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Impact of the Shortage of Empty Containers in World Maritime Trade: A plea from African Shippers' Councils

By

Achil Yamen
Expert in Transport and International Trade
Deputy Director of International Cooperation
Cameroon National Shippers' Council

IMPACT OF THE SHORTAGE OF EMPTY CONTAINERS IN WORLD MARITIME TRADE: A PLEA FROM AFRICAN SHIPPERS' COUNCILS

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Since the beginning of the crisis linked to the Covid-19 pandemic, States had opted for large-scale supply of not only basic consumer goods but also emergency equipment in response to the pandemic. The result was a prolonged stoppage of full container loads in major consumer destinations, paralysing the major consumer destinations, crippling trade between China and Northern Europe and Europe and North America as well as several developing countries including Africa.

In the last quarter of 2020, economic growth resumed as a result of the post-pandemic measures. Following the total disruption after the US consumer boom, containers were blocked in the third quarter of 2020 and there was a chain of events that destabilised the market. In terms of trade volumes, almost 60% of the world's cargo traffic is containerised with about 180 million containers in the world, but were stored in the wrong place. About 80% of these containers are produced by three Chinese companies (China International Maritime Containers Ltd. -CIMC-, Dong Fang International Container -DFIC- and Changzhou Xinhua hang International Containers -CXIC) which make them available to container leasing companies for hiring to shipping lines. Three companies dominate the leasing market, notably Textainer, Triton and CAI, which have published impressive results for the year 2020.

Coming out of confinement, ship-owners were confident that there would be a phenomenal drop in consumption in Europe. Many containers were sent to the US and others to the Far East. Transpacific trade was favoured at the expense of other destinations such as Africa, where cancellations of several calls (blank sailing) were observed. This led to an increase in freight rates, which, combined with the crisis in Ukraine contributed to raising inflation thresholds.

It is therefore necessary to consider the impact of the empty container shortage crisis in world maritime trade and the measures taken to deal with it. The objective of this reflection is to provide advocacy for the taking into account of the interests of developing countries from which member Shippers' Councils originate in order to contain and control the evolution of freight rates triggered by the scarcity of containers. The UNCTAD forum, which had already been used in the past for the adoption of a Code of Conduct for Liner Conferences, is very appropriate for such an exercise.

Impact on African Countries

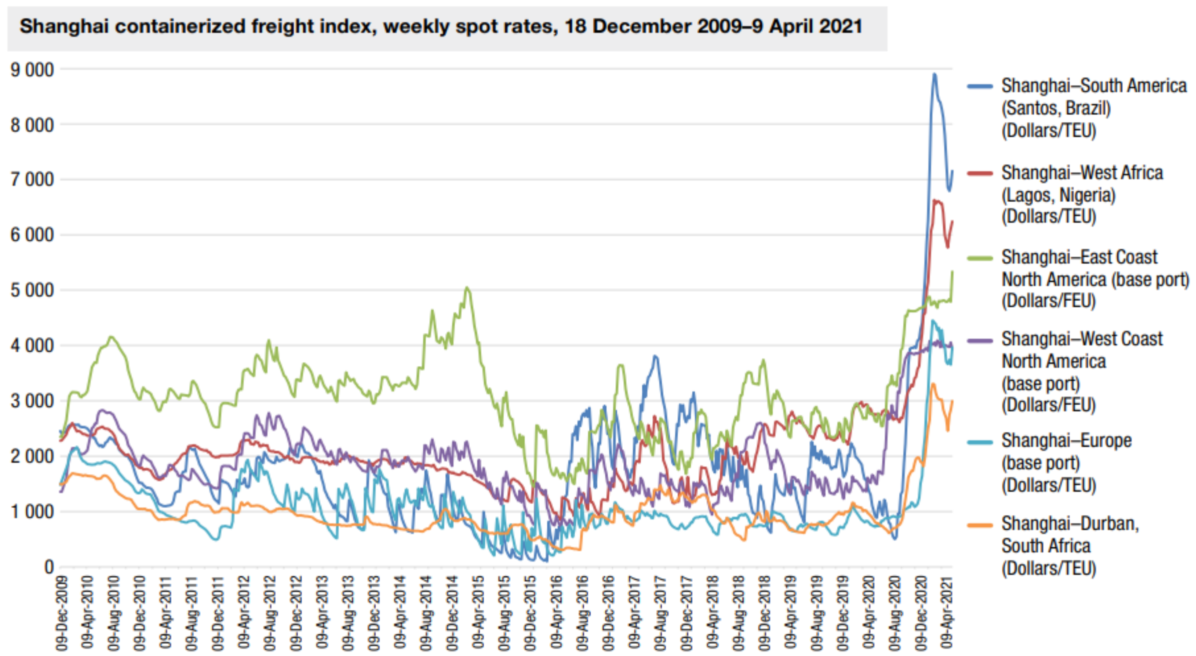
Africa is the collateral victim of trade between Asia, Europe and North America. It uses these maritime routes exclusively for the purpose of breaking out to the major hubs based in Asia and the Middle East, even though there are increasingly hubs based in Asia and the Middle East with direct maritime links to these destinations.

