



Webinar: "Shipping crisis and its impact on the economy"

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Services and Tourism of Chile, CNC
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Content

Part I : General introduction to FIATA

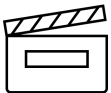
Part II: Challenges of the industry – The disrupted maritime supply chain





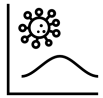
Who are we?

- International Federation of Freight Forwarders Associations
- Representing Freight Forwarders in some **150 countries**
- FIATA is composed of:
 - 111 Association Members**
 - 5,500 Individual Members**
- Overall representing an industry of **40,000 freight forwarding and logistics firms**
- FIATA advocates **trade facilitation** and actively contributes to the **functioning of the supply chain** through close **collaboration** with relevant stakeholders
- [FIATA, the global voice of freight logistics](#)





Current challenges of the freight forwarding industry



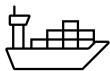
COVID-19 – Essential services and economic recovery



Supplying an adequately trained workforce to the industry



Digitalisation – [FIATA Digital Strategy](#)



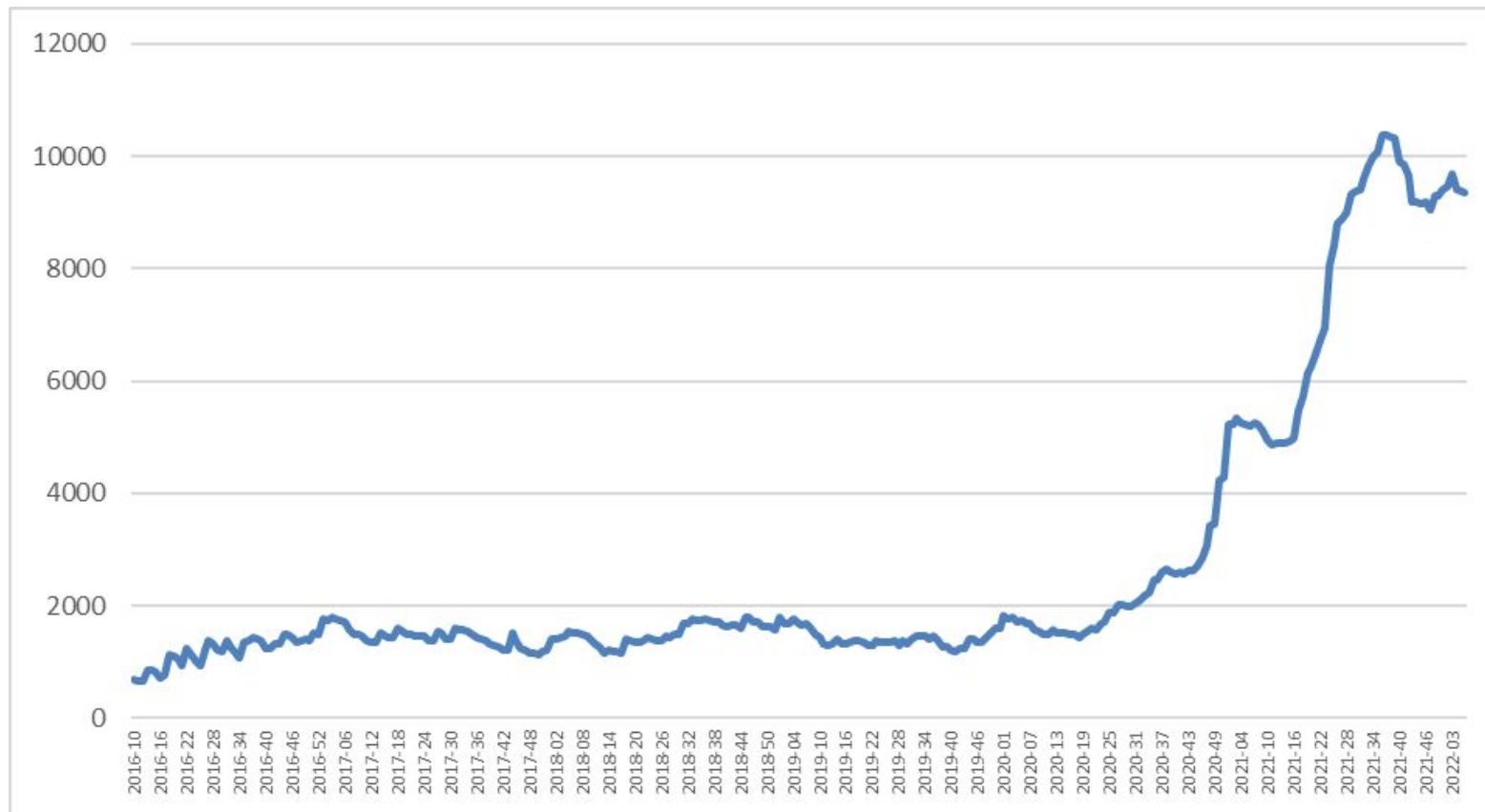
The disrupted maritime supply chain



The disrupted maritime supply chain (1)

Facts: Freight Rates have increased up to factor 10 (in some trade lanes)

Containerized spot rates Global (Drewry World Container Index)



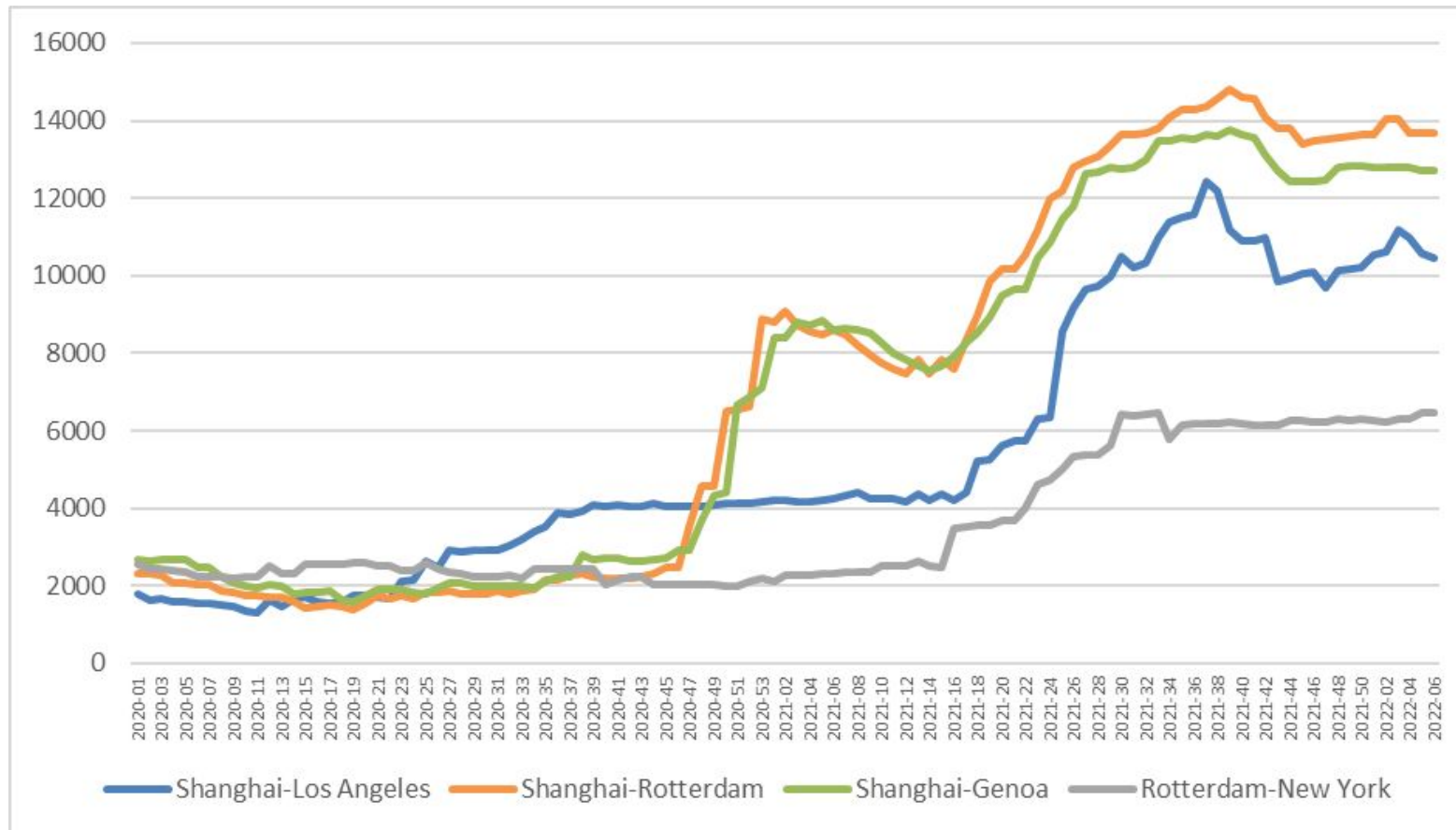
Source: Drewry



The disrupted maritime supply chain (2)

Facts: Freight Rates have increased up to factor 10 (in some tradelanes)

Containerized spot rates by trade lane (Drewry World Container Index)



