fuel efficiency is a key focus for the industry, to reduce emissions as well as costs. Larger vessels, slow-steaming and digitalisation have all contributed to international shipping decoupling emissions from volume growth. As we work towards eliminating greenhouse gases, significant research and development will be needed to develop technology and infrastructure that enable the use of alternative energy sources such as ammonia, hydrogen, wind, or something yet to be developed.

Building prosperity

Because of shipping, developing economies, particularly in South-East Asia, have been able to export their products across the world, creating jobs and improving living standards. As prosperity increases, so will education levels, and countries can build up more advanced industries rather than shipping out their raw materials, creating more qualified jobs and further raising living standards.

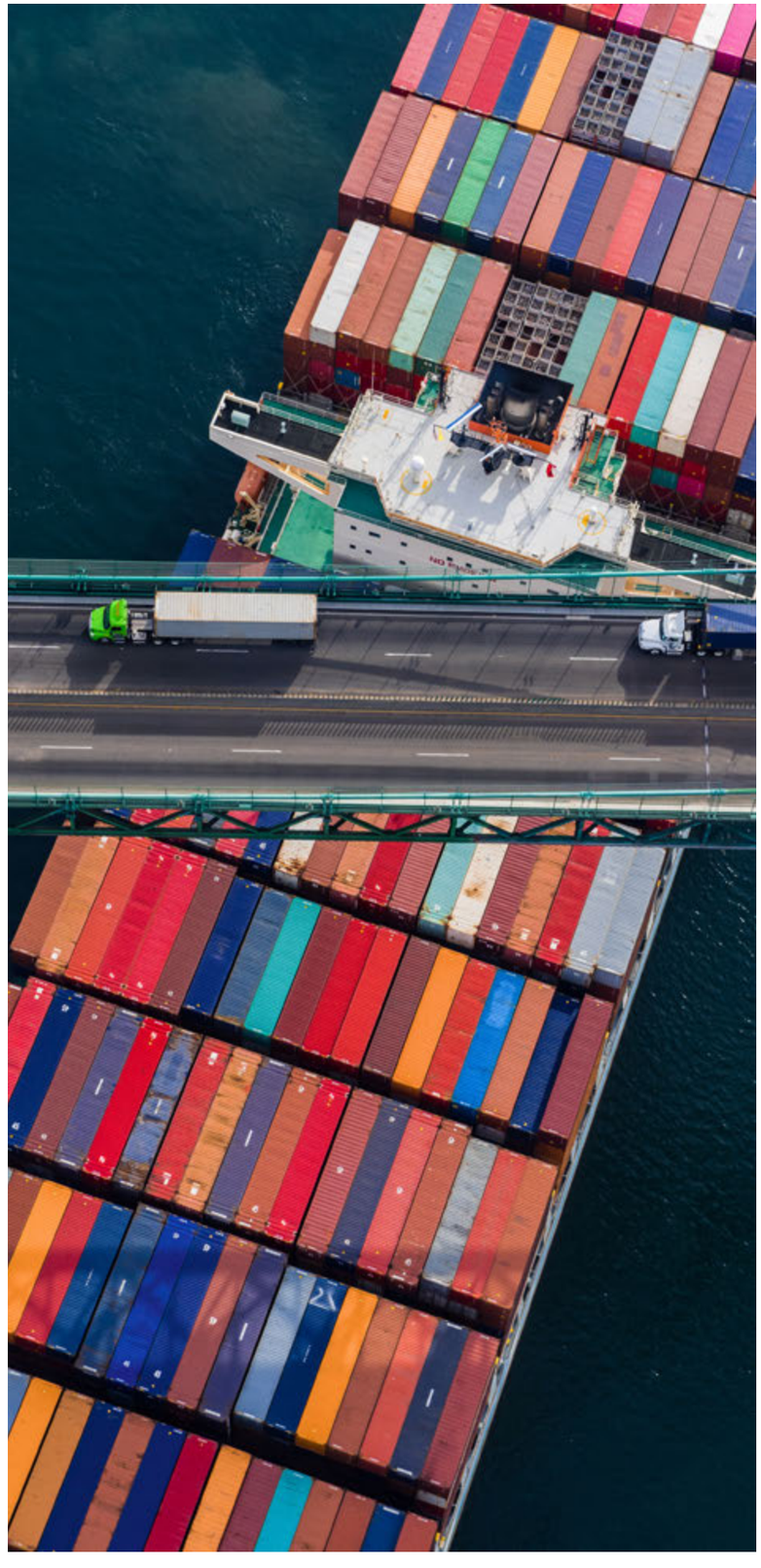
The proliferation of on-line shopping combined with effective logistics has taken trade into a new era, making it possible for entrepreneurs and small businesses to connect with an international customer base that used to be out of reach. Where before the available market may have been too small to sustain a business, today even a specialized product catering to a very specific demand can be viable with access to global markets.

Today 90 percent of everything we buy comes by ship, and over 1,900 liner shipping services provide regularly scheduled service between ports along a single trade route or a group of trade routes.