Maritime trade in Africa is thus strongly impacted, in particular with crises such as the one in the CAR, which have contributed in their own way to the immobilisation of a fairly large number of containers. The crisis in the Suez Canal since 23 March 2021 with the immobilisation of the MV EVER GIVEN will made matters even worse, blocking nearly USD 9.6 billion every day at a rate of USD 400 million every hour as claimed by the Suez Canal Authority. In the end, the ship that had been seized by the Suez Canal Authority in return for payment of compensation was not released until July 2021, after approximately 4 months of detention. Although the compensation borne by the UK & PI Club and the ship's other insurers has not been disclosed, the amount paid out is said to be between USD 550 million, which was the amount reviewed by the Suez Canal Authority, and USD 150 million representing EVERGIVEN's offer.

Freight rates increased even more after the closure of the Suez Canal. If this crisis as well as the one at the border with CAR (Central African Republic) and at the border with Chad seem to be under control today, it nevertheless remains that the shortage of containers has been going on for a long time and still continues to do so even though the two main Chinese shipping companies OOCL and COSCO, have recently started to load more empty containers to China from the US. OOCL recorded a 35.1% drop in loaded container exports and a 104.1% increase in empty containers. COSCO experienced a 4% increase in loaded containers compared to a 104.1% increase in empty containers.

Explosion of freight rates

The resumption of freight after confinement in 2020 has created a shortage of containers. The immediate consequence of this situation is a surge in freight rates, as some ship-owners are charging as much as $10,000 per 40-foot container for some destinations (double the rates charged before the crisis). In just a few months, the price of transport from Asia has increased four to five times. Freight rates have reached historic highs, especially to South America and West Africa, where they are higher than in all other regions. In early 2021, for example, freight rates between China and South America have increased by 63% on the Asia-East - Coast of North America route. On the Asia-West Coast US route, the increase is around 145%. The table below from UNCTAD's Policy Brief on Rising Freight Rates illustrates this increase on the Shanghai - West Africa route.



Abbreviations: FEU, 40-foot equivalent unit; TEU, 20-foot equivalent unit.
Source: UNCTAD calculations, based on data from Clarksons Research, Shipping Intelligence Network Time Series.

The table above shows that, the explosion went from less than USD 3,000 before the crisis to about USD 9,000 during the crisis. During the regular meetings of the Cameroon National Shippers' Council with shippers, they shared their various misfortunes. They confided that they had experienced freight rate increases of 340.15% on 20" containers and 244.04% on 40" containers from Asia. This trend was confirmed by UNCTAD during a presentation at a seminar organised by the Cameroon National Shippers' Council, where the increase presented Cameroon was in the range of 20 to 400%.

On the Shanghai-Northern Europe route, for a 40-foot container, the rate was 760 (€620) in 2019. It had doubled by September 2020 and quadrupled by December 2020. Some projections put it at around $5,000 for the following weeks. By June 2021, it was projected to be around 10,000. These are all new highs. In 2010-2011, just after the financial crisis, prices had only doubled. It cannot be ruled out that ship-owners could have organised this shortage to keep freight rates high.

The US regulator (FMC) had investigated during the period whether China was probably trying to maintain this situation by manipulating the market. This juicy new business is pushing some shipping to favour the transport of empty containers to destinations with high freight rates to maximise profits. On the other hand, these increases are only noticeable from China. As an illustration, a 40” dry container on the route to Rotterdam costs around USD 1,074, while in the opposite direction it costs USD 1,546.

In January 2021, an upward trend in freight rates was observed despite a drop in container traffic, which stood at 14.3 million TEU over the period compared to 14.3 million TEU in December 2020 and 15.4 million TEU in October 2020.