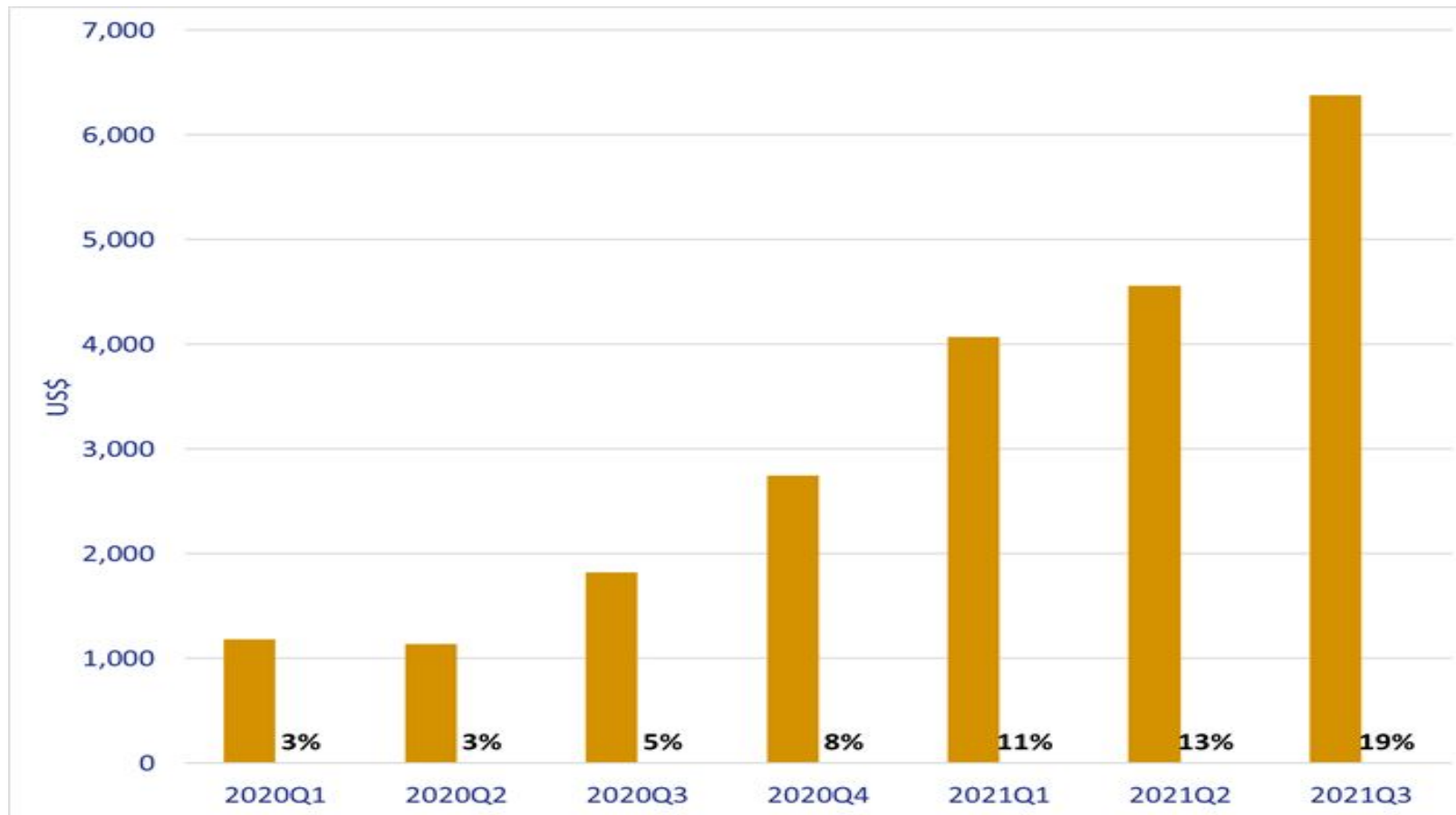
Source: Drewry



The disrupted maritime supply chain (3)

Facts: Freight Rates have increased up to factor 10 (in some tradelanes)

Average global spot rate percentage of goodsvalue (2020-2021)



Source: MDS Transmodal



The disrupted maritime supply chain (4)

Facts: Ship Schedule reliability is non-existent today

Schedule reliability of container shipping



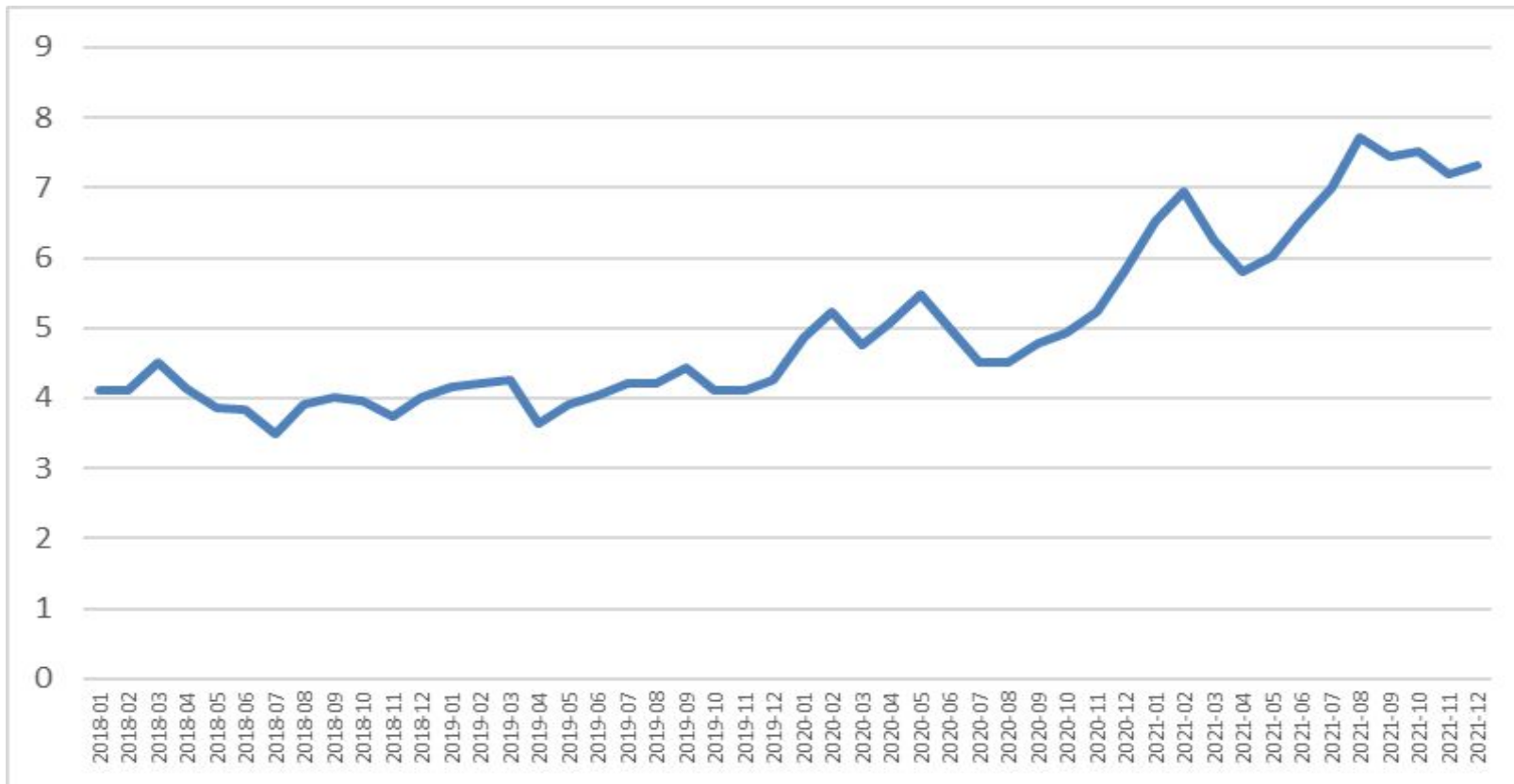
Source: Sea Intelligence



The disrupted maritime supply chain (5)

Facts: Transit times have increased dramatically

Global average delays for late vessel arrivals (in days)



Source: Sea Intelligence

The disrupted maritime supply chain (6)

Facts: Just to recap

- There is no schedule reliability
- The average delay has nearly doubled
- Transit times have massively increased

These factors combined makes you operate in the dark.

You place an order for your product

You hope to ship and keep your fingers crossed.

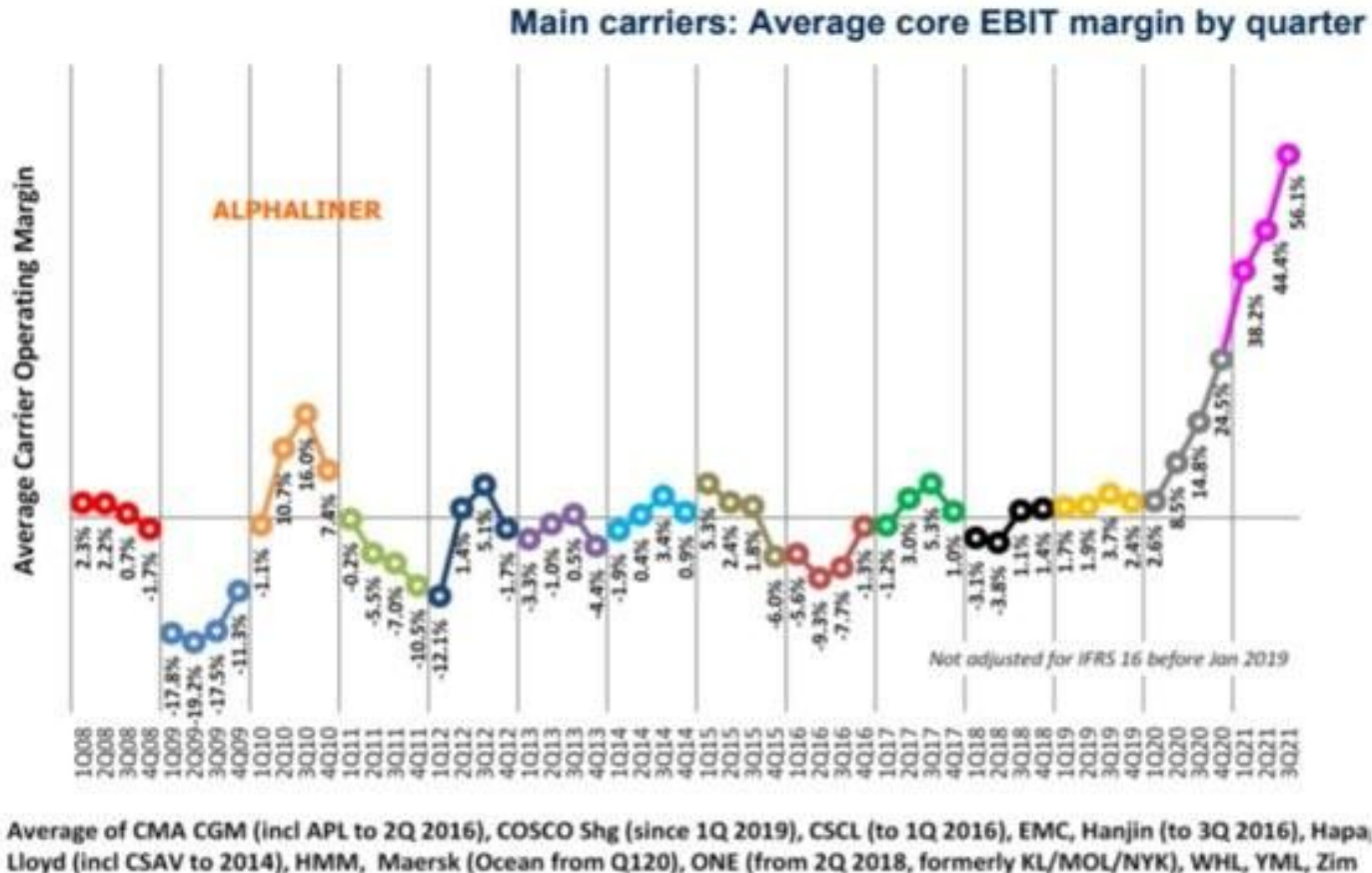
□ **There is just no planning certainty...**





The disrupted maritime supply chain (7)

Facts: Container shipping lines make record profit (USD 170 BIO)



Source: Alphaliner

The disrupted maritime supply chain (8)

How can this be explained?