Enabling global trade

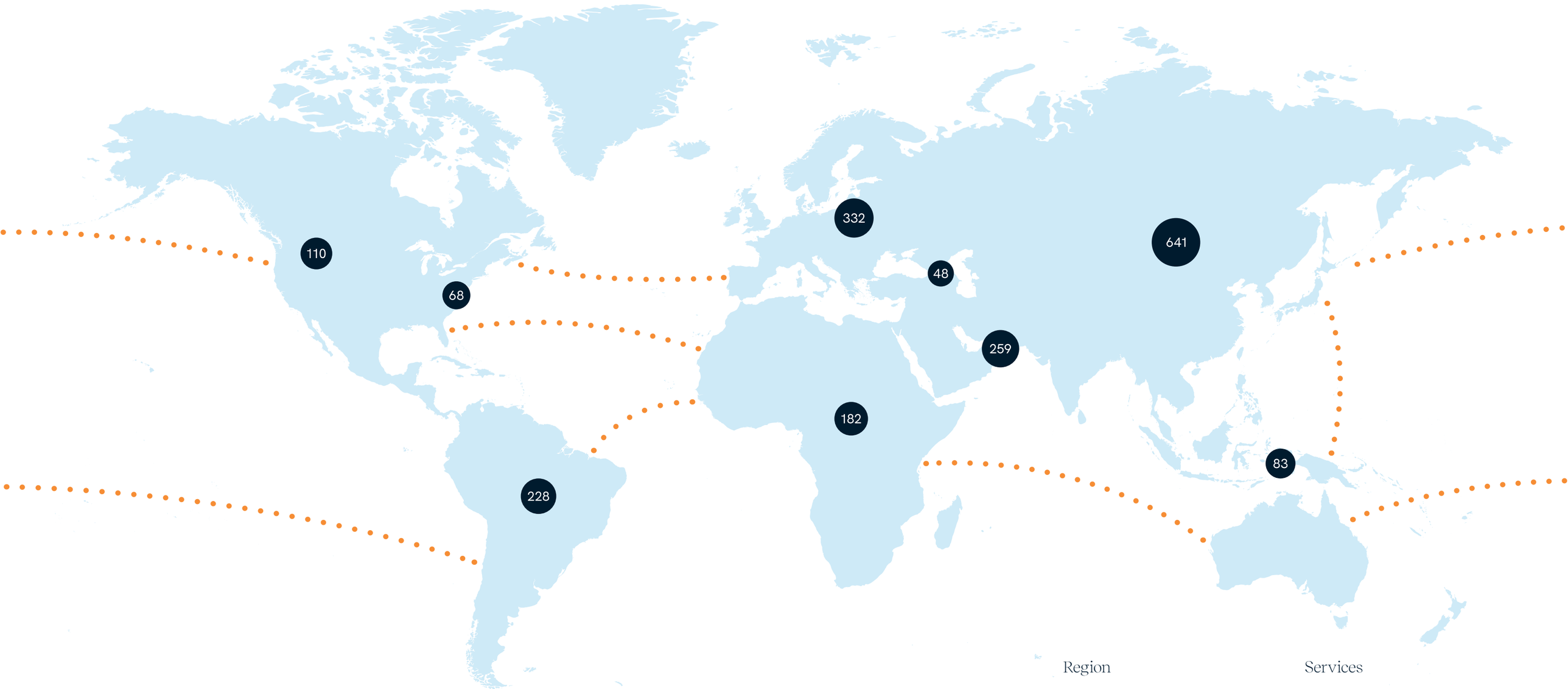
Every day, tens of thousands of containers arrive at seaports from countries all around the world. They are carried aboard liner ships, which offer regularly scheduled service on fixed routes - much like a bus or train service does. Each shipment represents a specific supply chain, whether it is patio furniture from Thailand bound for a Milan retailer, avocados from Chile destined for a supermarket in Berlin, or shoes shipped from China to an athletic supply store in Europe or North America.

Every supply chain is unique and involves the timely and accurate transfer of goods between various modes of transport. Goods transported by containers on liner ships can be placed into the container at the factory origin, farm or at other locations where cargo is consolidated. The container is locked and sealed so the goods can remain safely secured inside the container and transported with unprecedented efficiency until they arrive at the purchasers' warehouse, factory, or store. For this reason, more than 50 percent of the value of goods moved internationally by sea is now moving in containers on liner ships.



Liner services connect the world.

Nr of liner services connecting a region.



Liner services by region

Trade lanes of liner services

Source: Alphaliner, Drewry.

Region	Services
Intra-Asia	641
Intra-Europe	332
Mid-East and South Asia	259
Latin America & Caribbean	228
Africa	182
Asia-North America	110
Australasia & Oceania	83
North Atlantic	68
Europe - Far East	48
Total	1951

A history of working for efficiency.

Operating a shipping line involves substantial investments in vessels in the face of an unknown outcome in the way of returns. That is why the liner shipping sector for a long time has relied on various forms of cooperative agreements as tools to help deploy their ships and equipment effectively and efficiently once the capital investment is made. Today these operational agreements are an integral part of a complex global shipping network.

Operational agreements

Operational agreements among liner operators can take many forms but are all variations of the same concept. By having one or more partners among which space on vessels can be shared, more carriers can offer scheduled services to more ports than those carriers could offer individually.

The structure, duration, and geographic scope of agreements vary according to the needs of the customers of the carriers to a particular market. They can be structured as simple Slot Charter Agreements (SCAs) or Slot Exchange Agreements (SEAs) between two carriers, where carrier A agrees to charter or exchange a certain amount of space on carrier B's vessels.

Vessel sharing

A more expanded version of an operational agreement is a Vessel Sharing Agreement (VSA), also referred to as a 'consortium', where two or more carriers agree to provide a certain number of vessels to jointly operate a service string along a specified route. In a VSA, carriers typically coordinate on the number, size, type, and speed of the vessels to be deployed in the service, as well as the vessel schedules, sailing patterns, and ports to be called, while maintaining separate business structures to manage customer service, inland and ancillary services, and pricing.

