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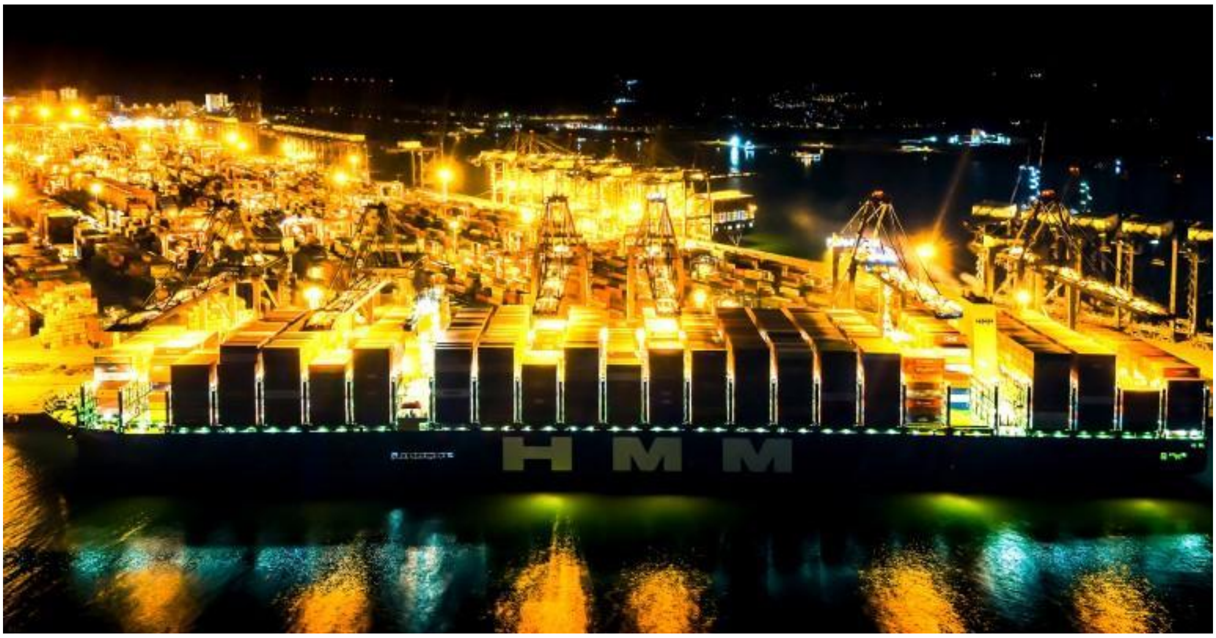
He who pays the piper no longer calling the tune in container shipping



Shipping is in for a rough ride if protectionism is the enemy of trade, as John Coustas asserts, but some the fluid geopolitical and economic conditions offer an opportunity as well as a threat.

Nick Savvides | Jul 02, 2024

Tariffs imposed in the US and resulting nearshoring to avoid high import duties will necessarily raise costs, and those increased charges will ultimately be paid by the consumer. In effect the next major disruption to supply chains could be sluggish consumerism and growth due to massively increased costs.

Yesterday's ruling by the Supreme Court in the US that the president is immune from prosecution when acting officially may bring a Trump presidency, and his policy of imposing import duties onto imports, closer, but that does not mean that shipping and trade will stop. On the contrary, in the longer term it may mean greater shipping activity, argues Xeneta chief analyst Peter Sand.

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In its Outlook Report for the second half of this year, Xeneta quotes Donald Trump's specific policy promises to add 60% tariffs on Chinese imports and 10% duty on goods from any other country.

Sand pointed out that Biden is also "playing tough" where China is concerned, but "Trump will be tougher." That will mean more obstacles to trade and more difficult relations with Beijing, a relationship that has "soured over the last eight years", Sand added.

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The easy response from shipping will be to bring inventory immediately, said Sand, but that is not a long-term solution. A more lasting remedy would be to shift production out of China, but that will be very expensive and something that importers would try to avoid.

"US importers are not rushing to bring goods into the country yet. At least for the first few months of this year, that is what the numbers show, but there maybe some effect to be seen when we receive the latest figures," said Sand.

In the short-term, the threat of labour disruption in US, German and French ports could add to the general congestion and challenging market conditions being experienced, with constraints on vessel capacity as well as container availability.

"Shippers need to find out what strategy their logistics service supplier is adopting, as one may fully redeploy its fleet while another may concentrate on fewer services and less on global coverage. You can use this revealed position of your carriers to your advantage to get the better deal - in terms of both service and price," suggested Sand.

Rates, and in particular surcharges, are likely to increase this year and to remain high into the second half and during the peak period, with 74% of shipper respondents to a Xeneta survey saying they had already been affected by surcharges.

Both shippers and forwarders are being affected by the current disruptions with cargo rolled over, equipment shortages, and a failure by lines to meet contractual obligations.

Beyond this year there may be broader changes to the way supply chains operate and these developments are under consideration now.

Patrik Berglund, CEO & Co-Founder Xeneta, expressed the view concisely:
"There's an increased appetite from shippers to rethink how they agree terms to ship products around the world. They want a better, smarter, friction-free, more data driven way to solve how freight is currently bought and sold."

However, until those changes manifest themselves the result will be higher costs, either due to near-shoring or import duties and protectionism. That will lead to higher rates and ultimately inflationary pressures in the consumer regions.

But nearshoring also means more shipping, and for the carriers this could offer a route to increased activity.

Xeneta analyst Emily Stausbøll, reflected: "With geopolitical conflict and major international incidents such as the Covid-19 pandemic becoming a seemingly more regular occurrence in recent years, there is a lot to consider in terms of how ocean freight shipping responds to protect supply chains while also meeting carbon emissions targets."

Responding to these global challenges will mean that there is a price to pay. Gone are the days of cheap freight and as Sand eloquently explained: “It’s a one-sided bet that when costs go up those will be passed on to the consumer.”