Are any of you aware of a market,

- that generates record profits
- whilst at the same time offering the worst value ever?

What are the consequences for other stakeholders?

- Failure of business models due to high prices
- Uncompetitive SMEs due to being pushed into the spot market, with no planning certainty
- Increase of global inflation
 - as per UNCTAD 1.5%
- “just in time” ...but reality is no planning certainty

There is more



The free market economy (1)

What do shareholders expect?

- Maximizing profits = a major objective of a company
- Functioning of a free market
 - supply and demand
 - establishes a price

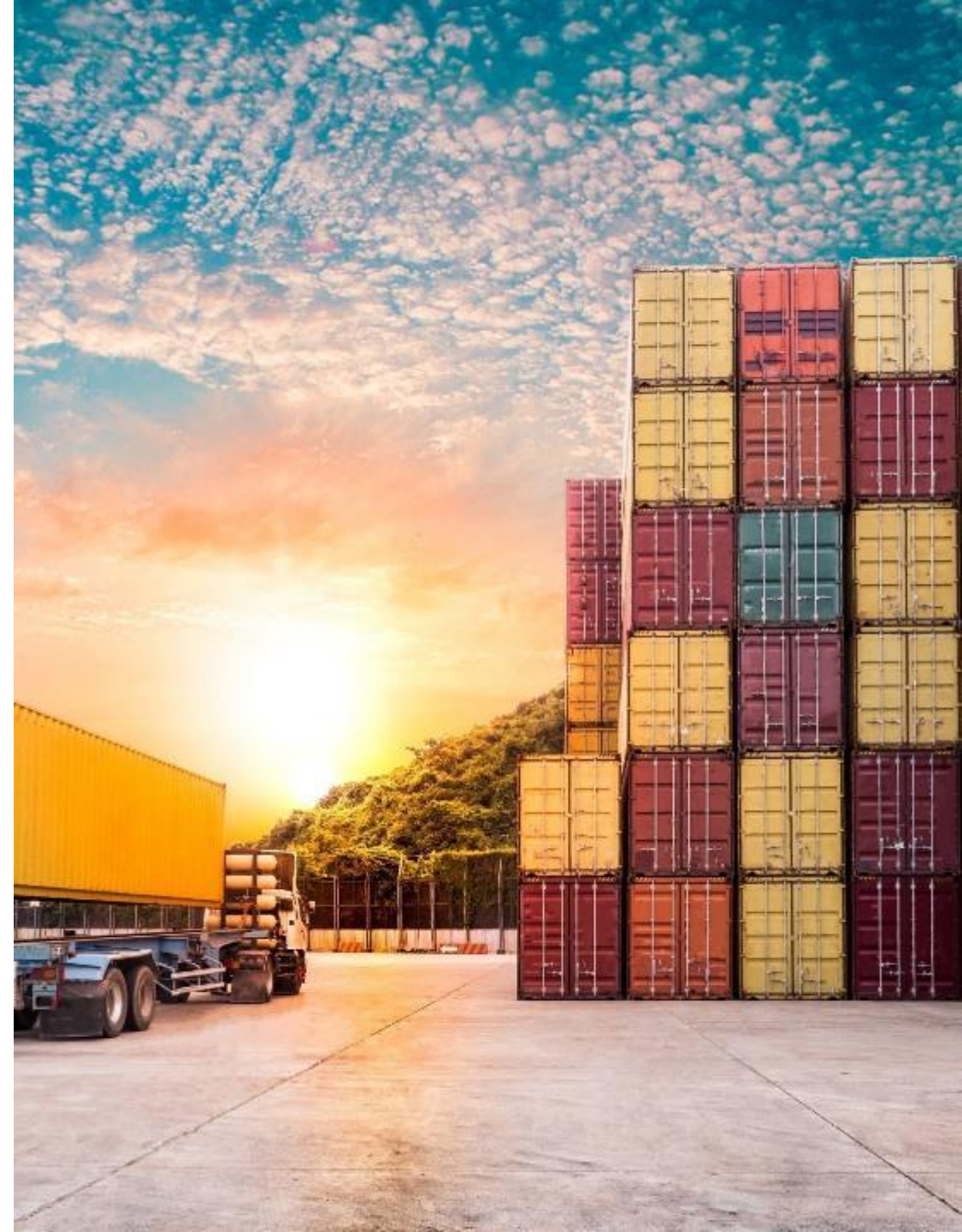
Shipping lines only follow this objective – no?

- For shipping lines it is an opportunity to maximise profits
- Is this objective unethical?
 - they operate in a brutal environment of survival
 - lost money in past years
 - what's wrong with making profits?

Is there a free market?

Under consortia agreements shipping lines have the right to share data and capacity.

- do they use these rights trying to match supply with demand?
- or do they match supply trying to maintain high rates?



The free market economy (2)

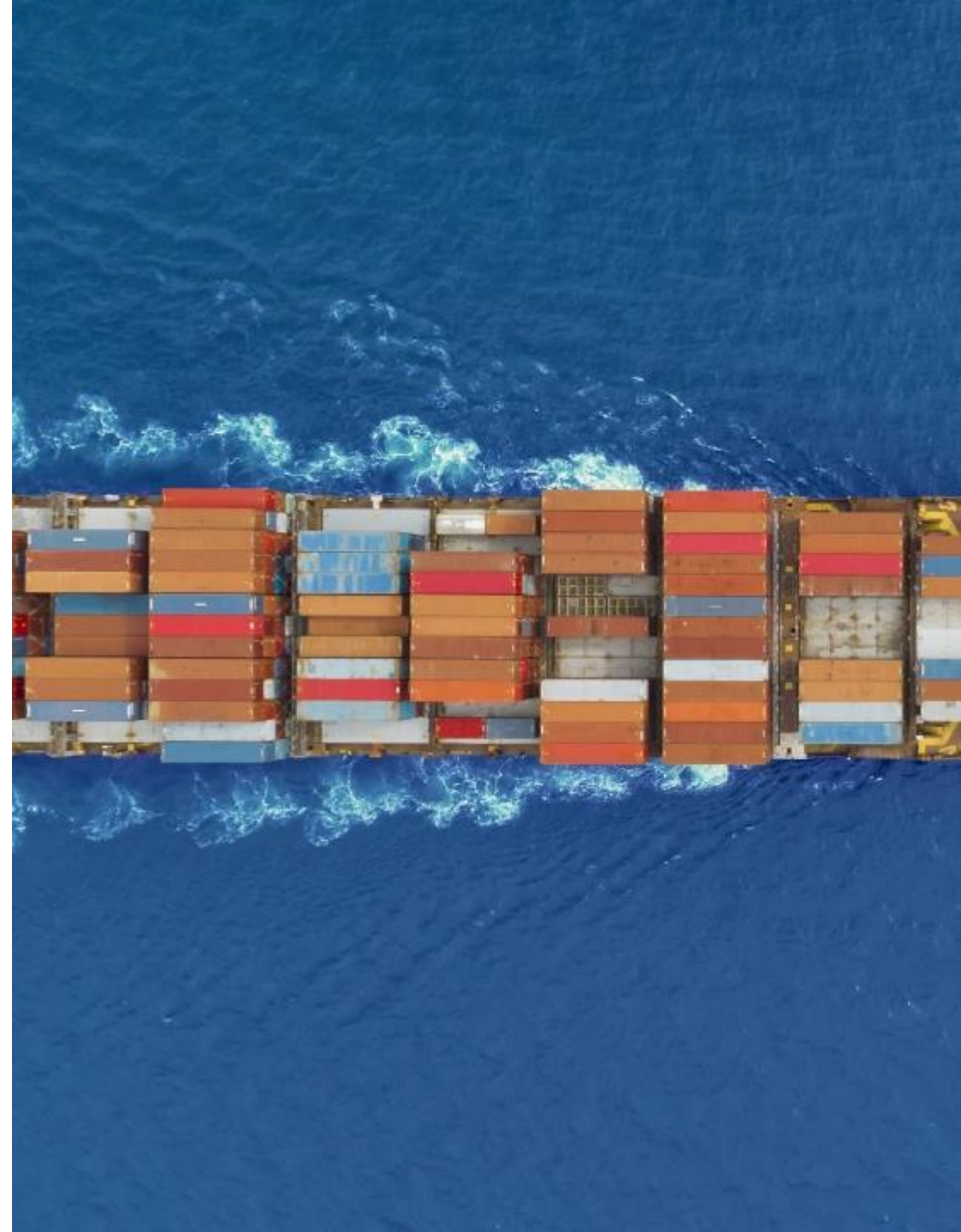
There is no free market

- Less than a dozen shipping lines
- Organised in 3 major alliances
- Having employed vessels with huge size and capacity
- Protected by antitrust laws to exchange data and control supply

How an intact market should function

- In an open and free market, competitors would enter the market to benefit from current high profits
- Supply would increase
- Prices would come down and level out to reasonable levels

