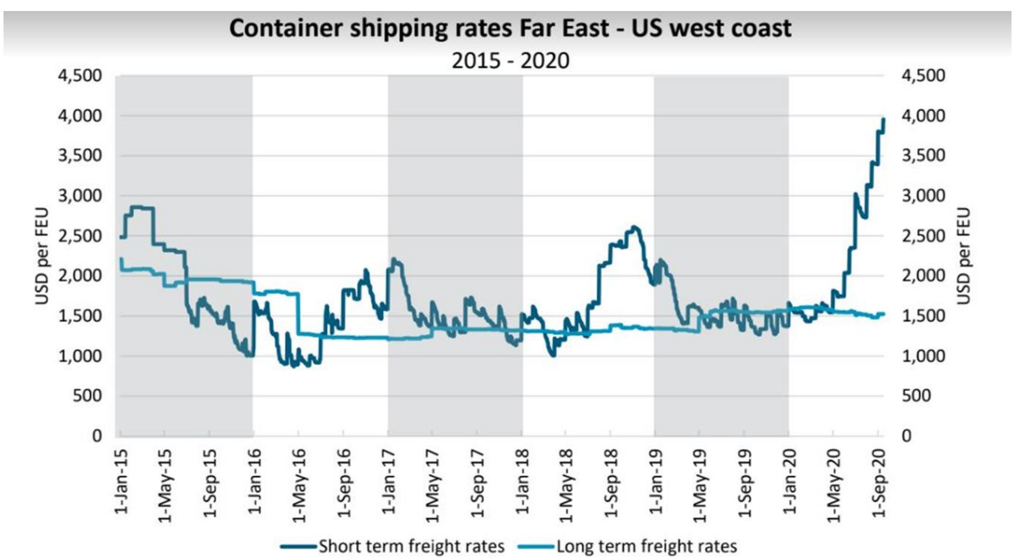
Global Shipping Logistics are wreaking havoc with the industry.
When does it end?

- What is the cause behind the ongoing shipping crisis spanning the Atlantic and Pacific?
- How did all this start?
- What does this mean in terms of dollars and cents to me?
- When do we expect this to end?

This White Paper will unveil the conditions that led up to the inevitable global shipping crisis, and provide a glimpse into the future of shipping.

<u>The state of global shipping</u>
At the end of 2020, shipping rates on the busiest routes from China to the Eastern and Western seaboards of the United States, were 110% and 208% higher than in 2019. The total delivery of 20-foot containers increased by over 70%. Even air freight, rail and intermodal volumes were seeing spot prices increased by 3-5% annually. These changes in global logistics demand are the highest we have experienced in the 21st century.
Since 2020, the average logistics costs for US companies have increase 1.5-2% annually. For some US companies, the logistics costs alone accounted for as much as 5% of the total product cost. This cost excludes all taxes, duties and other fees charged at the ports of entry or by Customs. In 2021, the transpacific logistics costs have more than doubled over the previous year.



Note: rates include destination terminal handling charges.
Source: BIMCO, Xeneta

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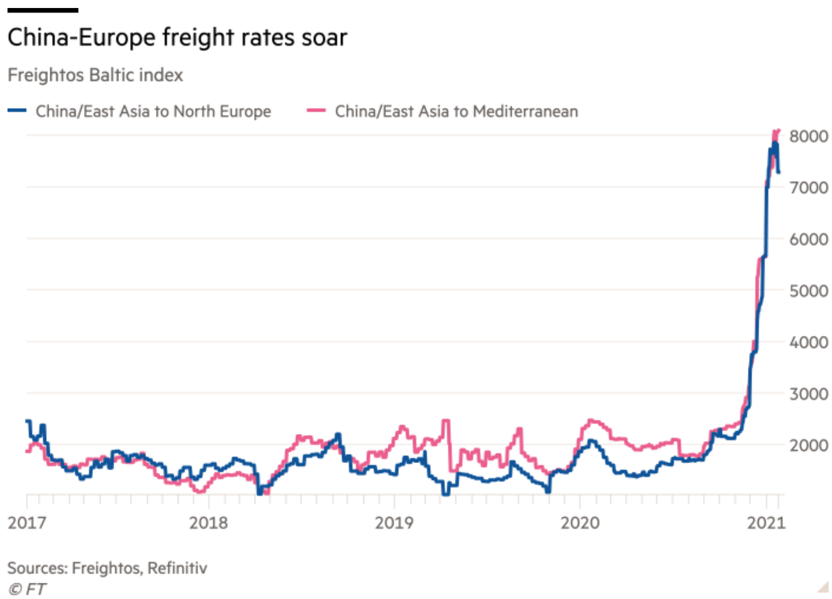
However, the US should count itself lucky compared with its European counterparts. Europe has experienced a quadrupling of shipping costs in 2020. Some European companies are experiencing logistics costs accounting for 15% of their total product cost. Since the Suez Canal incident in March 2021, some shippers are completely bypassing European shipping routes, thereby, further exacerbating existing pressure on air freight, rail and intermodal means.



