The Hong Kong Shippers' Council
香港付貨人委員會

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Combatting high freight rates and logistical chaos and disruptions

Even in a post-pandemic world, I was shocked to read that the freight rate now exceeds US$15,000 for a 40 ft container from Hong Kong to Europe in the spot market. Similarly, Drewry's Hong Kong-Los Angeles Rate Benchmark reached US$7,000 for a 40 ft at the end of June.

In other words, the Hong Kong to Europe spot rate has experienced a seven to eight-fold increase, while the Drewry benchmark rate has increased five-fold.

But even with the aforementioned increases in mind, it is necessary to caution that the actual average freight rate in the Asia-Europe trade tends to be lower. This is because a substantial portion of cargo is often carried under contract rates, which are usually much lower than spot rates.

These astronomically high freight rates are eroding business margins of importers and exporters. And worryingly, the majority of export cargoes from Asia are of low value. In fact, industry pundits have found that the average cargo value per container is about HK$1 million and the current freight rates represent all of its margins.

To combat the unprecedented high rates, some overseas buyers like Walmart are asking sellers to change their buy-and-sale terms from Free-on-Board (FOB) — which have been used for decades — to CIF, DAP or DDP, etc. This is being done to shift the shipping costs and liabilities to sellers.

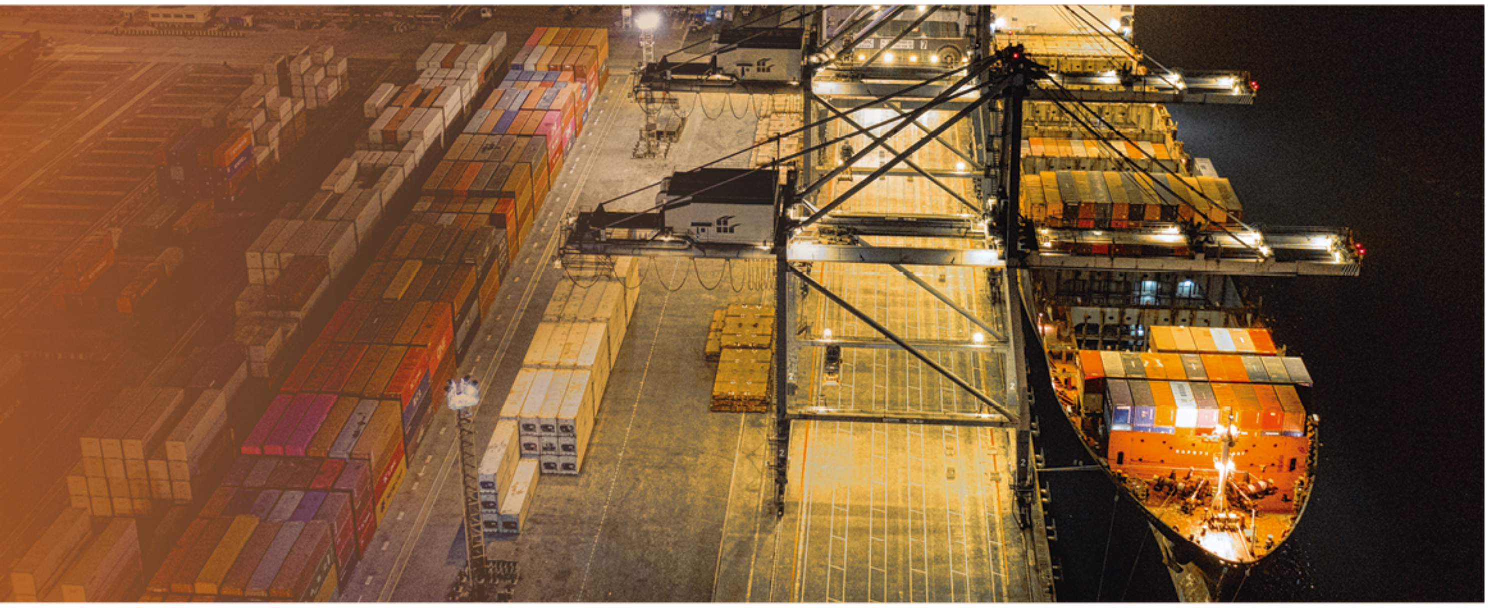
However, Hong Kong sellers should not accept these changes, not only because of the high and very volatile freight rates, but because of reliability of shipping — and the supply chain as a whole — is descending into utter chaos.