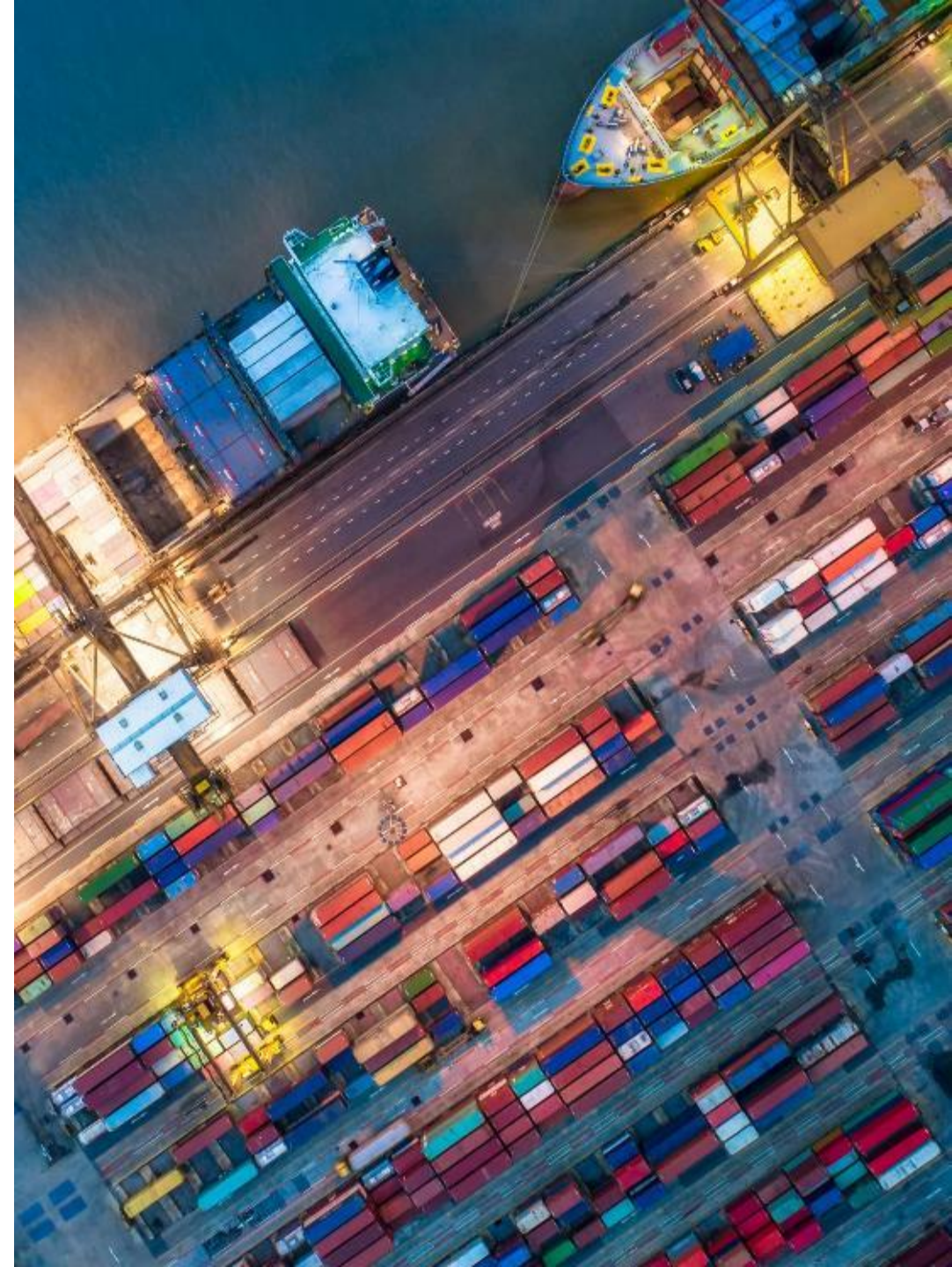
The current situation is a consequence of the protected market.



The free market economy (3)

Consortia block exemption agreements

- Shipping lines are falling under block exemption agreements under US, EU, China and other legislations
 - These exemptions fall under antitrust legislations
 - They are made to protect the consumer
 - Shipping lines are allowed to form consortia, which among other things allow:
 - discussions and sharing of data
 - sharing services
 - volume agreements
 - no price discussions! Separate marketing!
-
- Have the block exemption agreements that were supposed to protect the consumer, turned against consumer interest?**
 - Are current freight rate levels a making of the block exemptions?**
 - Is there a conflict?**



Today's maritime supply chain

The FEWB container market today

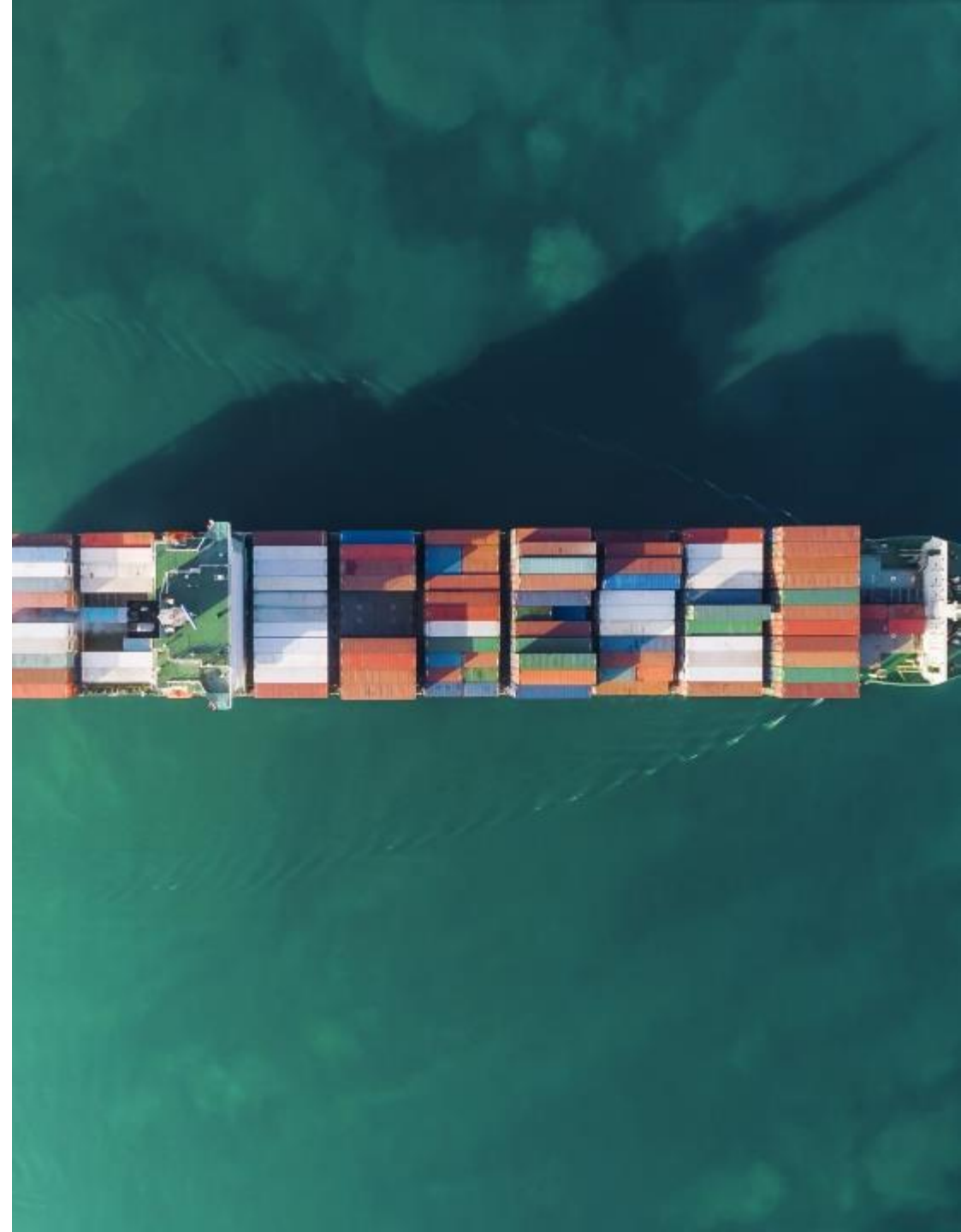
- the FEWB trade has become a fish market
 - the highest bidder gets space and equipment
 -and the market opens every day with new rules

No contractual assurance and binding terms

On fish markets, there are no contracts!

- Shipping lines refuse to honour contracts, agreements and past performance
- But the same line that may reject bookings on contract terms
 - may offer space and equipment in the spot market
 - on highly inflated rates
 -and a surcharge if one wants to be assured the booking is not rolled

The consumer would be protected against such abusive practices.



Disrupted maritime supply chain – the real cause (1)

Who is being blamed for the current disaster?

Shipping lines seem to shrug their shoulders, pointing fingers:

- Consumers for unexpectedly consuming more than anticipated
- Terminals that can't cope with the volumes
- Trucks and truckers that are not sufficient in numbers
- Container fluidity – slow turn around of containers

(One of) The real cause: vessel size

10 years ago shipping lines embarked on a rat race of ever larger vessels.

- VLSC or Very Large Container Ships became
- ULSC or Ultra Large Container Ships
- Economies of scale – impact on unit cost per TEU

Sounds good.....



