AMERICAN SHIPPING COMPANY

“News Flash”

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TRANSPORTATION DELAYS AND CHALLENGES REMAIN VERY CRITICAL

The ports of Los Angeles & Long Beach have now sustained levels of over 60 vessels waiting at anchor or drifting within San Pedro Bay while waiting to berth at their respective terminal. Seven new records have been set in the past month, including a level of 70 vessels reported by sources last week, as concerns continue with the timing it will take to keep an estimated 400,000 TEU moving to their final destinations. With a level of 25 vessels normally at berth, labor shortages have had impact in working all vessels efficiently, often resulting in less than 20 vessels being worked at a time and an estimate of 5 days to complete the process. As vessels continue to arrive, waiting for a berth could likely see an added delay of 14 days or more. When factoring in the unloading and container recovery for local delivery, the total timeline is getting closer to 30 days. Containers waiting to be moved inland by rail suffer additional congestion, rail car shortages and will experience additional delays during transit.

In an effort to immediately reduce congestion, the ports of Los Angeles and Long Beach started extending gate hours. The port of Los Angeles has focused on extending gate operations on weekends, while the port of Long Beach has extended gate operations for access between 3:00 a.m. and 7:00 a.m., Monday through Thursday, at Total Terminals International (TTI) on Pier T. While the goal for the combined complex is to work toward a possible 24/7 operation, both programs have started slow and do not appear to be attracting many supporters, including importers who lack night operations at their distribution centers or drayage providers and drivers who do not seem interested in operating during these hours.

Other major ports are also experiencing increased congestion, a rising number of vessels having to anchor, and longer vessel unloading times relevant to their port size. Most, if not all, ocean container terminals in the USA are experiencing some level of a bottleneck. This includes ports like New York – New Jersey, Charleston, Savannah, Houston and Seattle-Tacoma to name a few. Canadian ports, Vancouver and Prince Rupert, are also significantly impacted and experiencing surges of Transpacific Eastbound volumes now at peak levels. Container recovery is already being slowed by chassis shortages and limited drayage capacity and drivers.

Inland rail ramps, particularly in the Midwest, continue to face major obstacles that also include chassis shortages, limited truck power and severe congestion, while long delays continue to spike from longer rail transit and increased dwell times. The practice of metering by both railroads and ocean carriers has added to these delays by staggering container releases per train from the port of discharge to certain rail ramps, like Chicago, that are overwhelmed or in gridlock situations. As more cargo arrives inland and delivered to large distribution centers and warehouses, chassis shortages intensify as delivered containers are sitting idle, some for weeks, waiting to be unloaded or being used as temporary storage until more space in facilities becomes available. Further inland, this is impacting many ocean carriers in getting their equipment back overseas. For this reason alone, ocean carriers have terminated service or allowance of their equipment to move to many inland rail ramps.

Void Sailings and port omissions continue to be announced by the ocean carriers surely to create more congestion and backlogs at origins impacted and demand for space on future vessels. This will maintain vessel utilization at or near 100% and continue disruptions on the Transpacific Eastbound Trade for a long period of time. As more vessels fall behind in their rotation schedules, impacted by vessels sitting for long periods at ports of discharge while waiting to berth and unload, the schedules and capacity further deteriorates. Until there is a prolonged period of declining volumes, it will simply remain a continued pattern of delays and limited capacity seamless moving.

The Chinese government has implemented power supply cuts in eastern China due to high demand, increasing power costs and an attempt to also reduce carbon emissions. It has been reported that factories in an estimated 10 provinces have had their power cut, with many having to close temporarily. A few badly impacted provinces include Shandong, Jiangsu, Zhejiang and Guangdong. Some of the targeted factories represent energy-intensive heavy industries like aluminum, steel and cement. The situation will have to be watched carefully and should the current policies persist into October, there will certainly be an impact on global supply chains.

While the Transpacific Eastbound rates out of China experienced a very small pullback in the All-In rate levels being quoted this past week, great caution should be exercised. The Golden Week holiday in China provided support for this sudden reduction as well as some of the power supply cuts that have impacted production as noted above. The ocean carriers continue to expect strong volumes for Q4 and suggest there will be continued volatility in rates. Analysts have suggested that inventory levels for importers are still low as they continue to meet high consumer demand, while seasonal products and e-commerce goods will continue to be ordered and shipped in by ocean freight. This follows the continued peak volumes represented by holiday goods in recent months. Ocean rates remain at very high levels and are made up of high base rates forecasted for the balance of October, added surcharges like Peak Season and Congestion surcharges to support various market conditions, and in particular, the additional "Premium Surcharge" which has been a tool to secure more revenue for ocean carriers during high demand for equipment and space. It is a reduction in the Premium Surcharge levels that appear to have brought levels down on newly quoted costs by ocean carriers, while factories are closed for the holidays and there is a natural decline in new shipments. The return of manufacturing and measured output of production after the Golden Week holiday will certainly be a good indicator for the coming weeks ahead, but there is still backlog and congestion in most China ports that still need to be moved out and will keep vessels fully loaded for now.