Operational agreements between liner operators are essential components on the global service network, and most liner operators rely on them to provide continuous service to importers and exporters. These agreements are registered in most jurisdictions for transparency and regulated by governments. Approximately 80% of services operating today are offered through operational cooperation among carriers.

The ability to share space makes it possible for more carriers, especially smaller ones, to participate in a trade or call certain ports, providing frequent and reliable services to consumers at reasonable cost even at lower volumes of goods. All carriers in a VSA individually negotiate rate and service agreements with their customers and there is no joint pricing.

Alliances make liner shipping more competitive.

Like many other industries, liner shipping has seen consolidation over the past decades, mainly as a result of long-term sustained losses by the carriers and low or no return on capital in a highly fragmented industry. This also resulted in some high-profile bankruptcies.

Today, according to Alphaliner, the largest ocean carrier has 17 percent of total worldwide capacity. Combined, the top five carriers have approximately 65 percent of the world's fleet capacity (October 2021). [1]

So even after consolidation, the industry remains highly competitive with numerous carrier options for importers and exporters.

Major mergers, acquisitions and bankruptcies between 2016 and 2021 include:

2016

- The acquisition of CSCL by COSCO
- The acquisition of APL-NOL by CMA CGM [2]
- The acquisition of the United Arab Shipping Company (UASC) by Hapag Lloyd
- The market exit of Hanjin Shipping as a result of its bankruptcy

2017

- The acquisition of Hamburg Süd by Maersk [3]
- The formation of the ONE joint venture combining the containerised services of NYK, MOL and K Line
- The acquisition of OOCL by COSCO [4]

[1] Source: Alphaliner, Top 100 Carriers, 31 October 2021. Available at: https://alphaliner.axsmarine.com/PublicTop100/.
[2] CMA CGM includes the following carriers ("brands"): CMA CGM, ANL and APL.
[3] Maersk includes the following carriers ("brands"): Maersk, Hamburg Sud, Safmarine and Sealand.
[4] COSCO includes the following carriers ("brands"): COSCO, CSCL and OOCL.

Alliances for service

Another industry development is carriers' participation in a particular type of operational agreement, sometimes referred to as a "global alliance" or "alliance". Alliances are a type of VSA that involves joint operation of fleets of vessels and sharing of vessel space in multiple trades. These types of agreements are particularly useful for carriers wanting to enter new markets or continue to serve markets with smaller cargo volume.

Carriers participating in alliances only cooperate on operational matters such as capacity and scheduling. Alliance members continue to compete fiercely with each other – as well as with carriers in other alliances - on items where they can differentiate themselves like price, customer service, documentation, billing accuracy, and landside services.

Improving connectivity

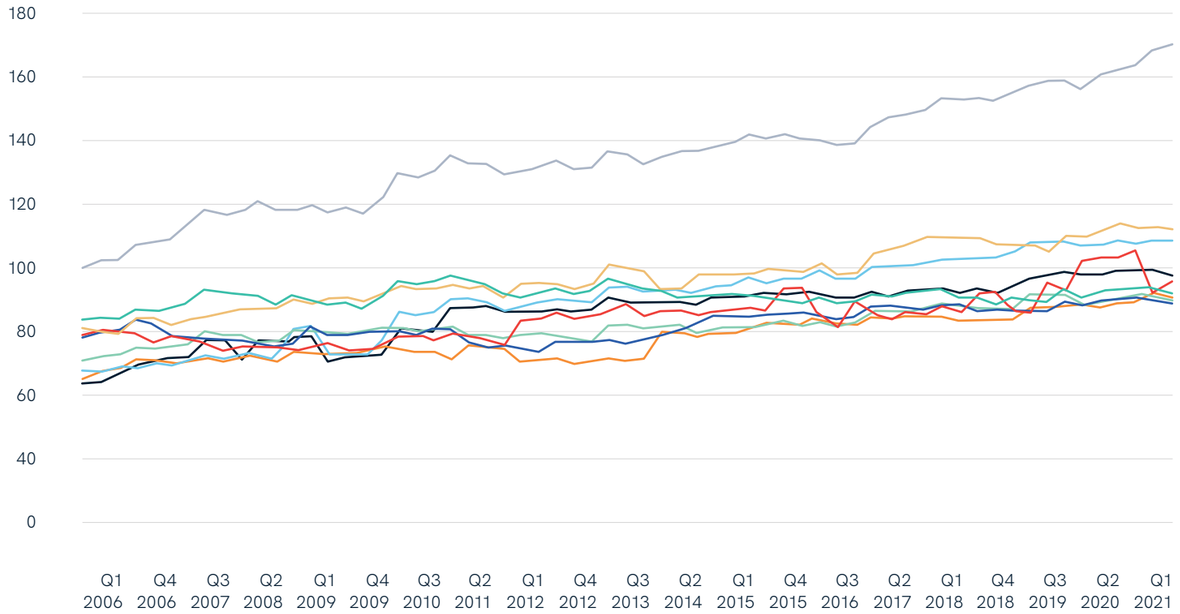
The UNCTAD Liner Shipping Connectivity Index (LSCI) shows the integration level of countries to global liner shipping networks. The higher a score is on the index, the higher the integration of a given country to liner shipping networks. The LSCI fluctuations reflect changes to carrier networks in response to changing market conditions.

It is noteworthy that the majority of economies in the top 30 of the index are those that have longstanding competition law exemptions for VSAs, including China, South Korea, the United States, Malaysia, Hong Kong, Japan, Singapore and the European Union (EU) Member States.