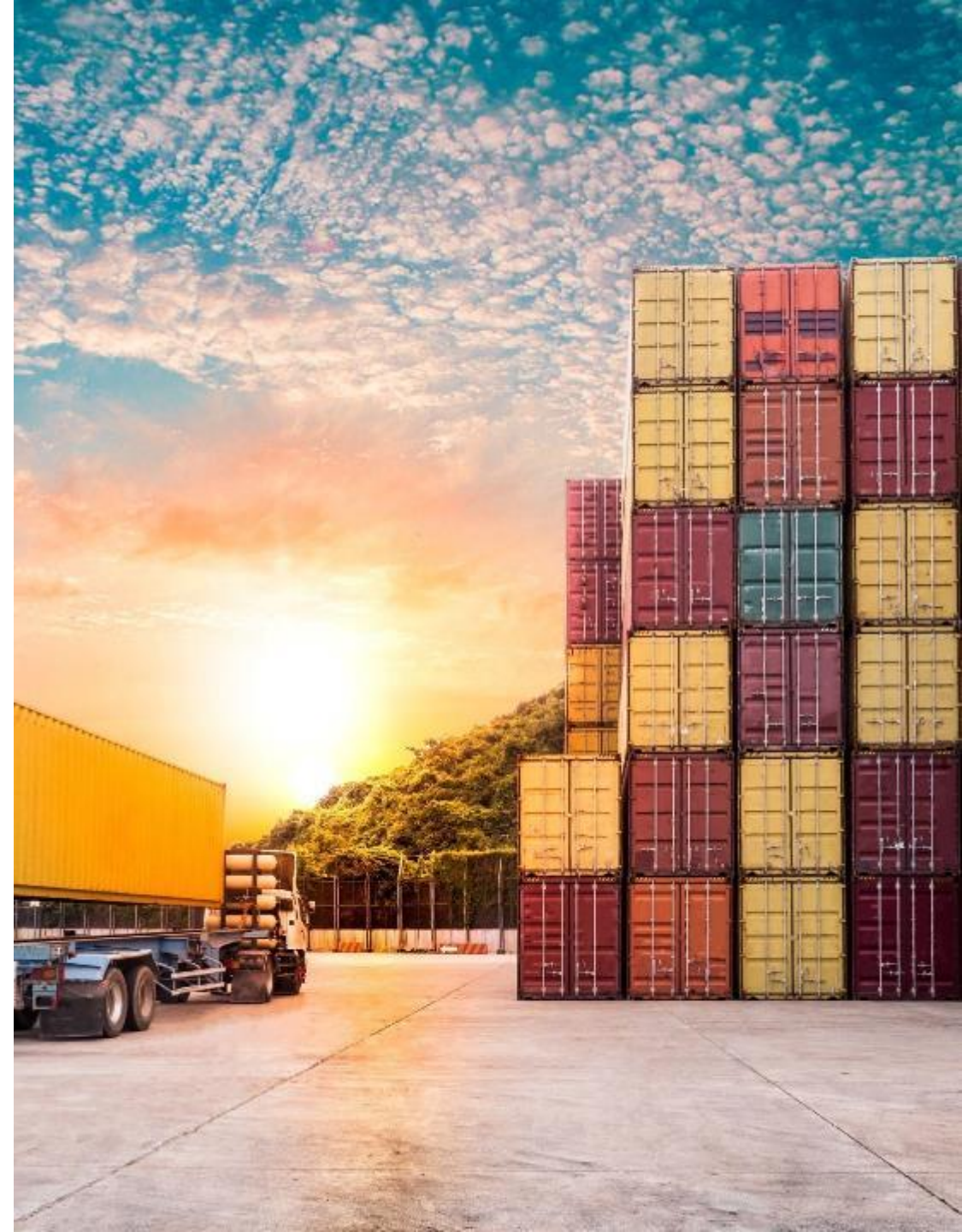
Disrupted maritime supply chain – the real cause (2)

ULCS and the impact on land side infrastructure

- Domino effectvessels cascaded to other trades
- Higher peaks and less distribution of activities
- Leading to bottlenecks for various limited land side operations:
 - terminals
 - trucks and truck drivers
 - road network
- Traffic jams in and around terminals and a collapsing infrastructure
 - with improvements paid with tax payers money
- In addition free times for demurrage and detention reduced

(One of) The real causes: the vessel size and limited land side infrastructure

- the infrastructure has been at its limit for a while
- it only requires triggers to disrupt the situation
- the pandemic was the trigger



Disrupted maritime supply chain – the real cause (3)

Consumer demand

Supply side lockdown – early 2020

In early 2020 China was the first region to go into a lockdown. Supply chains were disrupted.

Consumption side lockdown – mid-2020

By mid 2020 the consuming developed countries started their lockdowns of various phases.

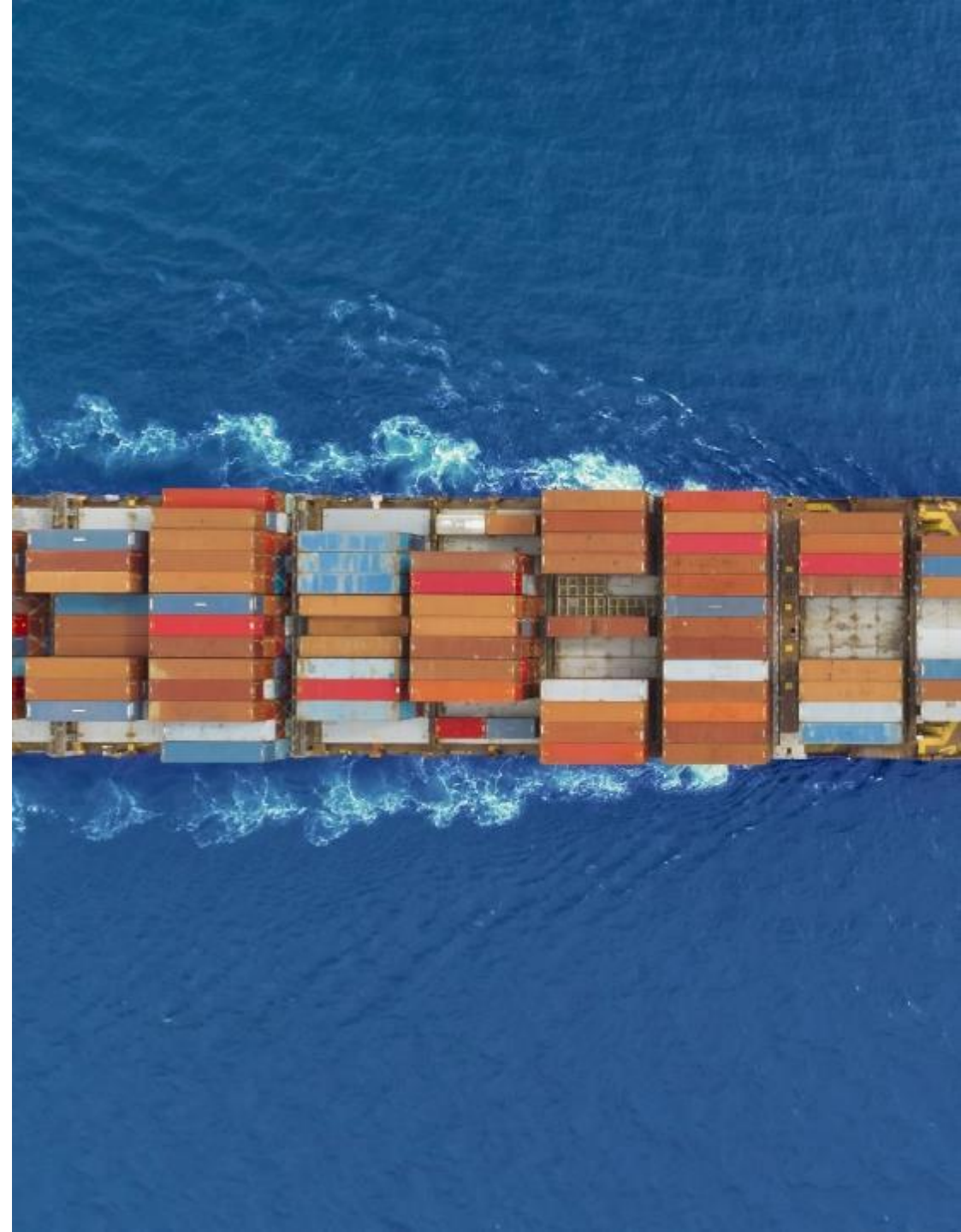
Explosion of consumption (USA!) – as of Q3 2020

Governments investment in:

- fiscal stimulus packages
- unemployment support
- lockdowns limited spending in services such as holidays and entertainment

.....huge spending in consumer products, home improvement etc.

.....Most made in Asia / China



Disrupted maritime supply chain – the real cause (4)

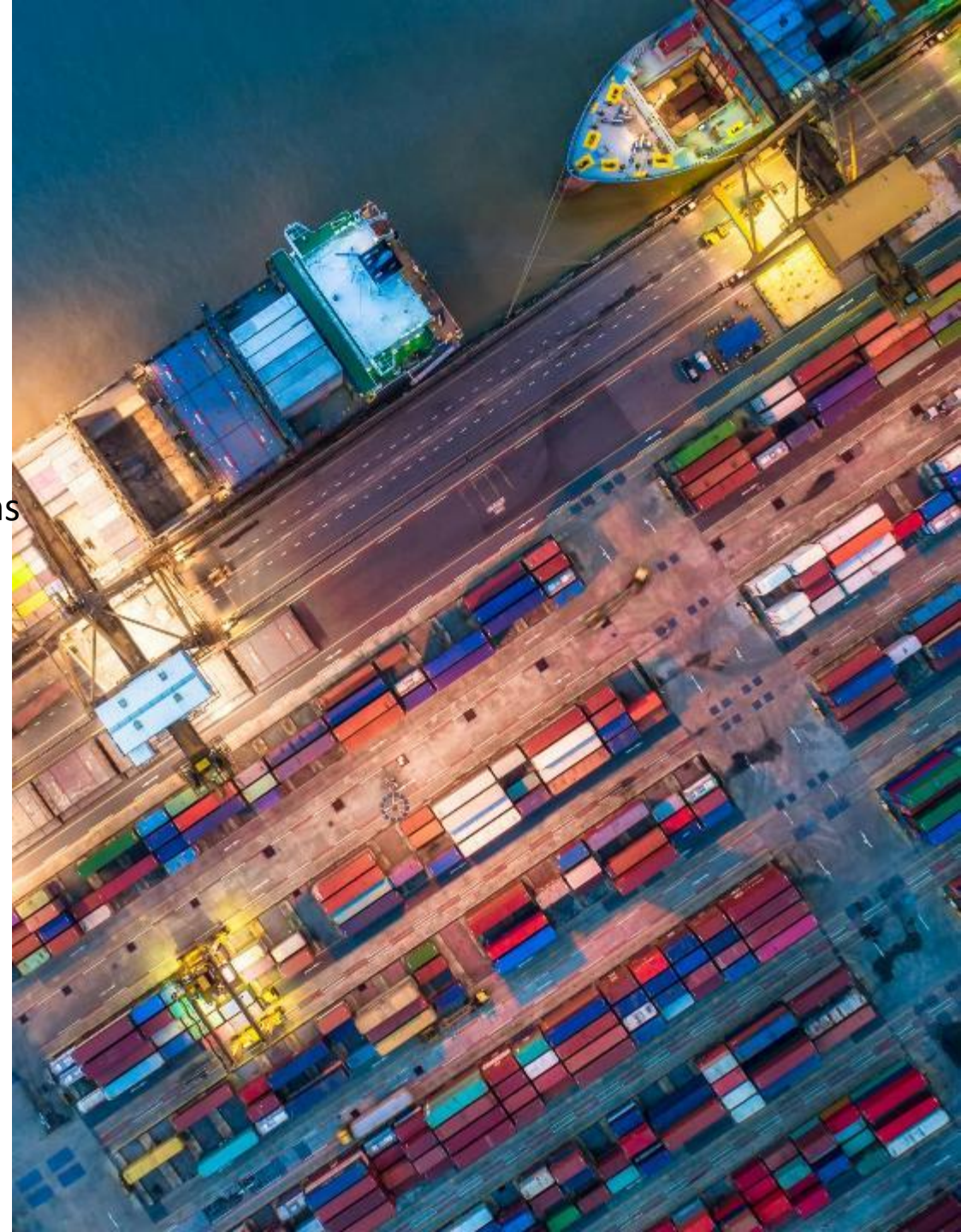
Consumer demand

Shipping lines / consortia: capacity management

Shipping lines laid vessels off in the early stages of the lockdowns in 2020.

