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

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Working together to ride out the 'perfect storm'

The shipping industry has described the current crisis in the industry as "a perfect storm", as the events and aftershocks of the last 18 months are now coming to a head.

Following the start of the COVID-19 outbreak in January 2020, Wuhan swiftly enacted a city-wide lockdown. Within a fortnight, the rest of China followed suit.

Anticipating a trade downturn and contraction of demand for shipping space, shipping lines immediately off-hired or idled ships, returned containers to their leasing companies, cancelled sailings, and adjusted routings to reduce supply and cut costs.

And within a couple of months, COVID-19 made it to every corner of the world and the global lockdowns became the norm.

By March 2020, consumers were unable to travel or visit bars, restaurants, salons, or shops. In response, people turned to their computers, tablets, home entertainment systems and the like. Consequently people stayed home for extended periods which boosted sales of lounge and home furniture, BBQ sets, etc. These bulky cargoes pushed up demand for shipping space and resulted in shipping costs reaching astronomical levels.

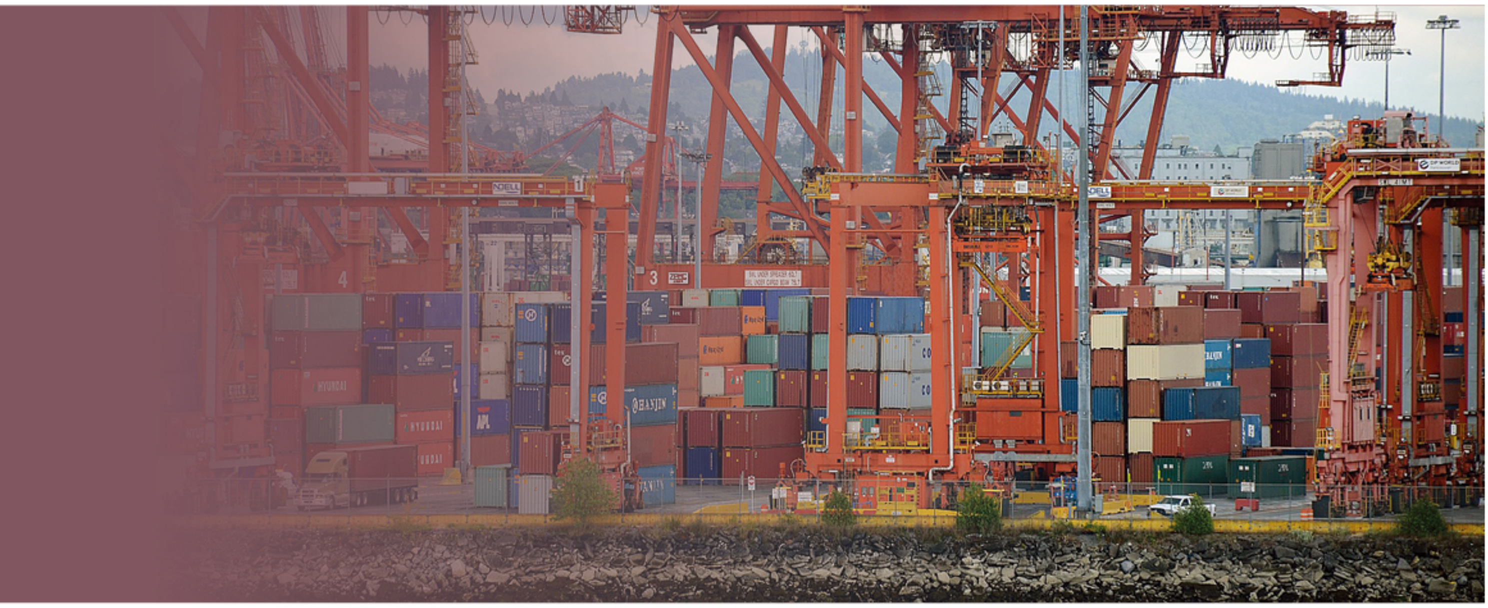
By mid-2020, most production bases outside China struggled to keep up with their normal levels. Workers and drivers were required to stay at home and factories closed or scaled down due to severe shortage of raw materials, parts, or even management staff; many were either at home or stuck overseas.