Operational agreements have a pro-competitive nature, aiming to improve the efficiency of liner operations. They enable carriers to respond to fluctuations in demand for shipping services and allow for the provision of lower-cost shipping services with enhanced frequencies to a wide variety of destinations. These agreements are beneficial to carriers and consumers and contribute to the overall competitiveness of the trading nation.

Liner shipping connectivity index.

Q1 2016 - Q1 2021



Note to graph: A country's LSCI score is composed of six components: (1) the number of ships servicing a country, (2) the total container-carrying capacity of the ships, (3) the maximum vessel size used on these services (in TEU), (4) the number of services connecting a country to other countries, (5) the number of companies that deploy container ships on services from and to a country's ports, and (6) the number of other countries that are connected to the country through direct liner shipping services.

Source: UNCTAD.

The cost of ocean shipping.

Shipping costs are the costs associated with the movement of cargo from the starting point to the end destination and may be broadly categorised into two main groups: ocean costs and landside charges. Ocean costs mainly comprise base ocean freight and surcharges for variable costs related to the ocean carriage such as a currency adjustment factor, bunker adjustment factor or peak season surcharge to cover fluctuating costs.

Ocean freight pricing

Ocean freight prices are determined by supply and demand market forces, like in any free market. There are generally two types of pricing tools used in the industry: long-term contract rates and short-term spot rates.

Contract rates are prices agreed between carriers and their customers, which are often valid for a year or more and remain confidential. Spot rates are also agreed to between carriers and shippers but respond to short-term demand and supply developments, fluctuate more frequently and exist in a more volatile marketplace. Here, prices are also set by a broad range of actors including freight forwarders and logistics providers. Recent years have also seen the development of independent on-line freight exchanges and auctions.

Landside charges

Landside charges generally include costs associated with ports and terminals and cargo handling on the land such as documentation, customs processing and road or rail transport. Some common examples are a terminal handling charge, container cleaning charge, and detention and demurrage charges that apply to use of ocean carriers' container equipment beyond the agreed upon free days. These charges are usually collected along the supply chain by different logistics service providers.

Over the past two decades, freight rates have been consistently low, with carriers unable to earn returns above the cost of capital in many trade routes for several years. Nevertheless, carriers consistently invested in the capacity needed to meet growing demand as well as to increase their operational efficiency. New ships became increasingly larger and more fuel efficient, reducing the cost per container transported. The high market capacity compared to demand and the increased efficiency is reflected in the rates over this time.

The sharp spike in rates seen very recently from mid-2020 reflects the sudden cargo demand surge triggered by the COVID-19 pandemic and the unprecedented supply-chain disruption that unfolded.

Global freight rate index.

January 2006 - August 2021

Source: Drewry Shipping Consultants.

Asia at the Centre of International Trade

World Shipping Council

Asia trade regions represent some 70% of the 170 million TEUs of international container trade that transit the globe.

The Intra-Asia trade alone accounts for at least one-quarter of the global market, even when not counting the high volumes of domestic or cabotage container loads moving on ships.

Since liner services operate on a regular schedule, usually weekly, servicing such high volume with relatively short transit times requires the deployment of many services. As a result, one third of global liner services are deployed to serve the seven regional trades that collectively represent the Intra-Asia market.

Trade imbalance

The two largest trades after Intra-Asia are often referred to as the East-West axis of container shipping and link Asia with North America and Europe. Both trades are highly imbalanced with significantly more loaded containers moving from than to Asia, and therefore require the constant movement of empty containers back to Asia to meet the high export demand.

