AMERICAN SHIPPING COMPANY

"News Flash"

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Peak Season Brings More Challenges, Congestion, Increased Rates and Trade Disruptions

Ocean Freight rates continue to rise in September as demand continues to increase and carriers continue to implement more surcharges while maintaining their premium surcharges levels that are an addition to the already high ocean freight rate levels.

Ocean carriers continue to monitor efficiencies and operations, while restricting and suspending services as the market worsens. As congestion at the ocean port terminals mount and inland point rail ramps are impacted by heavy backlog caused by railcar shortages and transit delays, the focus has increased on destination rail terminals that continue to experience their own congestion and gridlock caused by chassis shortages, driver shortages and labor concerns. Some ocean carriers have started to reject bookings at origin to regions of the U.S. they have no intention to support as efficiencies deteriorate, while others are metering the activity and using similar measures that the railroads use to control volumes into areas, especially rail ramps, that are overwhelmed. Chicago remains a headline and example in the industry news as the Class 1 railroads have been trying to alleviate the pressure of already maxed out rail terminals, specifically in the Midwest. Ocean carriers are now doing the same. Ocean port terminals all over the U.S. continue to experience record breaking volumes, as key ports see anchored vessels on the rise and the vessel unloading processes constrained. Void sailings and port omissions also continue to be announced by carriers within all three carrier alliances as a strategy to control the constraints, but can often have an adverse effect, since such methods actually shrink capacity, causing greater supply and demand, and contribute to more origin congestion and delays.

In the past week, an average of 45 vessels have been waiting to berth at the ports of Los Angeles and Long Beach as the peak season surge continues to arrive. Throughput at these two ports is a leading indicator of volumes arriving into the country and combined, represent the largest port complex in the U.S. Terminal operations, chassis availability, driver power and labor concerns are back in the forefront at this key port complex. This could again mean weeks of delays before the container is officially arrived and grounded for recovery whether for local delivery or onforwarding to final destinations within the U.S. All West Coast port terminals (including Vancouver and Prince Rupert in Canada) are experiencing increased surges in vessels and record-breaking volumes. The majority of East coast ports, such as New York, Norfolk, Savannah and Charleston, as well as some Gulf Coast ports, like Houston, are experiencing far more stress and delays relevant to their port size and scope. All ports are predicted to worsen in the coming weeks and will suffer from the ongoing shortages of chassis, driver power as well as labor concerns while vessels likely stack up.

Forecasts predict that the full truckload market will suffer in the weeks to come with the ongoing shortage of drivers and traditional rush to move seasonal and holiday goods inland. Further overwhelming the system will be the increased need of transloading goods from containers terminated at the ocean ports and trucked to warehouses, distribution centers, and stores across the USA. This year is exceptional due to the constraint of railroad operations and congested rail ramp terminals that normally handle a significant volume of ocean containers inland at this point of the season. The market conditions are therefore making ocean container transport inland by rail unpredictable and forcing importers to book up to ocean ports only and rely on domestic trucking to complete the move. There will likely be a shortage of 53' trailers and an imbalance of equipment across the country. Rates have been steadily increasing and likely to surge higher the closer we approach the holiday shopping season and beyond. Such service will also put further pressure on drayage operations pulling containers out of the port terminals already severely impacted by chassis and driver shortages. Warehouses are also maxed out, having less floor space to manage such programs, shortage of labor and even minimal time for transloading operations, especially floor loaded containers. Staging the containers in their yards is also problematic, creating congestion for inbound full containers and empties awaiting to be returned. This has created delayed appointments and increased costs in per diem, while further compounding the shortage of equipment as full containers sit on chassis for extended periods, waiting to be handled.

The Meishan International Container Terminal in Ningbo returned to full operations on September 1st, after suspension of service was caused by COVID on August 11th, and prompting strict government enforcement. Ocean carriers responded as well with port omissions and schedule changes during this timeframe. It is likely that there will be residual impact for some time, especially with peak season in full swing, and likely to have a similar outcome to that of Yantian, in South China, that took place back in May and had struggled for many weeks beyond its reopening.