But once China demonstrated its adeptness at managing the pandemic, procurement and sourcing switched back to China, fuelling shipping demand from there.

From then on, shipping lines readjusted ship deployments and routings. But expectedly, new problems arose.

Destination ports and supply chains — including almost all major ports — were affected by the pandemic and various lockdown measures. This meant that containers and cargoes were stuck at ports and logistics facilities. As volume began to build up, congestion turned into chaos. Ships were having to queue for a few days before getting a berth; containers sat at terminals unable to be loaded onboard; on-carriage to inland processes were disrupted; and warehouses and retail outlets were closed due to strict pandemic control measures.

And since international travelling had come to an abrupt halt (not only because of travel, many drivers stay or are required to stay at home, or restricted to move within a city, between cities, and Brexit expelled many continental drivers), a shortage



of as many as 400,000 drivers were estimated for Europe alone. But even before the pandemic, driver shortages were already beginning to affect supply chain performance.

This much was clear: the industry needed more ships and containers to cope. Container manufacturers have been working double time to keep up, but even then, that hasn't been enough.

Freight rates surged 250% by the end of 2020 compared with the beginning of the year and have been skyrocketing since June this year. Regionally, there was a tenfold increase within the west-bound Asia-European trade, and a fivefold in the transpacific trade.

And if that's not worrying enough, freight rates are still climbing in the 3rd quarter of 2021. Settled rates in the market are almost 20 times higher in the Asia-Europe trade and 7 times higher in the Asia-US trade. Conversely, minor trades such as those in Africa have suffered a considerable contraction in their capacity.

But despite freight rate increases, ship scheduling and cargo operations have been deteriorating. Ships operations are still feeling the effects of incidents like the grounding of the "Even Giver" in the Suez Canal, closures of ports such as Yantian in June 2021 and Ningbo in August 2021 due to small-scale outbreaks, and severe weather.

Adding to the supply chain management risks, Hong Kong exporters have been worried about credit risks. The risk of order cancellation remains high as cargo might miss the upcoming Thanksgiving and Christmas sales periods. If orders arrive late, there is a risk of default payments being made against cargo.

I have often been asked how the situation could be improved and when we are going to see the end of this chaos.

I believe all stakeholders should work together and examine every single link within the supply chains. We all know that every supply chain is as strong as its weakest link. Therefore, we need to identify the weak links and tackle them one by one.

As for ocean shipping, some of the major global ports are still not operating around the clock, both on berth and land sides. For truck operations, there have been debates over whether some restrictions on traffic movements should be relaxed on temporary basis. In addition, better treatments of drivers such as providing safe and secure rest places that comply with the mandatory rest hour requirements should be in place.

The U.S. Federal Maritime Commission released its initial findings by stating that it had not found proof of collusion between shipping lines over freight rates. The body added they found no deliberate attempts of lines restricting supply against market trends. Initial contact with the Director-General Competition, the European Commission also indicated that there has been some difficulty resolving the shipping crisis, through existing competition legislation angle.

Therefore, the main focuses would be patiently waiting for the world to return to normal, and eliminating inefficiencies by removing the bottlenecks. Vaccination is crucial for achieving this first goal.

I must also note that world major shipyards and container manufacturers are at full capacity; new, larger ships are scheduled to be brought into service by 2023. This should be able to provide some relief. But before then, it is necessary to swiftly remove bottlenecks in the supply chains.

Administrations must find ways for traders to obtain insurance protection. In the case of Hong Kong, perhaps the Hong Kong Export Credit Insurance Corporation (HKECIC) could expand its pre-shipment insurance, and the government could extend the 100% loan guarantee for at least six to 12 months. Cash flow remains the most critical concern of traders, particularly for SMEs.

Anyhow, by working together, we are confident that we will weather the storm, however long it may rage.