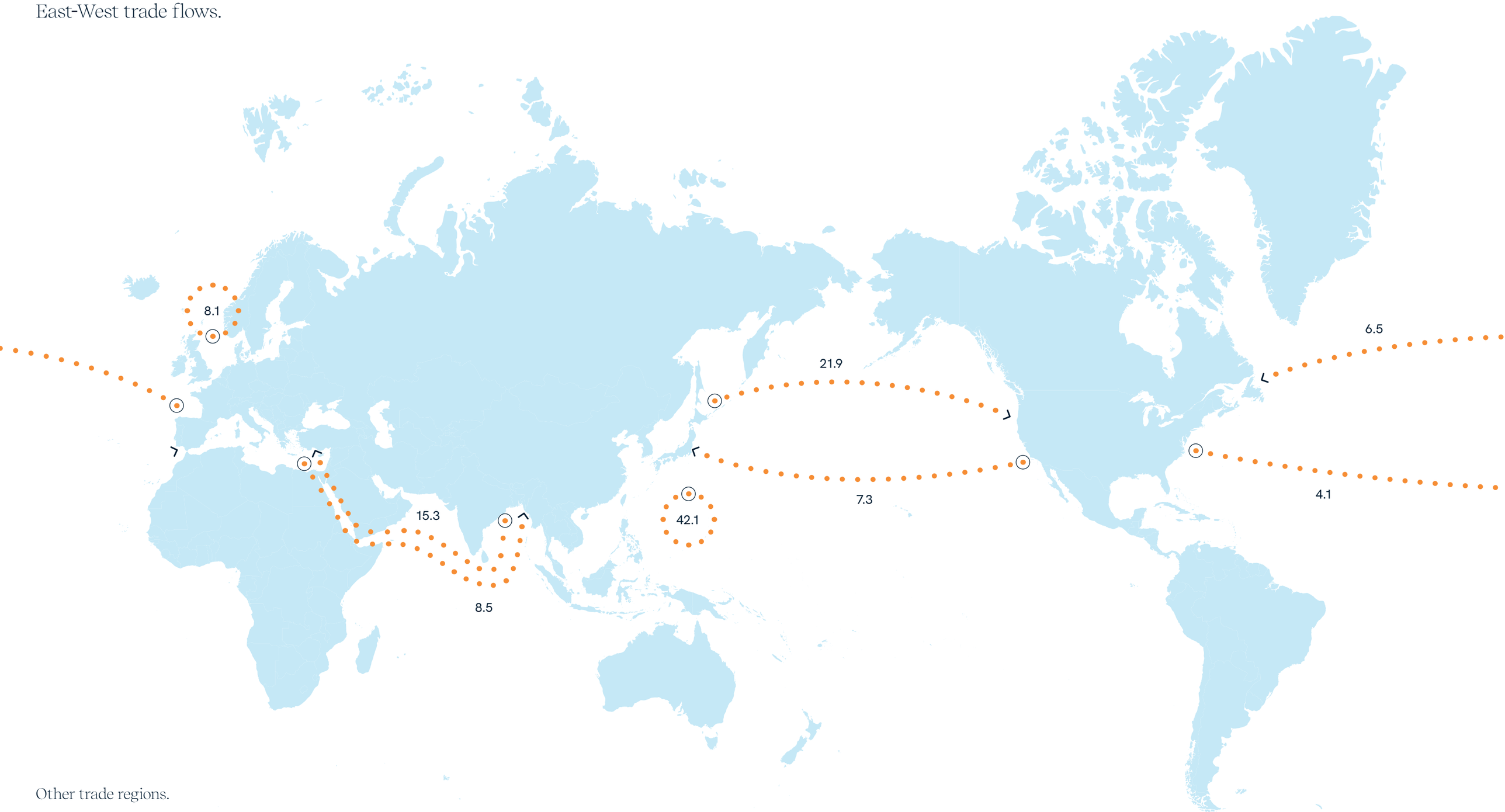
The COVID-19 driven demand surge in North America in 2020 and into 2021 because of shifting buying patterns of U.S consumers has made the imbalance problem worse.

Historically, the U.S. imported two loaded containers from Asia for every one loaded container shipped to Asia. Over the last year, that 2 to 1 imbalance has grown to 3 to 1 generating millions of additional empty containers that must be transported back to Asia to meet its export demand.

The Asia - Europe trade is also similarly imbalanced at 2 loaded containers moving from Asia to Europe for every 1 moving back. Although seeing a similar Covid-induced increase in demand, this trade did not experience the same increase in imbalance seen over the last year in the Transpacific trade.

Global trade volume (million TEU).

East-West trade flows.



Other trade regions.

Mid-East and India Sub-continent	26.1 (million of TEU)
Latin America & Caribbean	15.0 (million of TEU)
Africa	10.1 (million of TEU)
Australasia & Oceania	6.5 (million of TEU)

Source: CTS, Drewry, WSC estimates.

Battling supply chain disruption.

The COVID-19 pandemic that hit the world in 2020 has triggered a "perfect storm" for global container shipping, putting a strain on supply chains and disrupting global trade. It was a year of extremes where the normally stable and predictable patterns of product demand, sourcing, production, and distribution were thrown into fundamental disarray, overwhelming global supply chains.

The impacts are being felt across the world and in liner shipping in the form of constant challenges for crew changing ships, congestion in ports and throughout inland supply chains, as well as poor container velocity. The current disruptions can be attributed to a combination of factors.

Unprecedented demand

At the start of the pandemic in 2020, populations started worrying about their financial situation. Demand for consumer goods plummeted and carriers saw volumes decline 20-30%. Production and distribution came to an abrupt halt as countries across the world implemented lockdowns to contain the outbreak. Trade activities were ceased, and economies were crippled.

Yet, in the second half of 2020, the drop in global demand was replaced by an unprecedented and continuing surge in demand as the extended lockdowns fundamentally changed consumer behaviour to spending on finished goods over services, particularly in the U.S. In North America, demand skyrocketed for recreational goods and electronics produced in Asia – November 2020 saw an increase in imports of 29% compared to 2019, further exacerbating trade imbalance.

In addition, cancelled passenger flights put pressure on ocean carriers to handle cargo usually transported by air.

In the third quarter of 2020, lessening of lockdown measures and varying speeds of recovery worldwide, as well as stimulus packages supporting consumer demand, inventory-building, and frontloading in anticipation of new waves of the pandemic, contributed to a further increase in containerised trade flows.

As seen in the adjacent chart, Drewry's current assessment is that supply and demand will be more in balance by the end of 2022 gradually improving into the future as ships currently on order are delivered. One factor contributing to the significant capacity pressure seen in 2021 is the effect of port and inland congestion, particularly in the US and China.

Drewry is predicting that fleet growth will lag behind demand growth this year and next, but that the story will flip from 2023 onwards as recent orders start to be delivered. The anticipated mismatch between supply and demand in 2023 presents a risk to carriers of overcapacity returning to the market.

Although the global situation is expected to improve with the index falling below 100 in 2023, the same is not projected for the very large East-West trades so important to Asia as seen in the table below. The high demand for transport services means that all trades are effectively competing for vessel space and container equipment.

Forecast of global supply-demand balance.

