Container shipping outlook 2024: Rising risk of delays, disruptions

An in-depth Q&A with Flexport's Nerijus Poskus on the risks ahead

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Panama Canal constraints are just one of multiple risks facing supply chains next year. (Photo: Shutterstock/Rebecca Bolonas)

The supply chain crisis is long over, but America's importers still have a lot to keep them up at night as they plan for 2024.

Two key container shipping "chokepoints" — the Panama Canal and the Bab-el-Mandeb Strait in the Red Sea — are simultaneously under threat. Container-line financials are under severe pressure, forcing ever more vessel

sailings to be canceled. The dockworkers union serving East and Gulf Coast ports is threatening to strike next October. While freight rates are low, concerns over delays in import shipments are high.

For an overview of the disruption risks in the year ahead, and advice on how U.S. importers can mitigate those threats, FreightWaves spoke in-depth with Nerijus Poskus, global head of ocean procurement for freight forwarder and supply chain logistics platform Flexport.

This question-and-answer interview was edited for clarity and length.

Panama Canal fallout

FREIGHTWAVES: The Panama Canal crisis is getting worse. We've just seen two of the three global alliances abruptly shift their Asia-East Coast services from the Panama Canal to the Suez Canal. How does this impact U.S. importers in terms of transit time and cost?

POSKUS: It increases the pro-forma transit times by an average of roughly seven days, depending on the loading port. I emphasize "pro forma," because if you look at actual transit times with expected delays through Panama, are there actually any delays going through the Suez instead?

There has historically been almost no difference in pricing between the Panama and Suez canals. Now, Panama Canal costs are going up a lot, which is why we see shipping lines announcing Panama Canal surcharges of roughly $300 per forty-foot equivalent unit.

So, some importers may actually prefer the Suez, even though it takes around seven days longer, because there's no surcharge. This raises the question: Can the Panama Canal keep the market share [it hasn't already lost]?

FREIGHTWAVES: Another possibility is that importers may opt to avert both canals and just shift back to West Coast ports.

POSKUS: I think 2024 is going to be a year of the West Coast gaining back market share, although I think it will be temporary. Longer term, I think the trend toward East and Gulf Coast ports will continue, because more consumers are on the East Coast, and because cargo is continuously shifting toward Southeast Asia, and especially, India. And India is best served, by far, by services to the East Coast.

But next year, it's inevitable that some share will temporarily shift back to the West Coast.

It's not just about the Panama Canal. With the Suez Canal, there have been attacks on ships in the Red Sea, and on top of that, we have the ILA contract expiring at the end of next September [The International Longshoremen's Association contract for East and Gulf Coast dockworkers].

FREIGHTWAVES: The ILA has specifically warned that it will strike on Oct. 1, 2024, if its demands aren't met. Are importers already worried?

POSKUS: Definitely. People are very aware of what may happen and the language of Mr. Daggett [ILA President Harold Daggett] has been pretty harsh. Even if a strike shuts down ports for a couple of days, it will be a big disruption.

Suez Canal or Cape of Good Hope?

FREIGHTWAVES: Regarding security issues for Suez transits, there have been attacks by Yemen's Houthi militia targeting Israel-linked ships at the Bab-el-Mandeb Strait — and we've already seen spillover to non-Israeli ships, with an OOCL container vessel mistakenly attacked on Sunday.

Some container ships are already taking the long way around Africa's Cape of Good Hope. It's very easy to see how this could escalate and become a much more serious threat to shipping, which would force a lot more container vessels around the Cape. How might this escalation scenario play out for container shipping? This would affect not just trans-Pacific services rerouted from Panama through the Suez, but also the entire Asia-Europe trade.

POSKUS: Trans-Pacific imports going around Africa would add another 10 to 14 days versus the Suez route, which was already another seven days longer versus the Panama Canal. So, the first effect would be that carriers would have to have 30-40% more vessels [in trans-Pacific rotations] just to continue weekly services. There is a lot of new capacity coming online, but if carriers need 30-40% more vessels to serve the East Coast, then all of a sudden, there may be a capacity crunch. That's definitely something to watch.

The West Coast has limitations too. You can't just shift everything to the West Coast. The ports would be completely full, and all of a sudden, West Coast pricing would surge. Then, at some price point, importers would decide: I'm not paying that. I'd rather wait 20 days for a sailing via the Cape of Good Hope.

Risks from canceled sailings

FREIGHTWAVES: This scenario of the historic drought in Panama coinciding with an escalation in the Red Sea that forces most container ships to take the Cape route, causing freight rates to surge, is still very hypothetical. The overwhelming consensus is that freight rates are going to be weak throughout 2024, possibly through 2025. The consensus is that the concern for shippers next year is about service reliability, not high freight costs. Is that what you're hearing from importers?