- idling of vessels
- blank sailings

As of Q3 2020, shipping lines put back capacity.
Too late? Too slow?



Disrupted maritime supply chain – the real cause (5)

The global focus of consortia

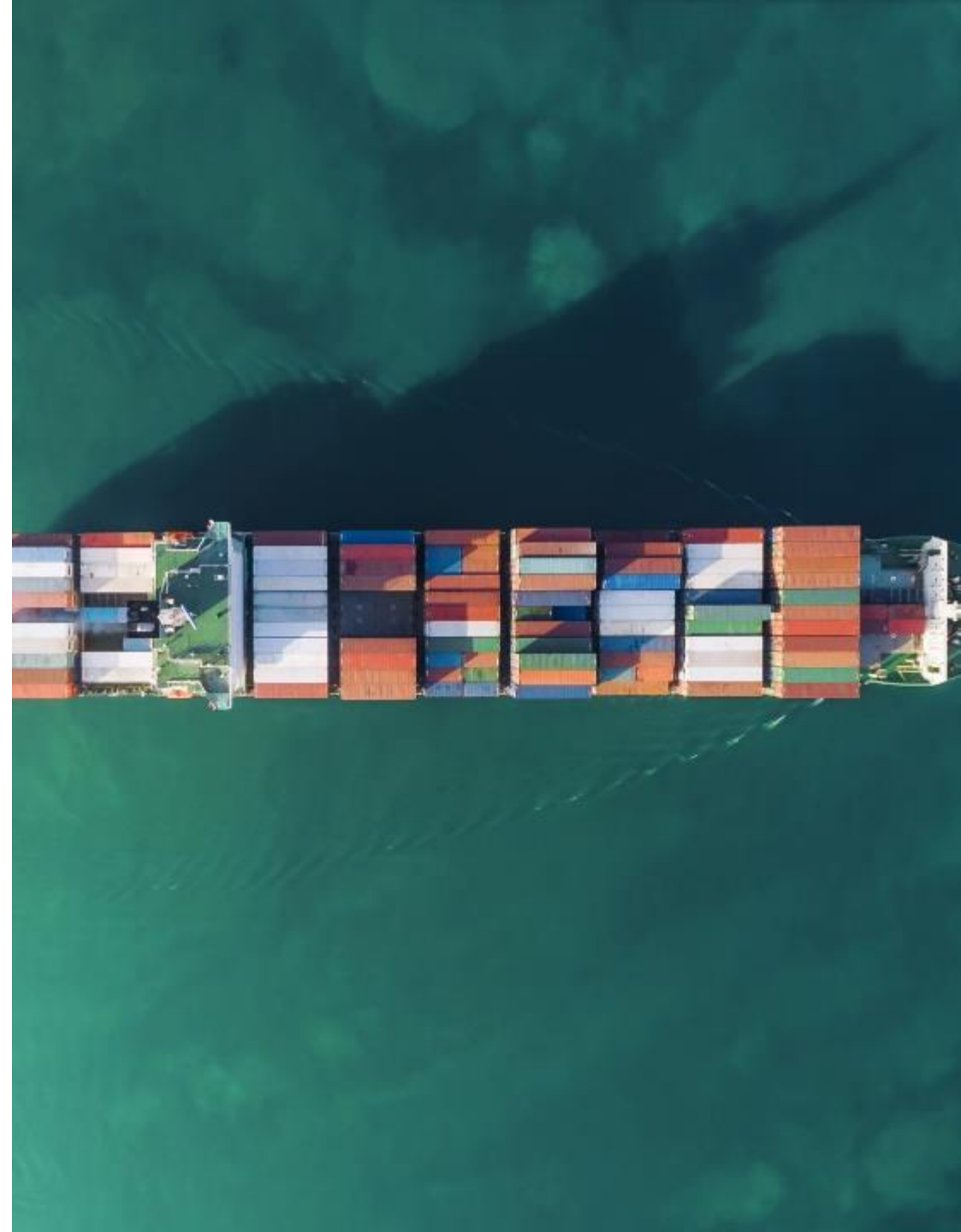
Early and main disruption in the USA

- ❑ demand in container capacity exploded as of Q3 2020
- ❑ rates increased dramatically
- ❑ shipping lines moved capacity into the trans-pacific to maximize profits and satisfy demand
- ❑ as a consequence other trade lanes experienced a short supply

I argue

The global focus of consortias led to the fact that a predominantly US based consumer boom led to imbalances in other trade lanes due to shifting of capacity.

- ❑ Affecting the whole world and leading to a global disrupted maritime supply chain



Shipping lines and the vertical integration (1)

The plan: controlling the maritime supply chain from door to door

- Shipping lines are attracted to “fish in our pond”
- They want to integrate
- They want to become “the integrator of container logistics”

Not a new plan

- Shipping lines have tried this before
- Usually they failed.....some badly
- Wrong perception on forwarders’ value added function?
 - NOT just a middle man!

Competition is healthy!

- Competition is good for the market
- Forwarders are not afraid
- Forwarders are more than just a filter between the shipper and the shipping line to deal with inefficiencies of shipping lines and their documentation
 - But competition must be on a same level playing field



Shipping lines and the vertical integration (2)

The market and situation has changed

- Mergers and acquisitions
 - There are only a few global shipping lines left
- Rat race for bigger ships and focus on unit cost is over
 - Shipping lines (try to) focus on service levels along the supply chain
- Maersk, CMA and others
 - investments in sizable logistics companies
- Digital Container Shipping Association and digitalization
- Massive profits and funds to invest....



Shipping lines and the vertical integration (3)

Same level playing field: competition is not fair

Shipping lines – protection under consortia umbrella

- Shipping lines benefit from antitrust exemptions.
- Consortia agreements allow exchange of data
 - shipping lines compete with Forwarders on shore
 - they have access to shared data.... Forwarders don't

State aid and government support

- Shipping lines have various possibilities to access state aid and government support
- Funds may be used for investments in the land side supply chain
 - In competition with forwarders



Shipping lines and the vertical integration (4)

Preferential treatment of Containers in Carriers Haulage

Our industry is facing unfair practices and the discrimination of merchant haulage services, due to practices related to:

- Demurrage and Detention
- Free times
- Inland Container pick up and drop off charges

Merchant haulage – essential right

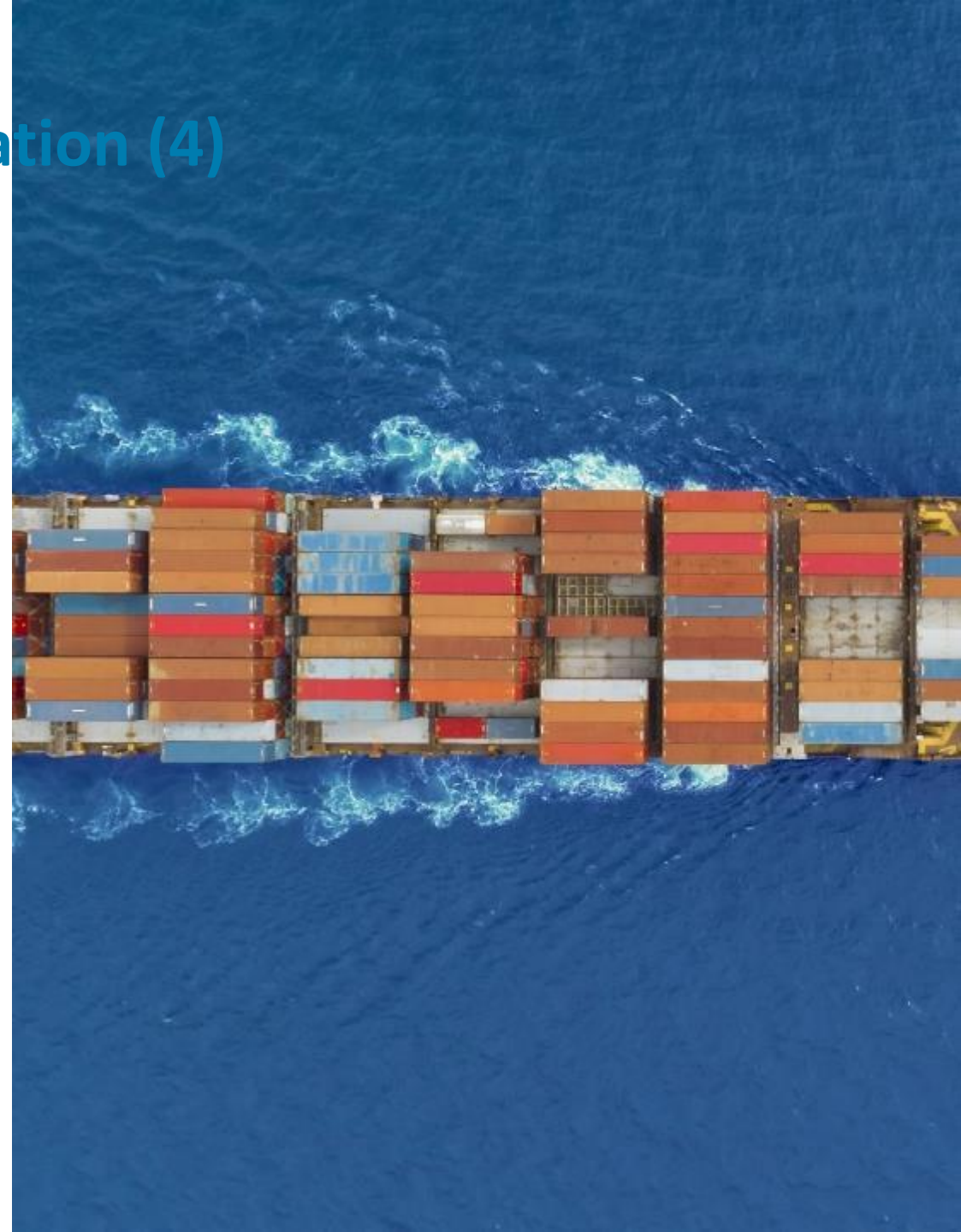
The ability of the merchant to arrange for their own pre-carriage and onward carriage is an essential right that must be protected.