	Effective capacity*	Change	Net cargo slot moves	Change	Supply demand gap	Moves per effective slot	Global supply/ demand index	Global supply/ demand index (adj. for idle fleet)
	'000 teu	y-o-y, %	'000 teu	y-o-y, %	% points		[1980=100]	[1980=100]
2018	20,719	5.5%	298,233	5.0%	0.5	14.39	89.8	91.6
2019	21,558	4.0%	304,651	2.2%	1.9	14.13	88.2	90.7
2020	19,710	-8.6%	300,658	-1.3%	-7.3	15.25	95.2	101.0
2021	19,329	-1.9%	322,397	7.2%	-9.2	16.68	104.0	106.8
2022	21,136	9.3%	341,406	5.9%	3.5	16.15	100.8	102.8
2023	25,040	18.5%	355,639	4.2%	14.3	14.20	88.6	90.4
2024	27,416	9.5%	367,630	3.4%	6.1	13.41	83.6	85.3
2025	28,276	3.1%	378,315	2.9%	0.2	13.38	83.5	85.1

**After adjustments for market factors, i.e. box supply, differential vessel productivity, deadweight/slot ratio, vessel routing factors, vessel design, operating speed, trade distance, high-cube slot-loss and port productivity.*

Source: From Drewry's Container Forecaster Q2 2021. Supply-demand balance is an indicator of how much capacity is being utilized, which has a direct impact on freight rates. Drewry measures on a quarterly basis and any number above 100 is considered one with little to no excess capacity.

Forecast of East-West headhaul supply-demand balance.

	Capacity	Change	Demand	Change	Supply demand gap	Aggregate utilisation	East-West supply-demand index
	'000 teu	y-o-y, %	'000 teu	y-o-y, %	% points		85% util. = 100
2018	44,449	6.4%	39,616	4.9%	1.5	89.1%	104.9
2019	45,116	1.5%	39,944	0.8%	0.7	88.5%	104.2
2020	42,809	-5.1%	40,461	1.3%	-6.4	94.5%	111.2
2021	49,619	15.9%	45,062	11.4%	4.5	90.8%	106.8
2022	53,950	8.7%	47,598	5.6%	3.1	88.2%	103.8

Note 1: Supply and demand inputs consists of Transpacific eastbound, Asia-North Europe westbound, Transatlantic westbound and Asia-Mediterranean westbound legs. Capacity is adjusted by deadweight and high-cube constraints, wayport calls and out-of-scope cargo. Demand excludes military and wayport cargo. Note 2: Table from Drewry's Container Forecaster Q3 2021.

Congestion on land

Ports are congested by increased number of vessels, cargo and empty containers even as liner operators have mobilized all available capacity to respond to the increased demand. Vessel waiting times have multiplied and the heavy delays on land impede 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.

In addition to the high volumes, congestion is exacerbated by a shortage of qualified labour at marine terminals and inland distribution warehouses, extended use of containers and chassis for storage of cargo by importers, and demand for truck and rail transport that is far higher than supply.

Container velocity issues

As countries implemented lockdowns, many container factories closed temporarily. China, where most containers are produced, was the first to recover and resumed production, with ocean carriers buying and leasing all available containers. Exports from Asia started up again and containers were shipped out to Europe and North America in response to increased demand.

But due to tightened borders and restrictive port clearance procedures, their return was delayed. Containers started to pile up in Europe and North America, due to delays in the unloading of ships due to full warehouses and rail terminals, and shortages of workers and drivers. The problem is further compounded by the fact that the land side delays are forcing vessels to wait days and weeks for a berth to unload, effectively reducing both vessel and container capacity available in the global network. This in turn causes further delays in both the delivery of inbound loaded containers and the return of empty containers back to Asia.

In a normal, balanced situation, all users of containers and chassis – importers, exporters, inland transportation providers, and ocean carriers – make sure to promptly move containers on. The terms for how long a container can remain with a party is normally regulated by contract, stipulating the number of free days and what charge is due if the container is kept longer, all designed to keep the flow of containers moving and make equipment available for the next user.

How carriers are responding to the increased demand.

Ocean carriers recognise the key role they play in the supply chain and are taking all available measures to improve the speed and efficiency of cargo movement.

To begin with, carriers have employed all available vessel tonnage. According to Sea-Intelligence, capacity deployed year-to-date in 2021 far outweighed last year, with liner services on the key east-west trades at full quotas. Alphaliner concluded at the end of Q3 2021 that the inactive fleet was at just 2.2 percent, with most of that being ships that are in shipyards for repair and other services.

Vessel Sharing Agreements have proven to be very effective to maximise efficiency during these times of high and volatile demand for vessel capacity.

Mobilizing on all fronts

With the uneven global economic recovery, carriers have repositioned vessels and empty containers to trades with the highest demand. For example, Sea-Intelligence show [5] that capacity in the Asia – North America trades increased by over 20% in 2021 compared to 2019.

As in any well-functioning market with low barriers to entry, the current rate levels have also attracted new services and new carriers have entered the market, especially Asian carriers that previously only operated on the intra-Asia trade.
Carriers have also been growing their vessel fleets. 2021 saw the global order book for new container ships grow to 20 percent of global capacity, to keep up with the growing demand. This is the highest since the last peak around 2008, and is likely to ease markets in 2023-2024, when most of the new tonnage is delivered.

Despite the congestion and the operational pain that brings to all actors in the supply chain - from shippers, forwarders and importers to inland transport providers, ports and ocean carriers - global supply chains are delivering like never before. In Q2 2021 global container traffic was 13.7% higher year-on-year, with total volumes moved higher than ever, and projected to increase through the year. [6]

Joining forces

The actions of one party in the supply chain will not sufficiently improve the situation. The global supply chain is complex and multi-faceted, made up of numerous parties with distinct roles from production to sales, across land and sea. Finding solutions to the current disruption requires the daily cooperation of multiple parties working together to make the best of the situation.

