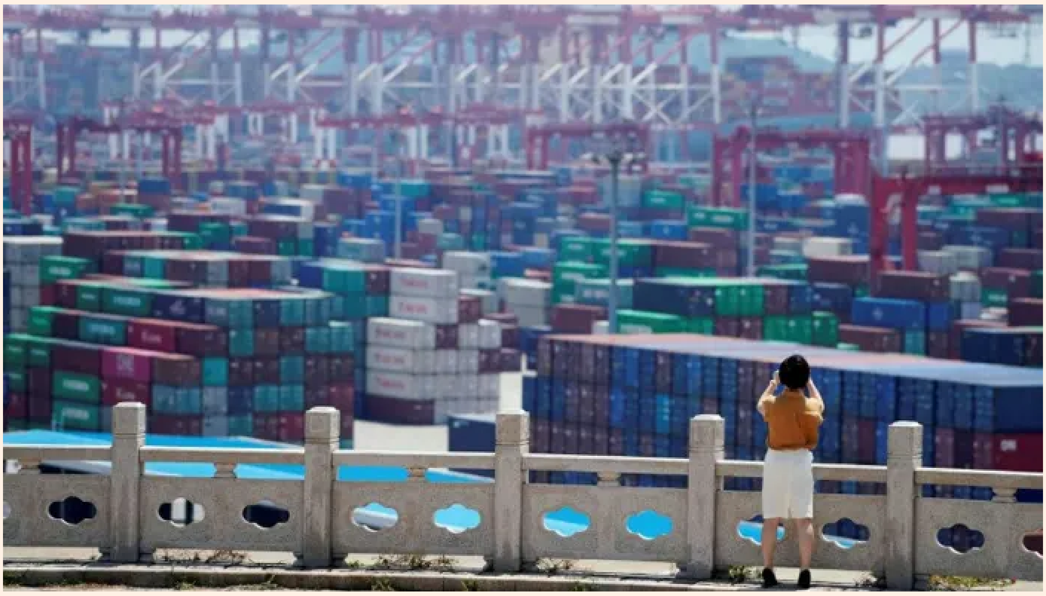
Global trade

Shipping bottlenecks set to prolong supply chain turmoil

Tenfold jump in costs since start of pandemic squeezes importers and exporters



Yangshan deep water port in Shanghai. Costs to move a 40-foot container from China to the US west coast have soared to about $15,800 © Aly Song/Reuters

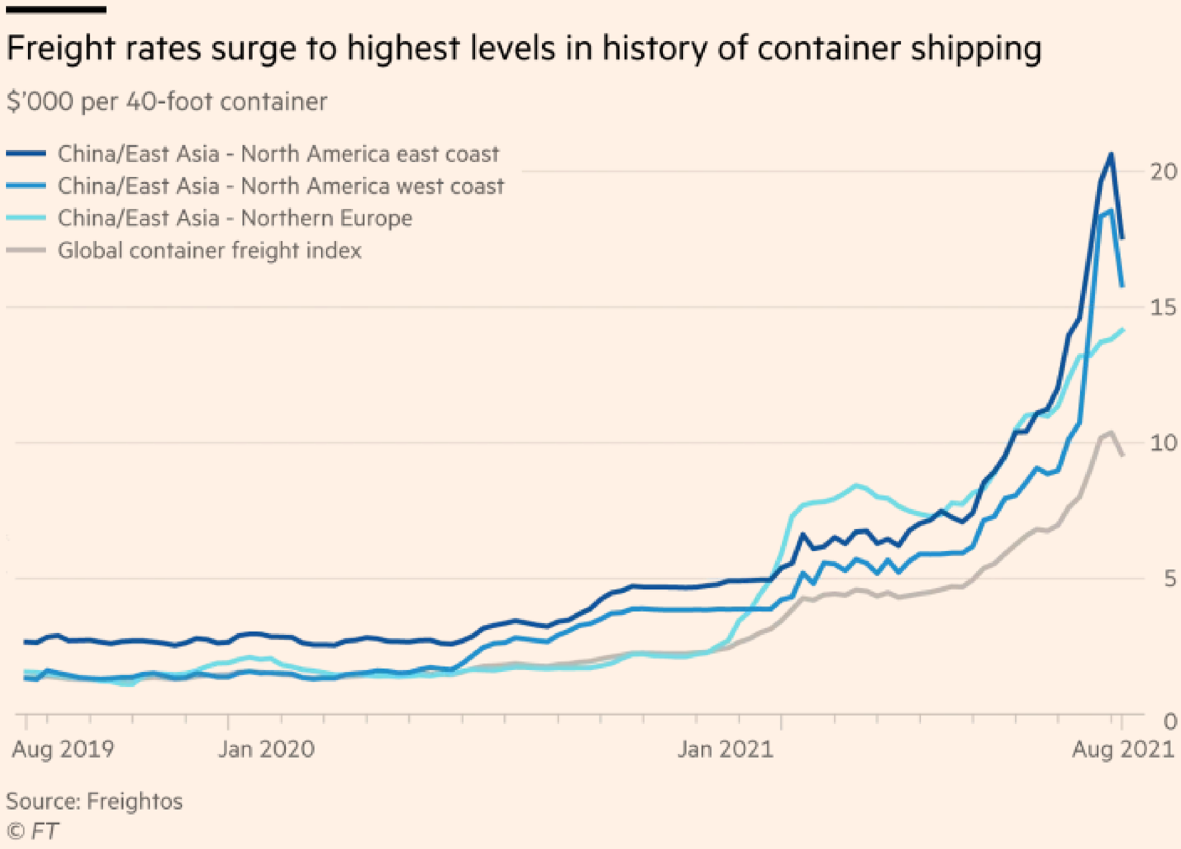
Harry Dempsey and **Chris Giles** in London, and **Primrose Riordan** in Hong Kong
AUGUST 16 2021

