Filling in the narratives

by James Hookham, *Director, Global Shippers Forum*

Although container shipping capacity remains in short supply, there is no shortage of forecasts for what 2022 holds for the sector and those that rely on its services. Having enjoyed huge profits from an unexpected surge in demand for imported goods into North America and Europe over the past 18 months, most shipping lines and logistics service providers are confidently predicting more of the same this year. That is to be expected – an analysis published last month by the *Financial Times* showed the earnings growth of some shipping lines exceeded that of high-profile tech companies, like Netflix and Amazon. Unsurprisingly, most shipping lines would quite like that trend to continue. Yet, hopes that the 'Great Shipping Crisis of 2021' turns into 'Profits as Usual in 2022' may be premature as carriers overlook the impact of a few factors that look set to dominate this year unless a further variant of COVID-19 engulfs the world.

The working hypothesis of most shipping industry observers is that chronic delays through major ports and congested inland distribution systems, especially in the US, will maintain the upward pressure on shipping rates and transit times globally, much as they did during 2021. There is no new shipping capacity being deployed until 2023 at the earliest and no significant expansion plans being commissioned at the world's major gateway ports. Indeed, possible labour disputes in US and Canadian ports may worsen the situation before it improves.

The acid test

But this scenario presupposes that the demand for imported containerised goods into Europe and North America will remain at, or above, last year's levels and maintain the pressure on congested infrastructure. Absent from this narrative is any recognition of the broader economic developments that are now almost certain to play out over the same period.

For months, central banks and finance ministries have been making clear their intention to increase interest rates with the express purpose of stifling exuberant consumer demand to contain the highest rates of retail price inflation experienced in over three decades (at least in the US and the UK). The OECD has demonstrated that the high cost of shipping goods has contributed directly to these inflationary pressures. The debate is now about how many rate increases will be made in 2022 and their impact on consumer expenditure in importing countries.

There are good reasons why the 'clickfest' of online shopping that triggered the 'Great Shipping Crisis,' and the over-ordering of stock by importers to beat the subsequent delays, could end as quickly as it started. From March or April this year, household expenditure will come under additional pressure as winter energy bills at double or triple last year's rates need to be paid. It will coincide with the first of several predicted rises in interest rates that will start to feed through to higher mortgage interest charges and credit card repayments later in the year. Some governments are also increasing taxes to begin restoring order to their public finances savaged during the coronavirus pandemic. As such, the assumption that the demand for imported containerised goods into Europe and North America will remain at or above last year's levels and maintain the pressure on limited infrastructure looks shaky. Persistently high shipping rates in 2022 are by no means inevitable.

Higher interest rates won't just affect consumers. Businesses will also see the cost of borrowing rise. The withdrawal of asset purchases (or quantitative easing) by central banks that have made commercial loans relatively cheap and easy to come by for nearly a decade will make rolling over debt more difficult. It will put pressure on businesses' free cash flows, which could trigger reviews of the currently high inventory levels. As early as mid-year, supply chain managers could once again be examining the relative merits of just-in-case and just-in-time supply chains.

A sustained drop in demand for imports, hence traffic volumes, should restore shipping rates and service reliability to more recognisable levels, allowing for a lag of a few weeks for the backlog of containers at major gateway ports to clear. This should, in turn, trigger a re-deployment of shipping capacity, plus reinstating calls at ports habitually skipped by vessels seeking to recover lost time (or were too full to make a call worthwhile) and longer service strings (many of which have been blanked in favour of simpler shuttle movements between ports on more lucrative trades). According to the *Container Shipping Market Quarterly Review Q4 2021* done by MDS Transmodal and our organisation, some ports lost a third of the scheduled capacity that was expected to call due to blanked sailings or the port being skipped during 2021.



Photo: Canva

The pace at which rates adjust and service quality improves will be the acid test of the other shipping industry narrative. According to it, the record rates and poor service quality experienced since mid-2020 have been one-off events solely attributable to the impact and consequences of COVID-19, rather than a permanent resetting of shipping capacity and prices. Shippers will be very closely watching the responsiveness of the market as demand changes.

Tainted with digitalisation?

But this is not to forecast a return to the relative calm of pre-corona conditions. While coping with COVID-19 last year, the container shipping industry also advanced the process of digitalisation of its operations and dealings with customers.

The digitalisation of container shipping is not just substituting paper documents with their e-counterparts. Done correctly, it has the potential to make booking a slot on a container ship no different to reserving a seat on a passenger aircraft. Many of the essential protocols and procedures to allow data exchanges between shipping lines are being, or have already been, developed by the Digital Container Shipping Association and have started to be deployed. It could very well be the year that the carriers' booking platforms over which these new digital transactions will be conducted achieve take-off, potentially offering a new level of price transparency. How soon before shippers have access to shipping rate comparison sites? The Global Shippers Forum can foresee 'comparetheconsortia.com' becoming a popular site!

Ominously, though, the first deployment of these platforms has been to provide a mandatory spot booking portal for use by smaller forwarders, whom at least two shipping lines have henceforth denied access to contract shipping rates. This has unsurprisingly provoked the wrath of forwarders and their SME clients. It risks tainting the long overdue benefits of digitalisation in a premature and potentially misjudged step by carriers to rationalise their pricing practices. How the market reacts to this development will be another crucial indicator of shipper (and forwarder) sentiment during 2022.

Another dramatic year of change

The past 24 months will have been the most challenging time of their careers for most shippers. While hoping the fear, and at times the huge stress, of working under the shadow of COVID subsides rapidly, these developments will make 2022 another dramatic year of change – for the container shipping business in general and those relying on it to conduct international trade in particular. ■

GLOBAL SHIPPERS FORUM

The Global Shippers Forum (GSF) is the worldwide trade body that speaks up, advises and supports shippers and cargo owners in the essential role they perform in national economies and work to make international trade and transport safe, efficient and environmentally sustainable. The organisation participates in meetings of international bodies, offering its opinion and advice on issues that affect the way shippers do their job. GSF also provides its members with exclusive briefings and a platform for businesses professionals organising the transport of goods to work together, learn from each other and find a common voice. Visit **globalshippersforum.com** to find out more.