[5] Sea-Intelligence Sunday Spotlight Issue 529 (constantcontact.com).
[6] Source: Drewry Maritime Research, Q3 2021 Forecaster Report.

COVID-19's impact on rates.

The historic trend of low freight rates reversed as the COVID-19 pandemic fundamentally changed the balance between supply and demand. Initially, global trade experienced a strong downturn in the first half of 2020. However, changes in consumption patterns triggered by the pandemic, particularly in North America and fuelled by a surge in electronic commerce, led to increased demand for manufactured consumer goods, mainly from Asia.

Demand driving rates

The high demand resulted in increased spot freight rates, in particular in the East-West trades, starting mid-2020 and continuing into 2021 as demand for space on container ships outstrips supply. As the demand is so strong, some shippers anxious to move their cargo at any cost have placed upward pressure on the rates.

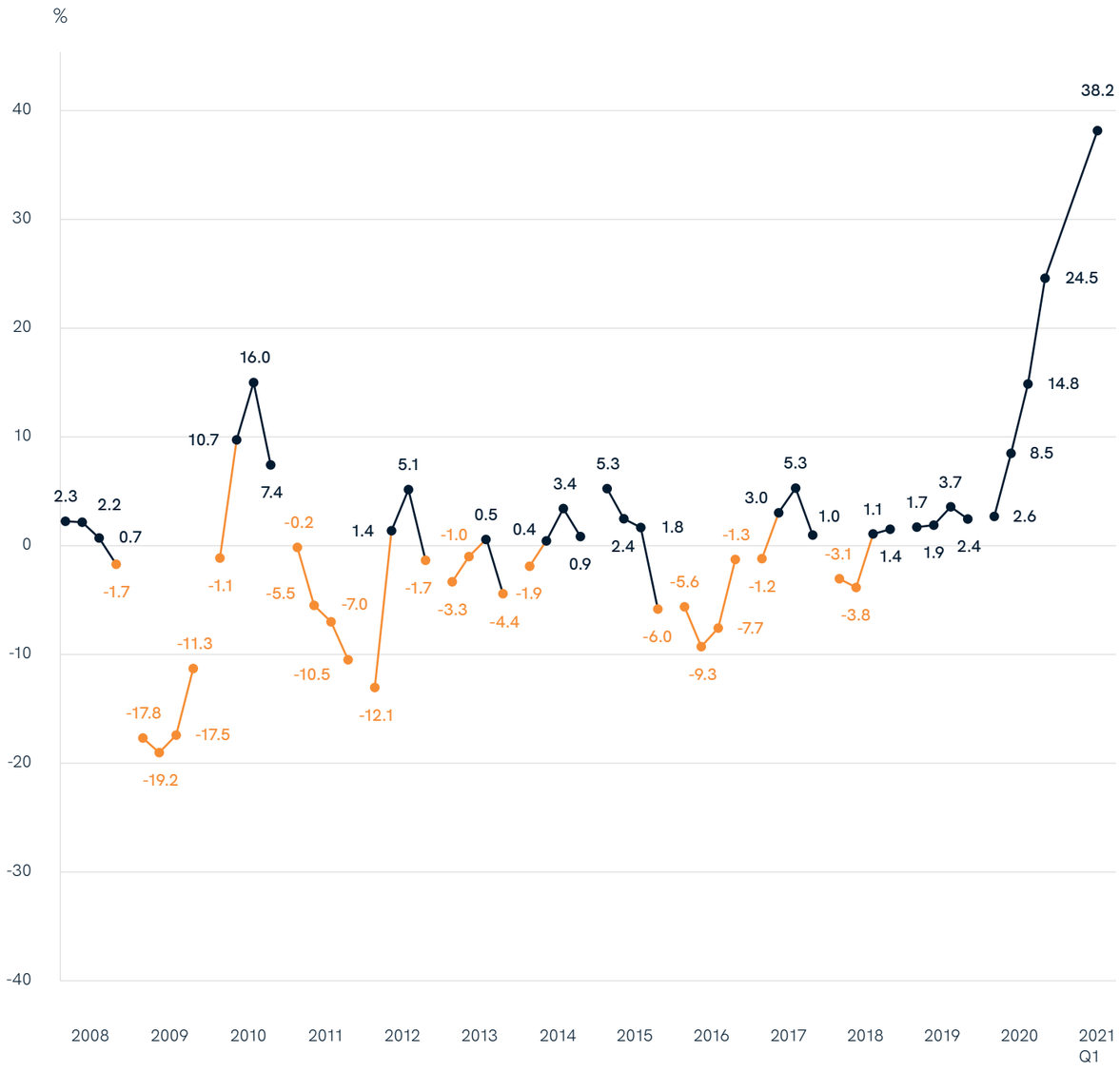
The pandemic is an outlier event that will eventually normalise. With high vaccination rates in the north-west, consumption patterns can be expected to return to pre-pandemic trends as seen in Europe.

Though vaccination rates are still low in Asia and Africa, concerted efforts are being made and a more stable environment can be expected there as well. However, the backlog that has been created will take some time to clear.