The closure of a terminal at the world's third-busiest container port is only the latest sign that turmoil in ocean shipping could run into next year, posing a threat to global economic growth as chronic delays and soaring transport costs may leave demand unmet and push up consumer prices.

A coronavirus outbreak led to a partial shutdown at Ningbo-Zhoushan port last week and the resulting suspension of inbound and outbound container ships reduced the port's capacity by a fifth. It follows another Chinese outbreak in May, which led to a three-week long closure of the Yantian terminal in Shenzhen and created knock-on effects in international shipping.

A relentless surge in shipping prices and persistent bottlenecks at ports around the world have added to the barrage of problems affecting supply chains. These include the semiconductor crunch and the rising price of raw materials, to truck driver shortages as retailers stock up ahead of the peak shopping season.

Importers and exporters are fighting to recoup costs caused by a rise in shipping costs, which have soared to about $15,800 to move a 40-foot container from China to the US west coast — a tenfold jump on pre-pandemic levels and up by half on last month, according to data provider Freightos.



The disruptions started in the second half of last year after demand for goods sank when the pandemic struck and carriers cut sailings, but locked-down consumers then ordered products online at an unprecedented rate.

Shipping companies' efforts to catch up have been set back by the Suez Canal blockage in March and the Yantian terminal closure, as well as border restrictions and port worker absences.

An indefinite partial shutdown at Ningbo-Zhoushan is the latest problem that could deepen the strain on global logistics. Shipping lines have already started to omit calling at the Chinese port near Shanghai.

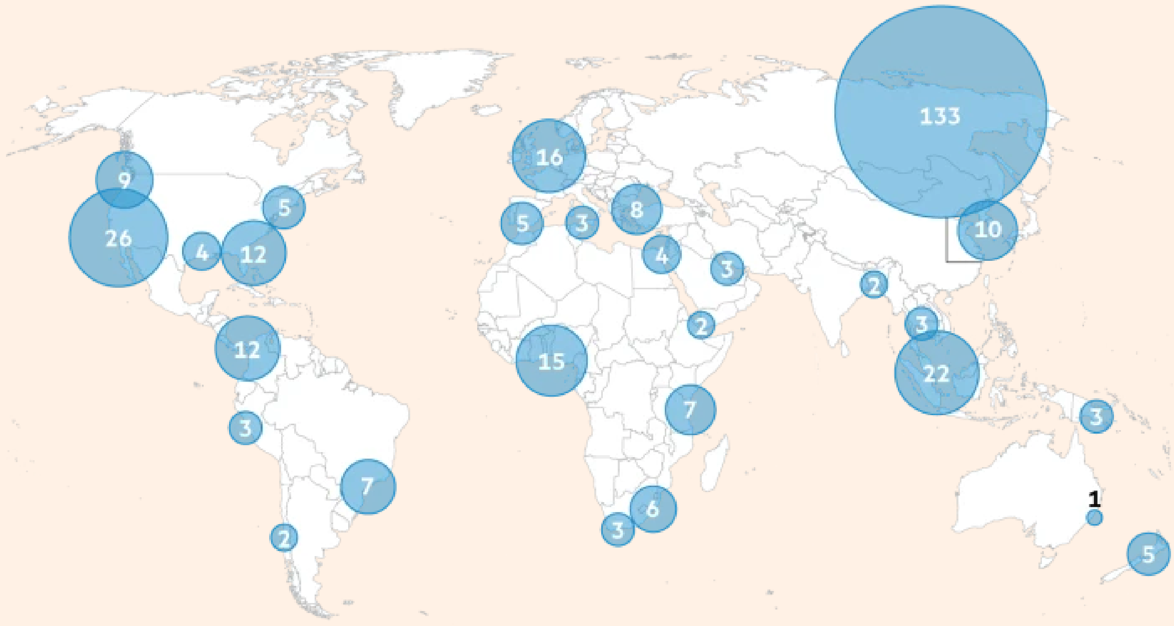
About 350 containerships capable of carrying almost 2.4m 20ft boxes are waiting off ports globally, according to VesselsValue. The congestion has been getting worse with idle capacity reaching 4.6 per cent of the global fleet, up from 3.5 per cent last month, data from Clarksons Platou Securities shows.

