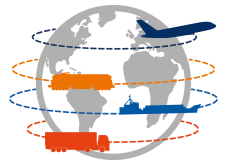


Current state of the container market “The perfect storm”

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



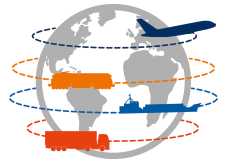
Impact of COVID-19 immediate impacts

- 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 73.3million Teu:-
 - 13.99 % increase on 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

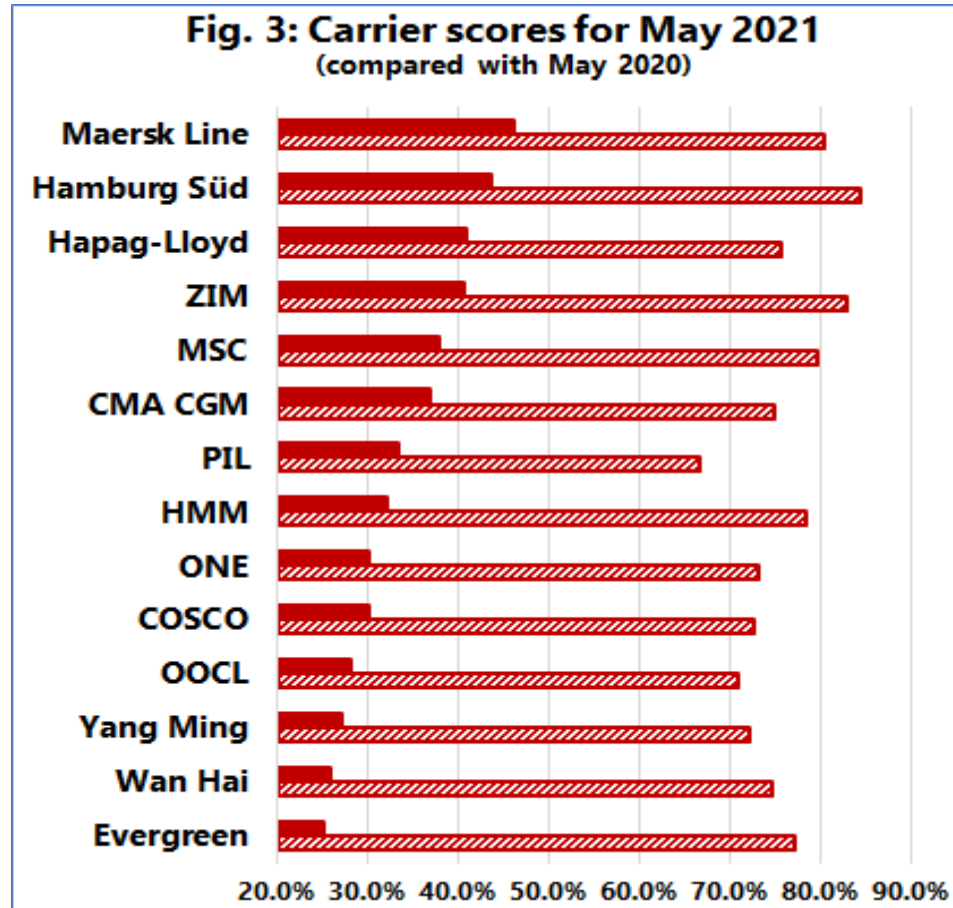


Carrier reliability

Key:-

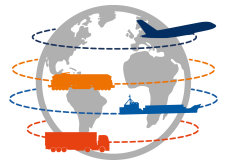
Solid Red is May 2021

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

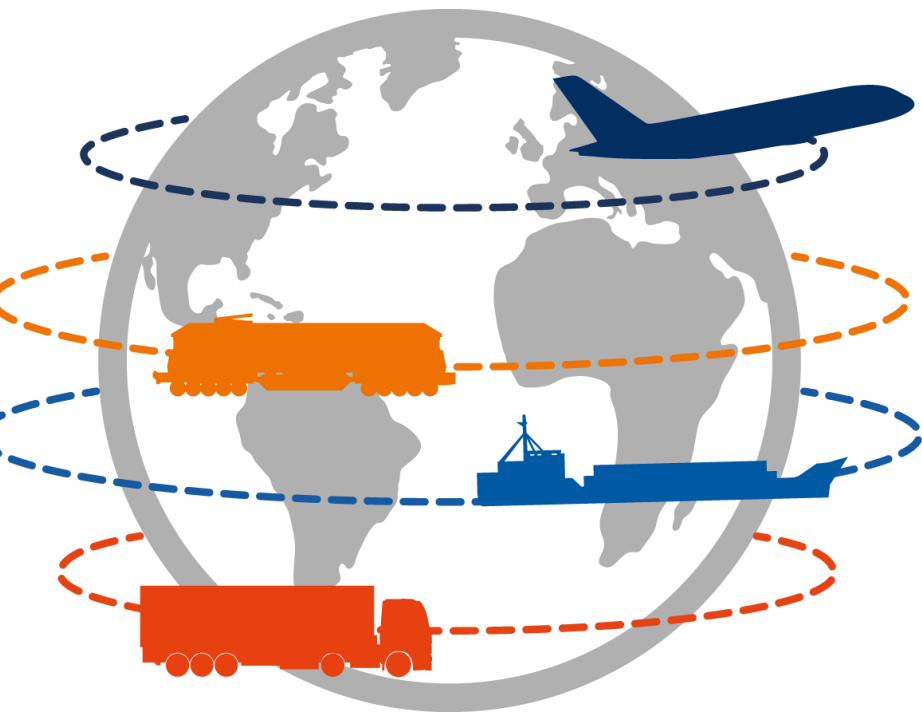
- Carriers are omitting ports from their call pattern
 - 2M are omitting:-
 - Rotterdam for 7 weeks during summer 2021 on three Asia to North Europe loops
 - Hamburg from their AE7/Condor loop for 4 weeks
- The Alliance has “Temporarily” omitted Rotterdam from eastbound FE4 loop
- In the UK Felixstowe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



Likely ongoing impacts for 2022

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





Thank you for your attention

If you have any questions regarding maritime issues, please contact Robert Windsor at:-
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