SEMAPHORE

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Shipping Demand, Issues and Costs Soar

A notable shift in global consumer demand from services to goods has been observed as a direct consequence of measures to control the COVID-19 pandemic, which has led to strained supply chains and sharp increases in shipping prices.

Such are among findings of the Reserve Bank of Australia (RBA) Statement on Monetary Policy – May 2021, which observed there had essentially been two phases of supply chain issues during the pandemic.

“In the early stages of the pandemic production issues due to activity restrictions were most prevalent, first in China and subsequently in other countries,” states the RBA.

“As global demand rebounded from mid-2020, transportation issues – particularly the availability of sea freight services – became the major driver of supply chain issues, though production constraints remain in some countries.”

As activity in the travel and services sectors became constrained by health-related restrictions and many workers in advanced economies worked from home for the first time, global demand shifted from services to goods.

“This shift in consumption patterns took suppliers by surprise and has resulted in transportation issues becoming a major driver of supply chain issues since around mid-2020.

“This primarily reflects a global shortage of shipping containers, particularly out of China, and a mismatch of the location of containers, which are often full in one direction but empty in the other direction.

“At various times this has been exacerbated by congestion at some ports around the world as increased import volumes have coincided with reduced capacity due to restrictions. The lack of shipping containers has resulted in sharp increases in global shipping prices since mid-2020, as well as delivery delays.”

According to data cited by the RBA, the Baltic Dry Index (a composite measure of the global cost of shipping bulk commodities) rose about 650% between February 2020 and May 2021, with global container shipping costs having increased about 200% over the period.

Compounding matters, air freight capacity has remained significantly lower than pre-pandemic levels, given restrictions on international travel resulting in far fewer commercial passenger flights available to carry cargo.

“As a result, delivery times for this form of transport have also increased and costs remain significantly higher than pre-pandemic levels. Nonetheless, air freight accounts for a small share of Australia’s total goods trade values.

“Global production issues in places such as South and Southeast Asia, Europe and the United States eased over the second half of 2020 as commercial activity restrictions were relaxed. However, some factories continue to operate below full capacity because of restrictions, making it harder for them to work through their backlog of orders as well as meet new orders. As a result, production lead times have increased.”

Nonetheless, the RBA observes that for most Australian firms, supply chain issues have not been severe enough to affect operations materially, so relatively few firms have made material long-term changes to procurement practices.

“The modest response by most firms to supply chain issues to date is likely because the issues they have experienced have been relatively minor.

“For industries facing more severe issues – such as non-food retail and manufacturing – liaison contacts note a range of challenges in switching suppliers, including the complexity, time and higher costs involved.

“Higher costs are particularly pertinent for switching to domestic suppliers, and in some instances there are no domestic substitutes at all.”

Call to Rein in Carriers

Noting the cost for his Auckland-headquartered business to ship a 40-foot container had risen by NZ$8000 on a pre-pandemic contract price, outspoken Mainfreight Group managing director Don Braid has claimed that containerlines are effectively price-gouging.

In comments made around the release of his global firm’s recent annual result, Mr Braid said carriers were “not honouring any of the contracts that they might well have entered into prior”.

“Frankly, I think things need to be done to pull them back into line,” he reportedly said.

“I think that the shipping companies would be wise to consider their long-term future rather than the short-term profits that they are creaming right now.”

Maritime Union of New Zealand (MUNZ) national secretary Craig Harrison says his organisation has found itself in the “unusual” position of agreeing with a trucking industry boss.

Mr Harrison says the fact that Mainfreight was now chartering ships to move cargo internationally was a major development and illustrated a change in thinking.

“The entire global logistics system is broken, and now we need to focus on new solutions that provide security and reliability,” he says.

“The only people benefiting from the current chaos are global shipping companies.”

Mr Harrison says ongoing issues with supply chain congestion, missed ship calls to ports and extreme surges in the cost of freight, are causing significant economic damage.

In this vein, he says MUNZ is actively campaigning for New Zealand Government support to generate a stronger New Zealand-owned and operated coastal shipping sector.

“New Zealand is dependent on global shipping lines whose interests are not the same as New Zealand’s.”

Economic Realities

However, in a recent *NZ Shipping Gazette* commentary, Dave MacIntyre observed the current shipping rate situation was simply the realities of market supply-and-demand at play.

“No shippers were offering to pay more a few years ago when supply was greater than demand, freight rates were low and [carriers] were losing money – who raised an outcry then?” he wrote.

Although expressing sympathy with the current predicament of shippers, Mr MacIntyre noted that from the carrier perspective, vessel charter rates were also “sky high” at present.

“So if a vessel charter is coming to an end and you have to renew, or you want extra tonnage, you have to pay phenomenal rates, which naturally will be passed on.”

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