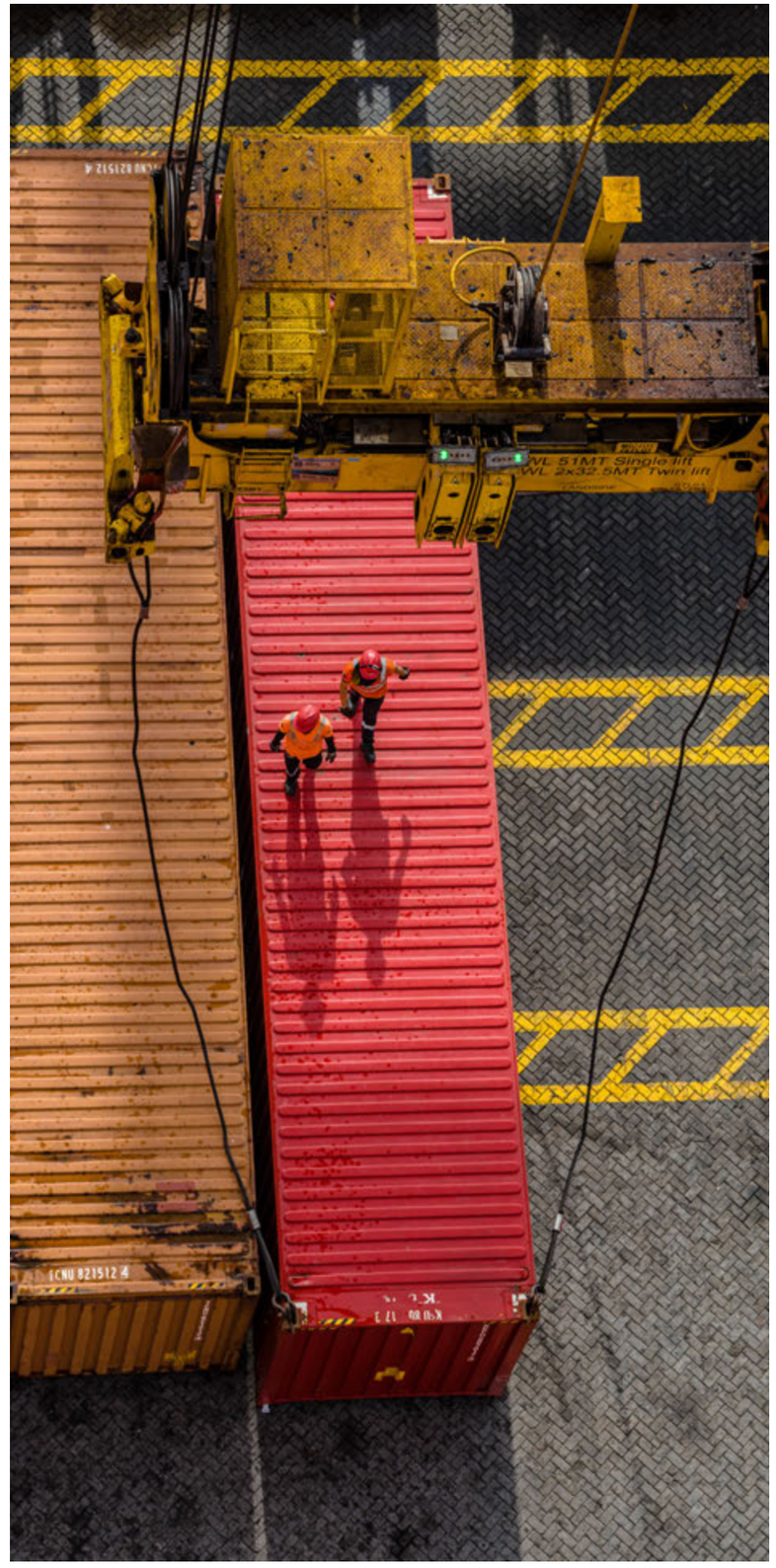
There is no doubt that the surge in demand has increased ocean carrier revenues. However, prior to Q2 2020 ocean carriers had operating margins of 5% or more for only 6 of 49 quarters or just 12% of the time in 12 years.

Though shippers and forwarders are understandably displeased with the current pricing situation, history shows that rates fluctuate and can be expected to move back from the unusually high levels as market conditions stabilise.

Average carrier operating margin.



Source: Alphaliner.



Protecting Global Supply Chains.

World Shipping Council

The global supply chain needs flexibility and stability.

The international container supply chain is made up of multiple businesses and individuals, each of which are taking steps to ease the current disruption.

Manufacturers and retailers normally operate with many months of forward planning, and cargo flows have for the past couple of decades followed predictable seasonal patterns, with sufficient capacity allowing for just-in-time operations and low inventories. No part of the global supply chain is geared to managing the current extremes.

Consistency and transparency

As such, now is not the time to apportion blame or introduce dramatic change to the systems, processes or regulations governing trade. Calling for regulation in an abnormal and temporary situation will not solve our current issues and could result in long-term negative results. Now more than ever, the global supply chain needs flexibility and stability from governments in maintaining consistent and transparent regulation.

The international supply chain is moving more cargo than ever before, but we are moving that cargo very inefficiently. It takes too long for goods to get from origin to destination, and there is too much uncertainty about when cargo will be delivered. The whole supply chain is saturated, and fixing it isn't a matter clearing one bottleneck. Ocean carriers recognise the part they must play in that and are actively engaging to meet shipper demand and ease the flow of goods.

A longer view

In the short term, the most important actions governments can take are to facilitate crew changes, recognise seafarers and shoreside workers as key workers and ensure their priority vaccination against COVID-19.

These steps, together with continued investment in port and logistics infrastructure, educational resources, and ensuring regulatory predictability will contribute to resilient global supply chains in the long term.

World
Shipping
Council