This increase in freight rates continues its quiet moult. In May 2022, the evolution was 15% while at the same time freight rates in India decreased by 15%. This has resulted in a better availability of containers for the loading of goods.

High Surcharges

As the demand for maritime transport has exceeded forecasts, unexpected phenomena such as logistical obstacles, unreliable sailing schedules, bottlenecks and port congestion which pushed up surcharges in particular, demurrage and detention expenses. In April 2022, there were 1,826 containers, or 20% of the world's fleet, waiting to dock at ports.

As a result, some demurrage charges have increased from USD 20 to USD 200 while others moved from USD 200 to USD 700. In this context, CMA CGM has informed the public of the implementation of a new surcharge of USD 1,000 per container in the peak season as of 15 May 2021 for reefer cargoes from Morocco to all US destinations. Similarly, it applies a surcharge of US$250 for reefer containers departing from Morocco to Asia and West Africa.

Measures of adaptation to the container crisis by shipping companies

To adapt to the new situation, shipping lines had no choice but to repatriate empty containers from certain destinations such as TangerMed in Morocco or Portsmouth in the United Kingdom. To maximise profits, ship-owners tend to direct containers to areas where there is a demand. Naturally, Asia and especially China are experiencing a considerable increase in traffic in connection with the beginning of the recovery of activity after several months of confinement.

Record profits for shipping lines

The result achieved by shipping lines for the year 2021 is USD 214 billion, equivalent to the profits for the period 2010 - 2020. These forecasts for 2022 are estimated at USD 300 billion. Maersk's profit of 6.8 billion in the first quarter of 2022 give evidence. On the strength of this excellent financial health, the shipping companies that are subsidiaries of the major global logistics groups have shown ingenuity in reinventing themselves. It has thus been possible to observe a remodelling of the markets with part of the traffic now being absorbed by air to avoid the interminable delays experienced at sea. In this context, the CMA CGM group has launched its "CMA CGM Air Cargo" service with a fleet of four aircraft; the first flight was on the Europe-US route. Better still, it has taken a 9% stake in Air France-KLM, which will enable the airline to fly higher thanks to the breath of the seas and oceans.

Like a fashion statement, MSC, the new world leader in maritime transport, has joined forces with Lufthansa to acquire a majority stake in the airline ITA Airways. For its part, the world's No. 7, the Taiwanese Evergreen, has a long-standing commitment to air transport through Eva air.

Similarly, Maersk, which used to operate the Star Air brand, has regrouped its airline offer under the Maersk Air brand. There is every reason to believe that the share of air cargo traffic is likely to increase over the next few years.
The movement has intensified with mergers and restructuring in the sector. One of the highlights is the acquisition by MSC of the giant Bolloré Africa Logistique present in many African countries.

<u>Consequences for shippers</u>
In addition to complaints about very high transport tariffs, shippers complain about delays and various disruptions, although ship-owners reassure them that they are doing their best to manage constraints beyond their control.

According to the UNCTAD 2021 study on maritime transport, to justify this phenomenon, shipping lines cite delays in delivery of cargo in 2020 due to confinements. In order to adapt to the restricted supply, they claim to have invested additionally in second-hand vessels, which has pushed up their tariffs and reduced the bookings by 16%.

The situation in the ports is unprecedented. Not only is there no space on the ships, but there are no containers either. As a result, some importers place orders in view of the lengthening time needed to book shipments. For example, the waiting time for containers, which in some ports was around 1 - 2 day(s), has increased to two weeks or more. The following countries have suffered the most: China, European Union, USA, Australia and India. Similarly, sailing time has increased considerably and in many cases doubling.

Worse still, shippers have sometimes been refused empty containers by shipping lines, preferring to send them first to destinations with high freight rates. The shipping lines have generalised the practice of blank sailing, consisting of cancellations of calls or refusal to call at a port scheduled by the shipping line.

Moreover, some shipping lines have preferred to get rid of their obligations under volume contracts in favour of the spot rate, leaving the shipper no choice but to pay the daily rate if he wishes to take immediate charge of his cargo. Nevertheless, a gap remains between the large shippers subscribing to volume contracts, which have seen an increase of 18% on a container, while for small shippers it is around 62%, i.e., a difference of around USD 20,000. For *Sea Intelligence*, considering that the profit margin would be around 20%, the result would be a zero balance sheet for large shippers, while the small shippers would find themselves in a situation of bankruptcy.