POSKUS: Yes, the worry is much more about delays and disruptions. Importers still think that overcapacity will result in low rates. I wouldn't be so sure. I'm not predicting that rates are going up, but it's not 100% [guaranteed] that rates are completely going to collapse next year. All it takes is one Black Swan event and we're back to big rate increases.

FREIGHTWAVES: Let's assume there isn't one, and rates stay low through 2024 and 2025. Doesn't that imply that there will be even more "blankings" [canceled sailings] and other service reductions by carriers to mitigate their variable operating costs, thus import schedule reliability gets worse. Isn't that the price shippers will pay for cheap rates?

POSKUS: I would predict exactly that. With all the blank sailings, delays are already pretty bad and I suspect it may get worse in 2024. This is the reason you are seeing shipping lines like Zim [NYSE: ZIM] launch premium [expedited] services. I think more carriers will follow. Some would say: Are you out of your mind? Why would you launch an expensive premium service in a market like this? The reason is that importers are looking for stability and they're willing to pay for it.

Spot versus contracts

FREIGHTWAVES: If you look at what happens during major downcycles in bulk commodity shipping charter markets, the downcycles drive business away from term contracts and toward the spot market. Tanker and bulker owners would rather take their chances in the spot market than lock in depressed charter rates. They don't want to miss the opportunity of capturing a rebound in rates due to some unexpected change in the market.

Similarly, in the container shipping freight market, we saw Zim put 70% of its trans-Pacific business on spot this year, up from the usual 50%, because it refused to sign annual contracts at loss-making levels.

Hapag-Lloyd's CEO said his company would refuse to sign contracts that locked in annual losses. A DHL executive said during a presentation on Tuesday that he saw ocean carriers refusing to offer below-cost Asia-Europe contract rates during the current bid season.

Do you think container shipping will follow the pattern of bulk commodity shipping and trend more toward spot if this is, as expected, an extended downturn?

POSKUS: I believe it will be more of a mixed bag in container shipping. One reason is that fixed-rate contracts in container shipping are typically subject to peak season surcharges, so if the market does recover, carriers can increase rates, not to the level of the spot market, but closer to the spot market.

We do see carriers offering fixed contracts at rates above the spot market and importers unwilling to sign at those rates because that's not where they see the market going. They see the market deteriorating further. It's too early to say what will happen. Shipping lines might bring contract rates down a bit more because, if need be, they can implement some of those peak season surcharges.

The other issue is that a big portion of the market is already on spot. During COVID, nearly everything was in the spot market, and in 2023, there is still more on spot than there was pre-pandemic. A lot of shippers are expressing interest in fixed rates for 2024, because they now believe we're at the point where rates are fair — but again, the shipping lines don't think those rates are fair.

This is exactly why I believe some shipping lines are now more interested in index-linked contracts. It gives them some sort of stability while it gives importers peace of mind that if rates continue dropping, they're going to get a good rate.

Mitigating 2024 risks

FREIGHTWAVES: So, to sum up, it sounds like the biggest focus next year for importers is on mitigating risks from service disruptions. We've got the Panama Canal situation. Attacks on ships in the Red Sea. The threat of a port strike at East and Gulf Coast ports. Then there's the whole China situation and the U.S. presidential election and the possibility that the next president could be much more confrontational with China. What should U.S. importers be doing to mitigate all of these risks?

POSKUS: With China, it's difficult to move away, because it accounts for such a big portion of U.S. imports. But I do see more volume shifting to Southeast Asia and India. Look at the new ONE [Ocean Network Express] service from India to the U.S. East Coast, which is not [in cooperation] with any other line. ONE is certain it can fill a whole ship every single week from India to the East Coast on top of what's already running from India, which gives you a hint that the shift is happening and that at least some shipping lines expect the shift to accelerate.

[To mitigate disruption risks in general] importers should consider premium services. When you have all of these delays, premium services give you stability.

They should also consider putting a significant portion of volume on the spot market or index-linked contracts, because it gives you more optionality.

With index-linked contracts, if the shipping line thinks the market is "x" and you think it is "x minus 20%," you don't have to argue. The market will decide.

When disruptions happen and you're on spot, you can change carriers, routes, whether you go to the West Coast, East Coast or Gulf Coast. You can

shift to premium service when you need to, then back to regular service — although the risk is that if the market rises significantly, you will pay more.

If there are blank sailings or a ship shifts from the Suez to the Cape of Good Hope and the transit time is unfavorable to you, you can pivot. At the end of the day, if you pay a fair price, you will get the capacity.