Red Sea crisis and peak season — do you have a container plan?

Peak season planning should start soon

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The Red Sea crisis means a different planning approach for peak season. (Photo: David G40/Shutterstock)

The established Red Sea diversion routes may have provided some clarity for companies in their supply chain planning, but it's the duration of these diversions that needs to be factored in when strategizing for peak season.

Why? Container availability. Yes, manufacturing orders are down but with containers out on the water longer, it delays those coveted boxes getting back to the manufacturers so they can be filled with U.S. imports. According

to the latest data from Sea-Intelligence, the longer transit increases global twenty-foot equivalent unit miles by 16%.

“This means that the need for capacity also increases by 16%,” said Alan Murphy, CEO, Sea-Intelligence. “This can be accommodated by the carriers through 2 mechanisms: The first is by absorbing the current significant overcapacity, which will become worse as more capacity is delivered during 2024. The second is by speeding up vessels to allow the same amount of vessel capacity to deliver more TEU miles per year. At present, both mechanisms are at play. It should be expected that during 2024, the continued injection of more capacity will likely be used to slow the existing vessels down somewhat.”

Companies need to start planning for the normal peak season between July-October in the next couple of months. When they sit down with ocean carriers for their contracts, logistics managers need to evaluate how robust of a multicarrier strategy they will need. The higher freight rates may be pulling off their Red Sea highs, according to recent data from Xeneta, but Far East to East Coast rates are up 145.5% since Dec. 14 and Far East to West Coast rates have increased by 186.2% in the same time frame.

If containers start to get tight, rates will only go higher.

In an exclusive interview with CNBC, Charles van der Steene, regional president for Maersk North America, warned they don’t see any change in the Red Sea happening anytime soon.

“We’re advising them the longer transit routes could last through Q2 and potentially Q3,” said van der Steene. “Customers will need to make sure they have the longer overall transit time built into their supply chain.”

Van der Steene is not the only one looking at the first half of the year in Red Sea diversion disarray. Honour Lane Shipping (HLS) wrote in a Feb. 6 client note, “Based on our discussions with carriers, Suez Canal diversions will last for the 1st half of 2024 at least.”

As of press time, according to defense officials in a statement to American Shipper, there have been 48 Houthi attacks on commercial shipping since Nov. 19.

If Maersk and HLS are correct in their assessment, the possibility of container contraction as a result of containers on these longer voyages cannot be ruled out.

Adding to any possible container contraction is consumer demand. HLS is optimistic on the American consumer, writing, “the U.S. economy is driven by a healthy consumer, and a steady growth has been observed over the past year which is a good signal for 2024. The imports volumes to USWC is expected to further increase as shippers are making decisions regarding back-to-school and holiday import shipments, and are looking to shift those containers back to the West Coast ports after having shifted them away from the West Coast congestion [that] occurred during the pandemic.”

Data by HLS shows various equipment tightness or shortages among some carriers in Vietnam, the Philippines, Taiwan, Korea and Singapore, as well as Shanghai, Shenzhen, Qingdao, Xiamen, Wuhan, the Pearl River Delta, Chongqing, Nanjing, Ningbo and Dalian in China.

George Kochanowski, co-founder of collapsible container company Staxxon, says the extra time around the Cape of Good Hope is the equivalent of floating warehouses for empties.

“It’s not how many containers are out there, it’s where they are located,” said Kochanowski.

Richard Danderline, co-founder of Staxxon, tells American Shipper hedging the box is all about managing inflation.

“Repositioning costs are an insidious element in freight inflation,” said Danderline. “It can add a point or so to inflation. People focus too much on the general rates and fuel rates. But in the business of freight, repositioning is a nonproductive cost and it can have a large multiplying effect.”

The next couple of months will be critical for logistics managers as they navigate not only what route to use to bring in their imports but which routes have containers. Being nimble and prepared is key to keeping trade flowing.