It is feared that this container shortage crisis will affect the production of basic necessities such as toilet paper. In the midst of the Covid19 crisis, the world's leading manufacturer of the pulp used to make toilet paper, complained about the decline in bulk vessel turnaround at its facilities due to strong competition from container ships.

<u>The support of certain States</u>
Several states have been deployed in the midst of this container crisis to rebalance the flows. Thus, some of the largest exporters in Asia had to mobilise to alleviate the shortage in order to be able to continue trading. In the state-owned Indian Railways transported several empty containers free of

charge from several seaports to dry ports (ICDs) in the interior of the country. South Korea has deployed up to nine ships on the Trans-Pacific route to support local industries, while Chinese shipyard Cosco Shipping Heavy Industry, which is also a state-owned company, has converted at least one newly built pulp ship to container transport. The reason behind this deployment is the high dependence of Asian economies on exports to Europe and North America. State involvement in the shipping industry is very extensive in Asia with stakes in many shipping companies, shipyards and terminals. In addition, three Chinese companies (CIMC, DFIC and CXIC) produce about 80% of the containers in circulation in the world.
At the level of Cameroon, many measures have been taken, two of which could be presented. The first is the abolition of the congestion tax at the Douala port, which increased transit costs for landlocked countries such as Chad and the Republic of Congo.

This measure helped to boost cargo transit which was sufficiently affected by the sluggishness of the economies during the crisis and by the heavy congestion in the ports. The second measure in Cameroon dates from November 2021, when the price of transport in the customs declaration was reduced by 80%. This measure, which was due to end in February 2022, was renewed in June 2022 and could continue for many months. In Cameroon, for the months of November and December 2022 alone, not less than 8 billion CFA francs was lost by the state budget as a result of the implementation of this measure.

Alternatives

At the height of the crisis in September 2020, more than 300,000 new containers per month were produced to cushion the impact of the crisis under the leadership of the China Container Industry Association (CCIA). Despite this, nothing has changed, on the contrary, the Container Xchange index is not very reassuring. The current trend is rather to encourage shippers to have their own containers (**Shippers Owned Containers = SOC**). This is the conclusion of a survey conducted by *Container Xchange.* This implies having a large fleet of containers whose rotation will not penalise the supply chain. Despite the 6% - 8% production increase in 2021 of the three Chinese companies (CIMC, DFIC and CXIC) supplying around 80% of the world's containers in circulation worldwide, manufacturing is not sufficient to absorb the deficit.

The current market price of a container is an adequate reflection of the shortage. Indeed, a new container today costs USD 3500 Cost Equivalent Unit (CEU), compared to USD 1800 per CEU in early 2020 and USD 2,500 at the end of 2020. The second-hand container market in China is not spared. It rose from USD 1299 CEU in November 2020 to USD 2521 in March 2021.

The response of regulatory bodies

Against this backdrop, regulators have sounded the alarm. In China, for example, consultations were held with shipping lines to assess the regularity of surcharges following repeated complaints from shippers. In Europe, shippers and forwarders have called on the European Competition Department to take up the issue, as have several other regulators around the world. In the Common Market for Eastern and Southern Africa (COMESA), three companies (CMA CGM, Maersk and United Africa Feeder Line) have been questioned for raising freight rates in a concerted manner within a very limited timeframe. Such a move has not been seen in other regions of Africa.

The surge in freight rates coupled with unilateral surcharges by shipping lines will lead to explosive inflation which requires intervention by regulatory authorities to either reverse the curve or at least ensure that there is a correlation between freight rate increases and a situation that justifies it.

When will the situation return to normal?

It was hoped that with the celebration of the Chinese New Year in mid-February 2021, the trend could be reversed. Some believed that the market would smooth out, but Chinese factories have shown flexibility, some reportedly even to close in order to meet the demand for the carriage of consumer goods.

Many projections were made afterwards for a return to normal around May or June 2021. However, market conditions at the level of production, rental and leasing of containers suggest that the shortage of containers could extend beyond 2022. Most recently, at the UK Ports Conference 2022', it was announced that freight rate volatility could continue and a return to normalcy could be expected in 2024. It is not excluded that this situation could continue for the next 10 years according to well-informed experts. This shortage equates to high freight rates that shippers have to pay to shipping lines for the transport of their goods. There is no need to demonstrate the impact of high freight rates on inflation.

Rising inflation

The increasing rise in freight rates will have raised the rate of inflation worldwide by 1.6%. But developing countries are the most affected, especially for products requiring a long supply chain. The impact on 11.9%, but in Small Island developing states it is 25%. The consumer will have to pay 8.1% more in these countries to buy the products. This inflation varies according to the type of product as UNCTAD had to simulate it in its study on maritime transport 2021.