Lars Mikael Jensen, head of global ocean network at Maersk, the world's largest container shipping group, agreed that the situation had shown no signs of improvement since the Delta variant of Covid emerged.

"It's not getting any better on aggregate," he said, adding that maritime transport networks are "still super stretched — it only takes a small thing then you're back to square one or square one minus".

Container shipping disruption

Number of ships waiting for berth at port, as of August 13



Source: Seaexplorer/Kuehne+Nagel
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The explosive rise of container shipping rates combined with delays in supplies would have significant consequences, said John Glen, chief economist of the Chartered Institute of Procurement and Supply.

Although he stressed that supplies of most goods were still "sufficient if not bountiful", there were particular problems for bulky, low-value products, such as foam for furniture suppliers and fairy lights.

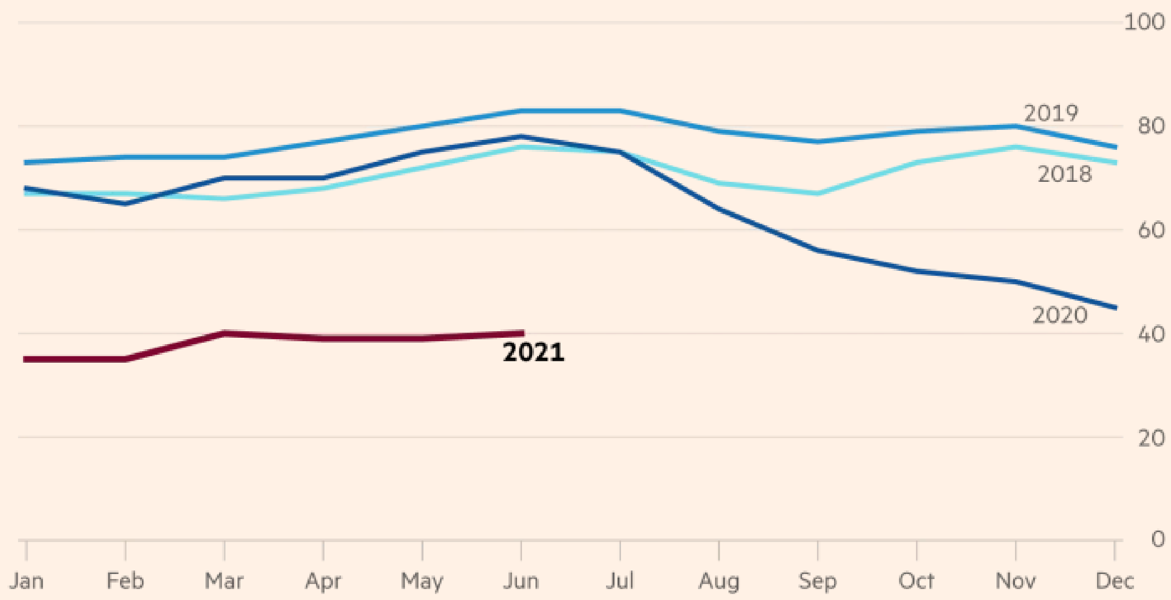
"Now is the critical point for supplies into Europe for the Christmas season," Glen said. Predicted shortages of seasonal goods would drive inflation higher because "there is no short-term solution and the problem is not going away soon".

German carrier Hapag-Lloyd estimated the disruption would not ease until the first quarter of next year. But chief executive Rolf Habben Jansen also cautioned that that date could get pushed back owing to strong demand.

"There's record output in some industries, a gigantic amount of stimulus and inventory levels are low," he said.

Global schedule reliability

Per cent



Source: Sea-Intelligence
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Beyond the most affected sectors, such as automotive and textiles, increasing numbers of companies report they are having difficulty in meeting demand and battling pressures to raise prices.

In Europe, these effects can already be seen in weak industrial production over the summer. "Supply chain disruptions are likely to weigh on eurozone industrial production for some time," said George Buckley, chief UK and euro area economist at Nomura.

The disruptions have prompted larger manufacturers and retailers to consider strengthening their supply chains by holding more stock, double sourcing or even reshoring production. But this comes at a cost and for many small companies it has turned into a matter of survival.

"I think it's the single biggest threat the economy faces at the moment. It's only just starting to bite," said Philip Edge, chief executive of Edge Worldwide Logistics, a Manchester-based freight forwarder. "Imagine if oil went up from $20 per barrel to $200 per barrel, then that would be tantamount to what's happening now."

While the comparison is inexact — shipping sets more of its prices on long-term contracts than the oil market does — it illustrates the stresses facing industries that are dependent on long-distance shipping.

James Hookham, secretary-general of the Global Shippers' Forum, said the pain was particularly acute for businesses in developing countries supplying western markets.

"The thing that kills these companies is the lag between paying higher costs per voyage and the next opportunity they get to renegotiate with their customers, which could be nine or 12 months down the line," he said.