Vietnam, Malaysia, Bangladesh, Pakistan, and India to name a few Southeast Asia and Indian Subcontinent countries, continue to struggle in recent weeks recovering from the aftermath of COVID 19 lockdowns or still have heavy restrictions imposed. Equipment shortages, particularly inland locations, smaller vessels and operational delays are several factors on top of limited labor where in some regions, COVID outbreaks remain at critical levels. These factors are creating strains, additional costs and growing delays, as volumes escalate and solutions are limited.

Warehouses across the USA are at or near maximum capacity. This includes traditional storage business as well as product fulfillment programs. Another factor this season is space being utilized for large transload programs in many port areas and hub regions due to major obstacles in getting containers delivered to inland destinations or even to facilities where there is no space to hold containers. The greater understanding of increased costs relative to keeping containers and chassis out for extended periods have forced many to resort to transloading containers and trucking the product domestically.

Container Freight Stations (CFS) and Air Cargo Handling facilities continue to face severe shortages in labor and available space in their facilities, while managing through the same obstacles relevant to their respective ocean port, airport or rail ramp location. This means that ocean CFS facilities are also impacted by the same chassis and driver shortages working to recover containers at ocean port terminals and rail ramps adding days to their process. Air Cargo Handling facilities may represent multiple airlines and can face multiple cargo planes arriving in short proximity of each other. In both cases, the continued lack of labor has increased breakdown and sorting times adding days until the cargo is made available.

Domestic transportation is becoming more challenging each week and likely to worsen over the next few weeks. This is the traditional time of year that product is moving between distribution centers, warehouses and stores in preparation for the holiday shopping season. To compound this, the obstacles and delays in international transportation are putting more pressure on moving goods quickly, especially container transload and truck services from coastal ports to inland locations. Drivers and equipment, such as 53' trailers, are in high demand and will become harder to source over the next few weeks as delivery windows shrink to meet deadlines. Truckload spot rates are rising quickly due to demand and are further impacted by climbing fuel surcharge levels nationwide.

Export containers and shipments remain significantly impacted while focus remains on the import volume surges. Managing outbound containers involves the same obstacles of chassis and driver shortages, difficulty procuring empty containers that are often prioritized for immediate return to origin, and rail delays that impact the arrival to the port of loading to meet outbound vessel schedules. Port congestion and late arriving vessels often means late outbound vessels for certain strings as well. The result is a regular occurrence of cancellations by both drayage providers and ocean carriers, rejected bookings, and limited equipment availability. The environment is very unstable and unreliable and a subject that is not often highlighted in market overviews. Continue to expect delays.

Airfreight space is now in high demand as a result of the global market conditions, and in particular the shortened window for 'just in time' shippers of holiday goods and seasonal products. Obstacles and delays in ocean freight modes have also pressured shippers to use air freight to get the product moved without fail. Rates have taken a steep incline to the USA and back to double digit cost per kilogram out of many origins. With congestion mounting and capacity very tight, advance booking and padded lead time is highly recommended.

Chinese New Year is coming and the 2022 Winter Olympics, being held in Beijing, have the opening ceremony on February 4, 2022. Many have not realized that the Olympic games are days after the official start of Chinese New Year, which is February 1, 2022. We are advising our clients to take notice of this and begin to plan ahead for shipping well in advance as factories close. While there will likely be a large surge of volume weeks in advance to this time period, for those whom have factories in Northern China, be reminded that during the last Olympics held in China, back in 2008, there was a major effort by the Chinese government to reduce pollution and improve infrastructure. To help accomplish this goal, factories in proximity of Olympic venues or those that cause pollution in their path, were regulated and many shut down weeks prior. The same practice is likely and will have major impact on shipments that will be needed for arrival into the USA between January and March of 2022. Recognizing the timing of both events simultaneously and in the same week, it is highly suggested to begin planning your supply chain well in advance and as early as December if not sooner.

The outlook for ocean transportation in 2022 is very complicated. At this stage, analysts and industry experts are bracing for continued volatility for several months into 2022, with expectations of continued high rates, equipment imbalances, ongoing congestion and high vessel utilization. Some predict all of 2022 to remain very challenging and a continued "carrier market" as significant capacity, by way of new vessel builds, will not be delivered until 2023. During 2021, an estimated 1.5 million TEU in vessel capacity has been ordered for delivery in each of the years 2023 and 2024. Many of these builds will be midsized vessels with capacity of 15,000 to 16,000 TEU. There are currently 14 orders for 24,000 TEU vessels, which will be amongst the largest container ships in the world. Which trade lane the vessels are positioned into upon their maiden voyage will also have significant importance. There are certainly other factors such as rising inflation, continued impact of the COVID pandemic or geopolitical events that can steer the global supply chain in many directions. Regardless of what direction, it is imperative to continue planning ahead.

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.