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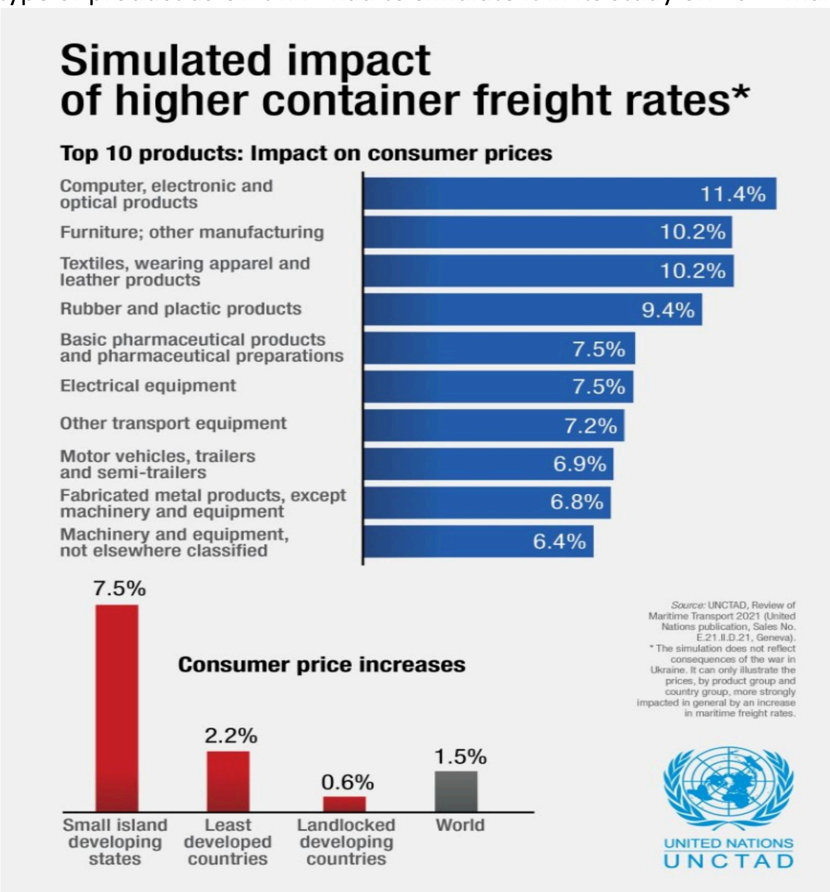
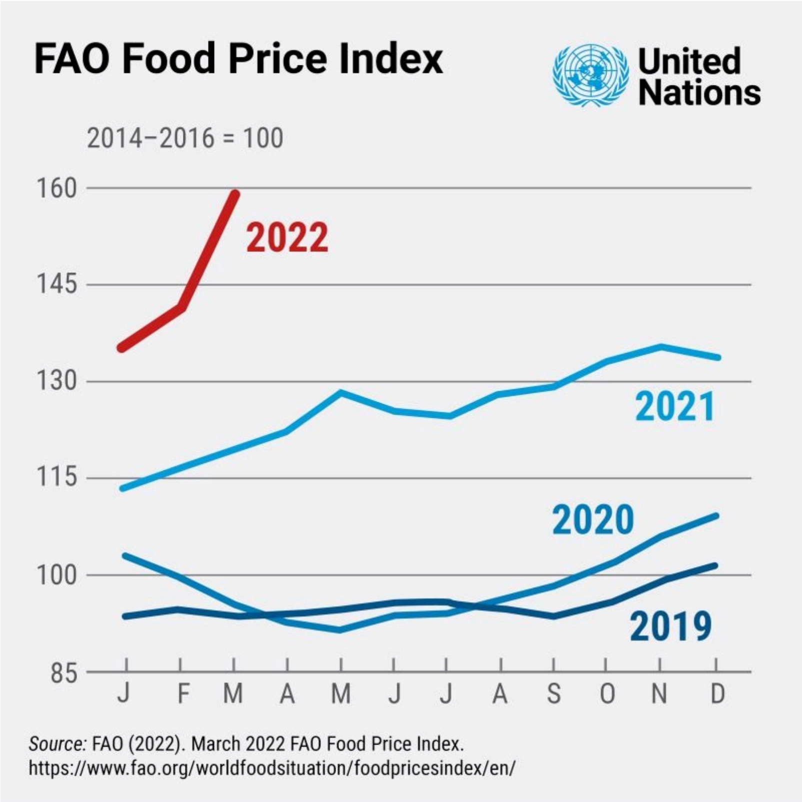


This inflation, which has affected Germany for the first time since 1991, has already affected France. With the crisis in Ukraine, this inflation is significantly affecting food prices, which have increased by 34% compared to 2021 according to the United Nations Food and Agriculture Organisation (FAO).
In the table below, the soaring inflation in 2022 for imported food products is likely to lead to food insecurity.