For US companies with Europe-based customers or satellites operations, their dependence on shipments from the Far East (mostly China) to Europe presents the greatest logistics challenge, in terms of both cost and lead times.

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Meanwhile back at home, the schedule integrity of Transpacific routes, which accounts for the lion's share of US shipments, has seen declines of 10-20%. Scheduled voyages regularly experienced cancellations without notice, known as blank sailings. Undermanned ports, without sufficient manpower to offload the increased shipping output, have experienced historic backups of cargo vessels, particularly at California ports, like Oakland and Long Beach. US customers are waiting as long as a month to have their cargo offloaded and released from the ports.

Port of Oakland: historic backup of cargo ships


Traffic jam at Port of Los Angeles

Even when the cargo is eventually released, rail and intermodal transport, are still operating at 10-20% below 2019 levels. Trucks now wait as long as a full day to receive offloaded cargo, resulting in waiting charges of $150-200 per day. Yet, the truckers stay in place for fear of losing their spot and having to wait in queue all over again.
So, how did we come to be in this mess?

<u>The precursor and drivers</u>

The driving factors behind the most skewed logistics behaviour we have witnessed in modern times may be attributed to three successive waves of global human activity. Much like how individual harmonics combine in a complex soundwave, this succession of drivers, not only helped to perpetuate the current logistics crisis, but amplified its impact and damage. This is truly a case of where the sum of the whole is greater than the sum of the parts.

1. The Covid-19 pandemic was clearly the precursor to the current logistics crisis and the first wave. It arrived the week of Lunar New Year, when factories typically shut down throughout China for two weeks. The timing was most unfortunate as it would take China more than two months for most factories to resume work, subject to a zero-tolerance government policy against confirmed work incidents of Covid-19. This meant that Europe and North America would fall drastically behind in much-needed supplies for their production lines, compared with any previous post-Lunar New Year restart.

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Starting April 2020, in global efforts to flatten the curve, the world did not just shut down global travel. We also shut down entire economies, keeping open only essential manufacturing and services that supported critical health needs and basic living necessities. Subsequently, all business that were deemed non-essential were closed down while governments executed shelter in place orders for the first two quarters of 2020.

Following on the wholesale shutdown of our economy, the workforce that maintained the ports, shipping, airlines, and intermodal means were temporarily shuttered, furloughed or permanently laid off as port volumes declined by 30%. The logistics apparatus that supported the US economy was effectively crippled.

2. The recovery of global trade was the second wave. Global economies re-opened much faster than anticipated. Predicted to take more than four years to recover, the US automotive industry recovered to almost normal production volume by Jan 2021. China, which suffered a manufacturing shutdown (except for essential businesses and services) through Q1 and Q2 of 2020, ended the year at 2.3% growth. Ironically, this recovery was attributed to unprecedented demand for PPE (Personal Protective Equipment) and steel containers used to deliver necessities worldwide. Container demand increased 5-7% in 2021.