Risk: carrier haulage becomes a monopoly

It is simple:

Marketplaces become less efficient when entities have the power to levy unreasonable charges on their competition or insist on in-house products and services.

Competition with shipping lines must be on the same level playing field!



Markets and the impact on SME companies

Container freight pricing: BCO contracts and the Spot Market

BCO – Beneficial Cargo Owner contracts

- Huge volumes
- Multinational companies
- Fixed, contracted long term rates (traditionally 1 year)
- Planning certainty

Spot Rates

- Daily changes
- No planning certainty

Past:

- BCO vs Spot = Give and take

Today:

- BCO substantially lower by as much as USD 10,000 per container

SMEs are being pushed into the Spot Market

- substantial competitive disadvantage



Home shoring and modal shift

Highly increased Container Freight Rates

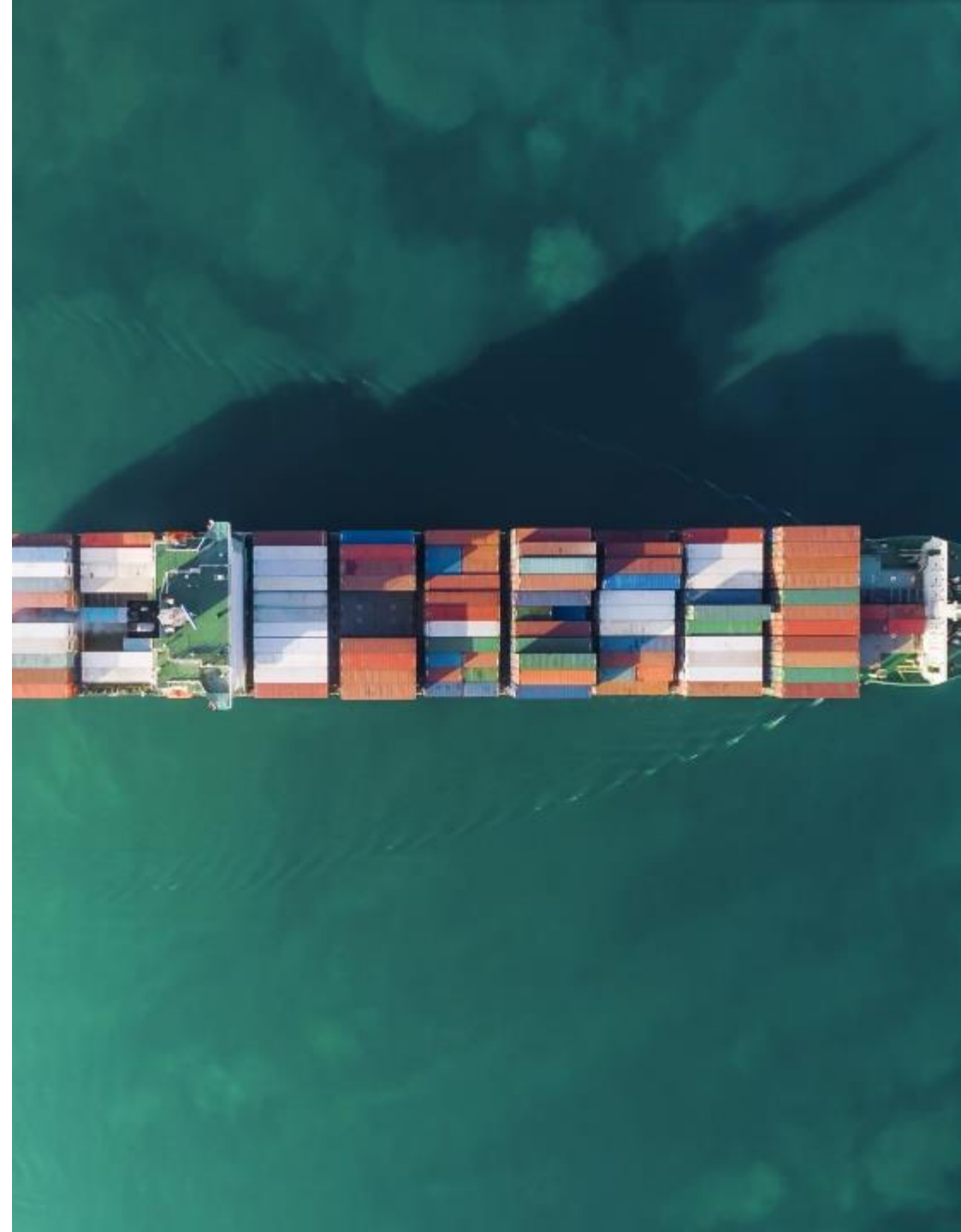
- Increased price of imported goods
- Destroyed business models of low valued goods
- Local / regional production more viable

- Will lead to home shoring and local or regional manufacturing

Highly increased Container Freight Rates

- Seafreight = less competitive
 - Other modes gain competitiveness

- Will lead to Modal Shift
- But is there sufficient capacity?



New entrants

BCO Shippers

Alibaba, Walmart, Home Depot and others chartered own ships

New shipping lines entering the trade

BAL Container, China United Lines (CULINE) and others

General cargo vessels entered the trade

.... But some vessels had to wait weeks before finding a berth to discharge.

- A temporary development
- If rates come down, vessel size matters



The latest: Developments in the USA

Inflation on record level

Frustrated consumers are voters.....
Politicians woke up and have brought the subject for discussion.

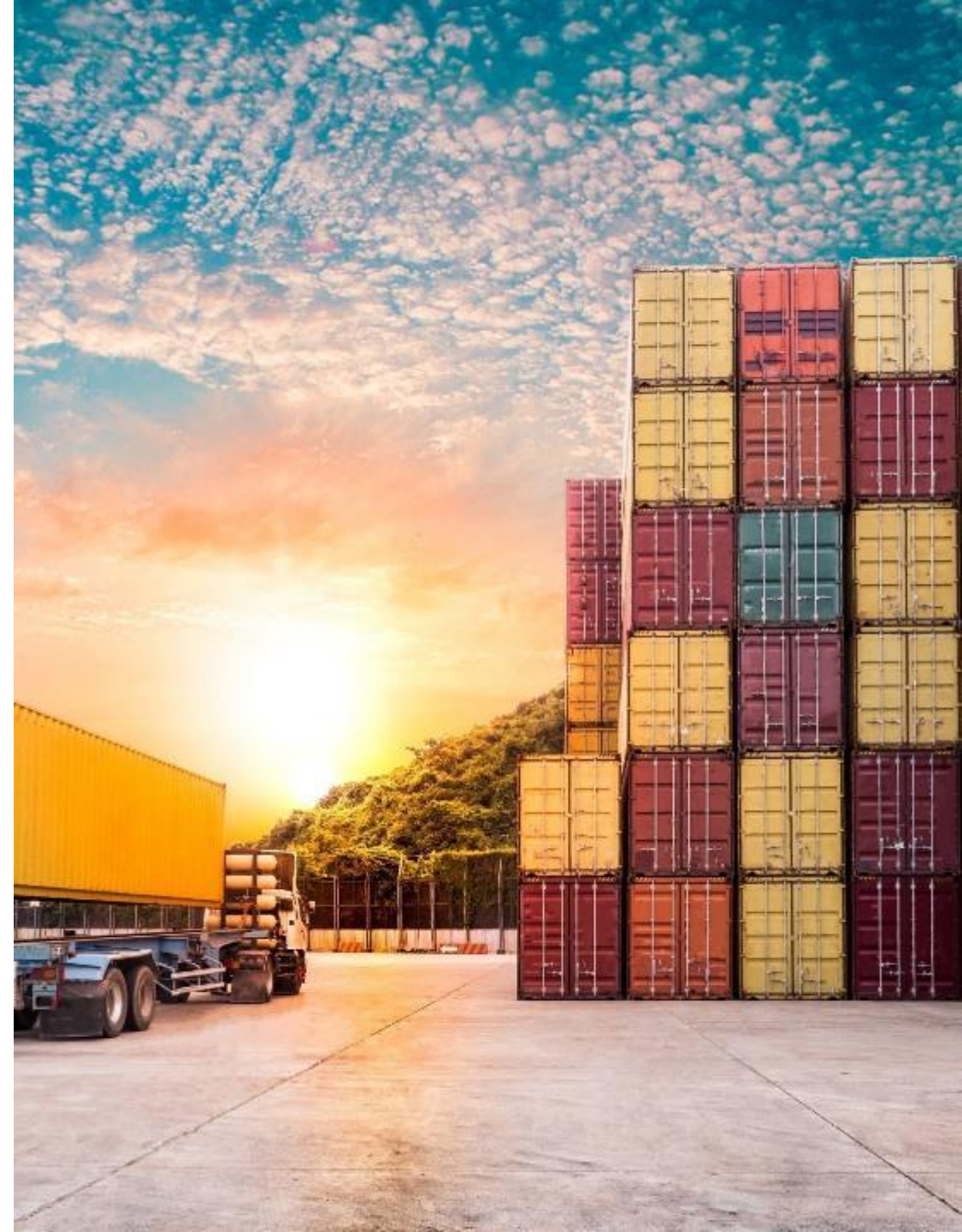
The White House takes action

No major container shipping line is based in the USA
The Federal Maritime Commission has for many years been investigating demurrage and detention practices of shipping lines

President Biden

- personally involved himself
- the subject of container freight rates and services was subject in the recent State of the Union address.