Aggravating factors

The crisis of container scarcity gave way as of the third quarter of 2020 to of traffic with numerous risks, including the loss of many containers at sea. It was thus noted that 2020 had been a year of container losses at sea. Thus, with twenty claims reported on 30 November 2020, including the loss of nearly 1,816 containers by the container ship *One Opus* off the coast of Hawaii, it is certain that the average of recent years will be smashed. This accident is considered to be the largest case of pollution by a container ship, with 64 containers of dangerous goods (fireworks, batteries, liquid ethanol etc.). It is the second biggest loss in history after the MOL COMFORT in 2013. On 16 January 2021, it was the turn of the Maersk Essen to lose 750 containers in the Pacific.

The question is now being asked. Is the gigantic size of ships the cause of these disasters, or should the size of the container stacks on ships should be reduced, or stacking techniques? The size of the ship *EVER GIVEN* which blocked the Suez Canal for almost six days cannot also go unnoticed.

As of 8 February 2021, the number of containers lost at sea was close to 3000 in 79 days. in 79 days. Some concluded that the oceans had become a container terminal. According to the World Shipping Council, between 2008 and 2019, the average was 1,383 containers per year, and is reportedly falling.

The fire on the *MV X-Press Pearl* on 20 May 2021 9.5 miles off the Sri Lankan coast made the situation worse. The ship was carrying 1486 containers, 81 of which contained dangerous goods. The bulk of the cargo, which included 25 tons of nitric acid, caustic soda, lubricants and other chemicals, appears to have been destroyed by fire.

The extent of the loss of containers at sea was discussed during the 103rd session of the IMO Maritime Safety Committee held from 5 to 14 May. Shippers' Councils should take advantage of this type of forum to address their concerns in relation to the loss of containers at sea.

Conclusion

Covid19 has been in the news for a long time and has a long way to go. It has led to a shortage of containers, which in turn has led to an explosion in freight rates. Benchmarking elsewhere indicates support from governments to support shippers as well as a trend for shippers to have their own containers. The limited resources in Africa do not allow for such an option, at least not for the moment. Alternatives can be envisaged and this is what the Cameroon National Shippers' Council began to do at the inaugural meeting of the International Trade Commission chaired by its Director General on 17 June 2022. The proposal was made to study the feasibility of manufacturing containers in Cameroon on the basis of the minerals which the country abounds. In the same vein, the Union of African Shippers' Councils had devoted an item at its Steering Committee meeting held in April to the assessment of the scarcity of empty containers and the corresponding increase in freight.

Others have opted for state subventions that have deployed their maritime fleets to support local industries. Sadly, there are hardly any shipping companies in Africa to do the same. The consequence is that Africa's freight rates have reached record lows. It is therefore urgent that there be a collective awareness by Shippers' Councils, especially at this time when the AfCFTA common market is taking off. This remark is worth its weight in gold as it is true that shipments from one African country to another must in most cases transit through a country outside the continent.

The only option left is regulation, which requires careful monitoring of freight rates and related charges across the continent through the transport observatories of the Shippers' Councils. A study had been conducted on this subject within UASC. It is time to capitalise on it. The authorities in charge of competition authorities should also be involved. UASC should reactivate the partnerships with UNCTAD, the Global Shippers’ Forum and ECSA to not only have first hand information on transport costs, but also to ensure that there is some correlation between freight rates charged and market trends, all of which will help to combat unilateral and abusive increases in freight rates.

There is an urgent need to reactivate a global regulatory framework, if the economies of developing countries are to be safeguarded in a sustainable manner, rather than allowing shipping lines to fuel inflation, and to apply to development partners later for development aid. Why would anyone prefer inappropriate development aid instead of targeted action to contain freight rates? The work of UNCTAD's experts will provide a concrete answer to this question which could lead to the creation of a Working Group or Experts to look at the situation in more detail and make proposals.