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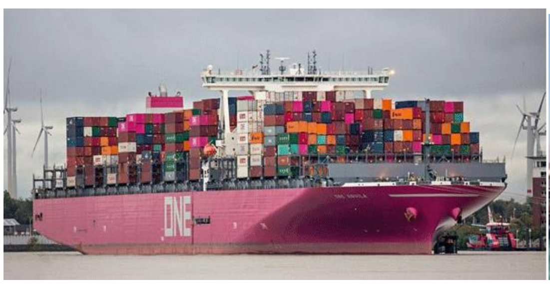
The shelter in place orders that were instituted, in most countries, while damaging to local businesses, bolstered unprecedented growth in online shopping, worldwide. From 2019, digital buyers grew by 7.3% to 2.06B. Midway through 2021, the number has grown another 3.9% to 2.14B. Merchants able to switch over from brick-and-mortar to click-and-order, were able to sell more product, more quickly than ever, with the promise of touchless, guaranteed delivery. However, the underlying logistics apparatus had yet to catch up with the surging demand from ecommerce.

3. The third wave was attributed to the attempted recovery of the logistics networks and apparatus as they worked to adapt to the first two waves. Since the start of Covid-19, we experienced port voids and blank sailings due to lack of ships and adequate staffing and slowly-evolving safety protocols. Air-based options were limited by volume and cost. Rail and intermodal means, just like shipping suffered through furloughs, shuttered service and loss of staffing.



However, by March 2021, port volumes exceeded 110%, yet most ports remain undermanned. The introduction of time-consuming, pandemic-related safety protocols further compounded offloading efficiency. The resultant bottlenecks at US ports forced even more desperate measures.
In order to deliver more cargo in the same trip, carriers began to stack containers ever higher on vessels, well beyond acceptable practices. In 2020 alone, we witnessed a record 3000 containers toppling into the ocean, according to Bloomberg estimates. In March 2021, we have already witnessed 1000 containers lost at sea! Ironically, the supplies that would have provided relief to many desperate companies and their customers, ended up at the bottom of the ocean, proving once again the adage, “Haste makes waste”.

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When does this end?

The simple answer is we will need at least another year for our logistics systems and port efficiency to catch up with the supply of products flooding into the USA. The target date is May 2022. It took less than three months for port volumes to plummet 30% in May 2020. It will take a couple of years to re-organize and straighten out our own skewed, logistics behaviour. This is how it will be done.

1. Factory production lines will resume normal operations as vaccination programmes and Covid-19 safety protocols are optimized. The pandemic forced us to rethink touchless, remotely-controlled production lines. Major capital investments into automation will play a large part in redefining the post-Covid factory floor.
2. Supply chain vulnerabilities were severely exposed by Covid-19. The most adaptable companies will shore up their current supply chains. Those dependent on single-sourcing in China, for example, will add multiple sources, creating a more competitive supplier base, both in terms of price and lead times.
3. In order to reduce or eliminate the astronomical costs of shipping, US companies will reshore or nearshore critically-exposed production functions that can be managed in the USA, Canada or Mexico. The China market was ostensibly a haven for low-cost manufacturing, but there are simply no margins left to play with, given the 15-25% US tariffs and shipping costs accounting for another 5-15%.
4. Planning and scheduling functions, which traditionally took a backseat to Purchasing functions, will now be front and centre. Purchasers will no longer simply cut PO's, based on sales demands. Instead, planners/schedulers will be sharing sophisticated forecasts with capable suppliers to predict demand, address longer lead times and ensure safety stock levels. The suppliers able to meet these more complex requests, particularly in China, will act not simply as suppliers, but strategic partners.
5. Greater emphasis will be placed on simplification of the supply chain. Any supplier that can combine the functions of two or more suppliers, will offer unprecedented value. US companies will seek out suppliers with value-added expertise to produce subassemblies instead of just singular components.

In our lifetime, there will come along an event so monumental, so life-changing, that the world as we know it will cease be the same. The global pandemic was that event. Even when we eventually "recover" from the 2020 logistics crisis, we will be operating under a new normal, with a new set of rules. The trick is to not look back and opine the "good old days", but to embrace the new opportunities that change brings us.

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