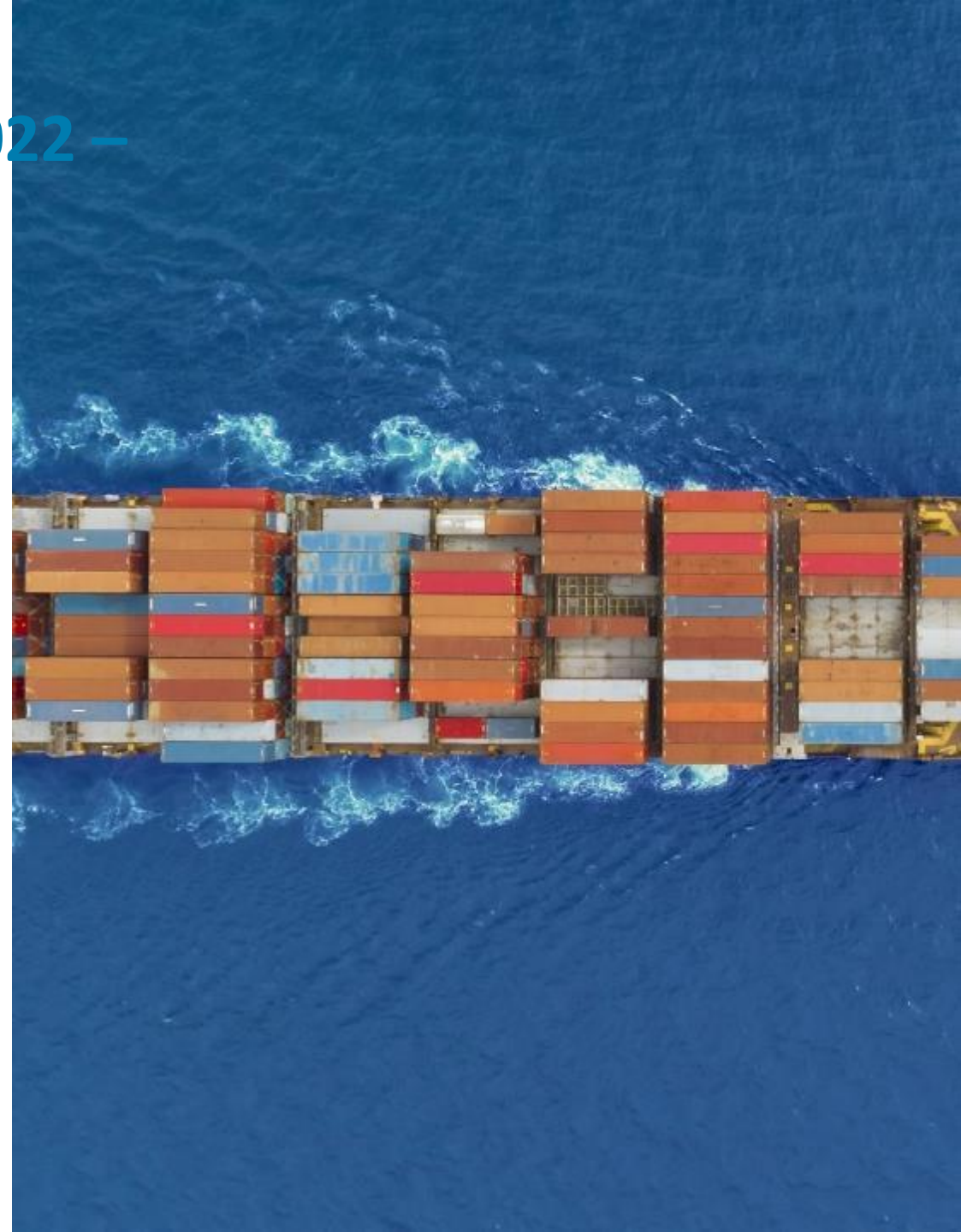
The following slides are quotes of a White House press release dated 28/02/2022



White House press release 28/02/2022 – extracts (1)

The President is announcing an historic agreement between the Department of Justice and the Federal Maritime Commission (FMC) **to make sure that large ocean freight companies cannot take advantage of U.S. businesses and consumers.**

Right now, three global alliances, made up entirely of foreign companies, control almost all of ocean freight shipping, **giving them power to raise prices for American businesses and consumers, while threatening our national security and economic competitiveness.**



White House press release 28/02/2022 – extracts (2)

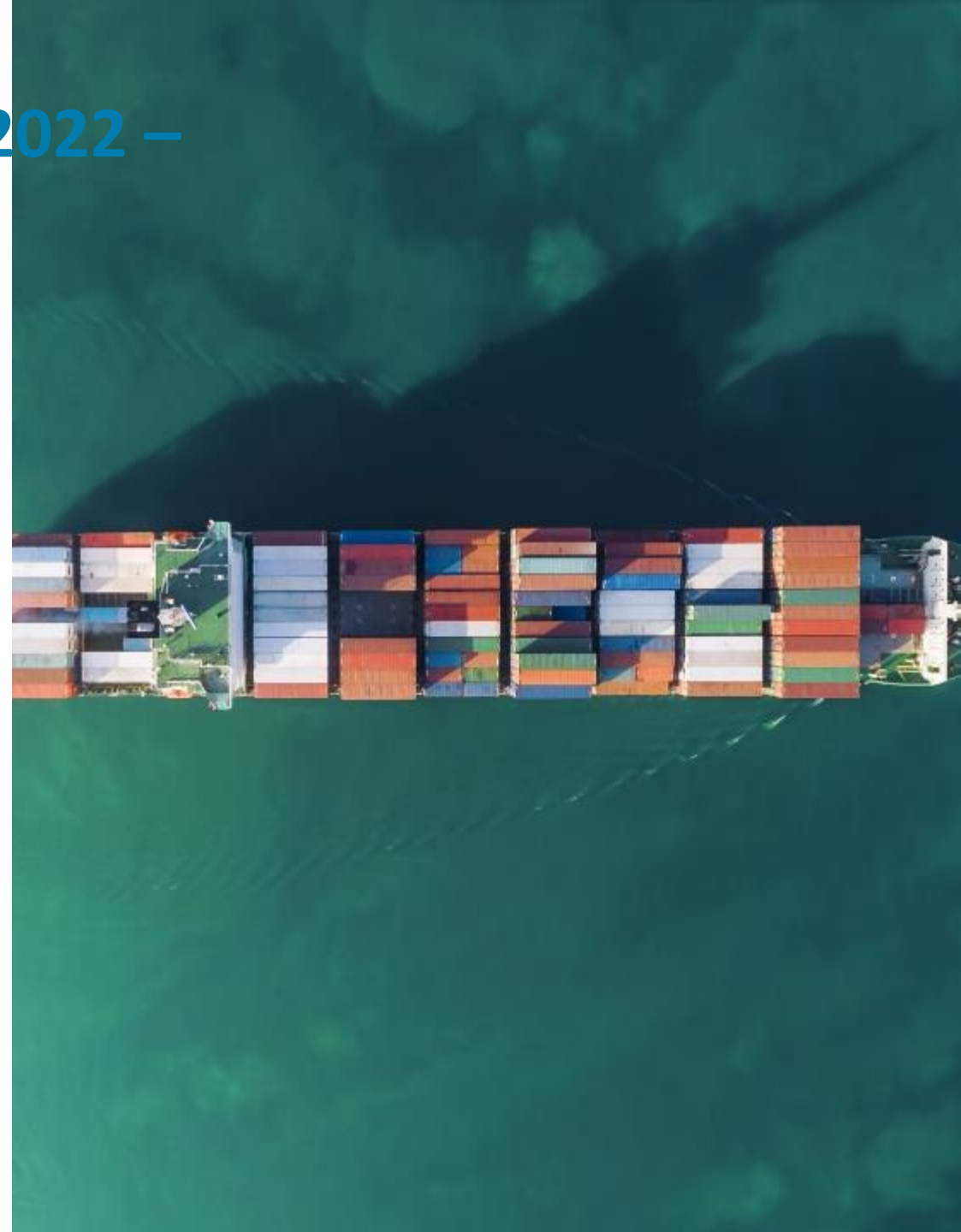
Since the beginning of the pandemic, these ocean carrier companies **have been dramatically increasing shipping costs through rate increases and fees.** They increased spot rates for freight shipping between Asia and the United States by 100% since January 2020, and increased rates for freight shipping between the United States and Asia by over 1,000% over the same period.



White House press release 28/02/2022 – extracts (3)

Beyond price increases, several specific business practices of many large ocean carrier companies are hurting American businesses and farmers. **For example, because of their market power, these alliances are able to cancel or change bookings and impose additional fees without notice.**

These unpredictable practices undermine American business' ability to deliver orders on time. **All too often, ocean carriers are effectively refusing to take American exports altogether, preferring to speed back to China with an empty ship to make a quick turnaround rather than transport American exporters' cargo or dock at American ports.** This is especially difficult to our farmers, who have spent decades building relationships internationally, only to find that now they can't transport their agricultural products overseas with any reliability or predictability.



The latest: Development in the USA (2)

Department of Justice

DoJ has been involved to support the FMC

- Much more power
- Very serious consequences!

DOJ Subpoenas Maersk Amid Antitrust Focus

On March 17, 2022 a Maersk executive was subpoenaed by the DoJ.

Meanwhile others followed.

- The USA is seriously investigating.
-and the European Commission does nothing
..... referring to market forces.....



Benefits of the Forwarder in this crisis (1)

A resilient maritime supply chain and strategy – long term decisions

The current crisis

- is unprecedented
- has done a lot of damage to most stakeholders of the maritime supply chain
- has clearly shown the weak points of the maritime supply chain
- has shown what can happen to prices and reliability if control remains in the hands of just a hand full of companies

Strategic question:

With shipping lines trying to become the integrators of container logistics and trying to control the maritime supply chain from door to door.....

- Do you really want to rely on a market with a few players to manage your complete supply chain from door to door?
- Could this lead to similar situations related to other services, such as barge, truck, rail and other services?
- Or do you want to continue to rely on professional forwarders managing your supply chain with their own resources and infrastructure from door to door?