Major global container ports are severely congested, so much so that ships are having to queue for a few days just to secure a berth.

Meanwhile, innumerable containers are still sitting in terminals awaiting loading or collection. Port operations have also been severely disrupted, as the free storage periods of both export and import containers are being cut short. On top of that, services are being downgraded, and hot box and late cargo services are being cancelled. And sadly, track and trace attempts have been unable to produce the desired results.

And as expected, it has been difficult to establish reliable shipping schedules since lines are having to change their schedules so frequently.

Consequently, "blank sailings" are now on the rise since fully loaded ships are having to cancel scheduled port stops in a bid to cut costs or make-up for accumulated delays.



Substitute sailings are available for desperate shippers, but only as a last resort. This is because substitute sailings run the risk of incurring higher freight rates.

Containers have not been immune to port congestions and disruptions either.

Lockdowns and closures within the retail and hospitality sector have certainly played a part in disrupting the logistics sector. But so have the uncertain closures of warehouses and logistics centres, coupled by ongoing disruptions of truck operations, and extended dwell-times of inbound containers at ports and freight depots, as well as warehouses and logistics centres have all affected container turnarounds.

And as more containers are "locked up" for transit, fewer containers are currently in circulation, which has led to an acute container shortage.

Without containers, cargoes remain unmoved, thus creating a phenomenon of scrambling of empty containers at cargo origins. Shipping lines have been taking advantage of panic by introducing the fees such as "Empty Container Reservation Fee", "Container Guarantee Fee", to name a few.

To combat this issue — at least in the short-term future — container manufacturers are delivering new containers. But due to a lack of investments over the past few years, coupled with the high prices of raw materials such as iron ore, production capacity has very restricted.

Moreover, as the freight market remains so uncertain, investors are (wisely) holding onto their coffers for now.

The vulnerability of supply chain is being made more apparent through incidents like the infamous Suez Canal one from earlier this year. The Suez Canal was blocked for 2 weeks after the grounding of the container vessel "Ever Given".

Then in May, the Yantian Port, which has an annual throughput over 14 million TEUs, was closed for three weeks because of a small COVID-19 outbreak.

I have therefore asked the Council Secretariat to issue shipping alerts to shippers. So far, four alerts have been released since December 2020.

Besides advising shippers not to accept trading terms that would induce shipping liabilities, shippers are also being advised to do the following:

- Make bookings early (21 days in advance)
- Closely monitor the market
- Pay attention to hidden fees
- Avoid making changes after confirming a booking
- Be meticulous when processing documentation
- Expand their list of carriers and service providers
- Build buffers, with regards to delivery and shipping time
- Make use of a carrier's digital booking platforms as an extra booking channel

Shippers in the Greater Bay Area (GBA) should consider rail services as a supplemental means of transport. While limited in capacity, rail freight rates have become much more competitive due to the climate of raised sea freights. Transit times are also favourable compared with their ocean-going counterpart. It has been reported that container throughput carried by the Sino-European rail increased by 33% compared to last year. Some freight forwarders in the GBA are providing regular services.

It goes without saying that the current situation is highly undesirable and global shippers' organisations are having to appeal to governments and authorities for mitigation measures and regulatory reforms just to stay afloat.

There should be concerted efforts by all stakeholders to restore efficiency and reliability of supply chains, if there is any hope of restoring our impaired global economy.