Shanghai Pudong International Airport (PVG), has seen some improvement after seven COVID-19 cases had been confirmed amongst ground handling staff that ultimately suspended cargo aircraft operations and caused flight cancellations since August 20th. The Pudong Air Cargo Terminal (PACTL) is now open, but strict quarantine rules have been imposed on the ground staff, and still continue to cause some flight cancellations. The other Pudong cargo terminal, Eastern Airlines Logistics Terminal (EAL), is said to be operating normally. As a result of the cancelations and still limited capacity, airfreight rates from Shanghai to the U.S. have increased in a range of 15% to 25% since. Delays are currently 7 to 10 days.

The airfreight market in general will begin to enter the seasonal peak season as we now move into September and should see a significant peak in October. Concerns loom as the peak period could be earlier than usual and will see airfreight volumes increase dramatically and quickly due to the distress in the ocean freight arena and a shrinking window of lead time to get loaded on vessels and hope for timely arrivals to the U.S. Rising rates and delays are to be expected.

Vietnam has been in a strict lockdown since August 23rd, as COVID infections continues to rise. A stay in place order had been put in effect and factories have been allowed to remain open in what is described as a "closed loop" condition where workers must remain onsite and cannot leave. The delays are worsening, particularly out of Ho Chi Minh City, and rates are beginning to increase significantly as conditions worsen. Similar lockdowns are taking place in many S.E. Asia and India Subcontinent countries that will continue to have a global impact on shipments moving in and out of their respective ocean ports and airports.

Ocean Exports, particularly full container moves, will continue to be crippled by ocean import volumes and shared resources, including chassis, driver accessibility and increased congestion at railroad and port terminals. Cancellations, cutoff and departure date changes, backlogs, transit delays and rising costs are expected to worsen beyond what they are today. As inbound vessels arrive late, the outbound schedule is also late. The environment is unstable and unpredictable as most ocean carriers continue to prioritize the return of the empty container equipment back to origin immediately over shipping them back full of product.

Heavy weight containers remain unpopular with most ocean carriers as vessels remain 100% fully utilized and can disrupt the overall weight and balance of the vessel. The use of barges to transport containers from smaller ports or depots to the mother vessel loading port must also be understood in this process. Where fees and surcharges were initially assessed on containers deemed overweight as a way to curb such loads and reduce such volumes, many carriers are now beginning to reject container bookings that are over 15 tons or assess a surcharge on anything above this weight level. Just weeks ago, surcharges were introduced by several carriers implementing a fee for containers over 18 tons. This will impact certain origin ports and/or ocean carriers more than others, but should be understood this can be a factor in procuring future space if more carriers look to implement more limitations.

Logistics Analysts across the supply chain continue to reflect pessimistic views on the market in the coming months. Some are now starting to express views that 2022 will continue to be plagued with operating constraints, continued rate increases and uncertainty. Capacity will surely be handicapped until new vessel builds come into the market in 2023**.** We have reported for months that it is very likely that current conditions will remain at least through the first half of Q1in 2022. This is most relevant to China, which has the **Golden Week Holiday, October 1st to October 7th**, **Chinese New Year from February 1st to February 6th** and will host the **Beijing Winter Olympics February 4th thru February 20th**. As it relates to the Olympics there is a strong likelihood that factories (in the north) will begin to be shutdown weeks in advance to control pollution and improve air quality. Looking back to the 2008 Summer Olympics held in Beijing, factories near and in surrounding regions were shut down or forced to suspend activities nearly 8 weeks prior to the opening ceremonies while millions of vehicles were prohibited from driving. If a similar timeframe is utilized, this could mean shutdowns as early as the front end of December, if not sooner. Considering the timing of the above holidays and events and factoring in the current market conditions, there will be various surges to get volumes moved out in advance, only contributing to the deterioration and unreliability we are currently witnessing. Also take notice to the E-Commerce trends that have grown in recent years and escalated significantly due to Covid lockdowns in 2020. Demand for e-commerce driven inventory beyond the holidays will continue to support volumes of product moving in the months of November and December therefore streamlining ocean freight activity even longer.

As usual, we must continue to advise that there is still a great deal of uncertainty ahead and major challenges to endure, some that are unforeseen at this time and which has been proven between each of our News Flashes and guidance to our clients. We do highly recommend that you continuously review your supply chain and keep preparing for continued disruptions, volatility in costs, increased congestion, and long delays. Please continue to book your shipments weeks in advance as we have guided. Providing forecasts of your shipments is ideal. Due to volatility around the globe, this advice can be applied to all modes at this time. Please do your best to plan well in advance and communicate with all parties involved in your transactions. Do not hesitate to contact us should you have questions or need further guidance.