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Container shipping finding the path of least resistance

Photo: PSA

Pasir Panjang Terminals in Singapore

From the outset this decade has been beset by extraordinary events, disrupting supply chains and economies alike, with cargo at times struggling to find a way through to its destination.

Nick Savvides | Aug 22, 2024

Eleanor Hadland, senior analyst - ports and terminals for Drewry Shipping Consultants, said that the industry has experienced a “rollercoaster” since the currency crisis of 2008, but that the last five years had been particularly volatile.

“Growth in the 2-3% range is the new normal, using the current economic situation, but as soon as something happens the forecasts will change,” warned Hadland.

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Up to 2008 there had been double-digit growth but since the pandemic the rolling five-year volume growth has been stilted, reaching just 1.8%, with volatility far higher than has been seen for some years.

As a result of these changes shippers have sought to mitigate the worst effects of the latest major supply chain disruptions and to pre-empt the next event, namely the possible US East Coast strike, scheduled to begin on 1 October if a new contract is not agreed before that date.

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Current disruptions caused by the Red Sea diversions, as a consequence of the Middle East conflict has seen cargo diverted thousands of miles around the Cape of Good, absorbing large amounts of surplus capacity, raising freight rates and, initially, causing congestion.

“Moving cargo around is like free-flowing water: it always wants to follow the path of least resistance,” said Dynamar analyst Darron Wadey, and that is reflected in the first half volume changes at terminals across the globe.

Six of the top eight ports were Chinese, Singapore was second and Busan seventh, with first half volume increases ranging between 4.4% at Guangzhou and 14.9% at Shenzhen. Next on the list is the combined LA ports of Los Angeles and Long Beach, which also recorded a 14.7% increase in cargo volumes.

Hadland, however, cautions: “Drewry’s has upgraded its 2024 global throughput forecast on back of strong 1H performances, but our latest projection of 4.7% must be seen in the context of two years of relatively flat growth in port handling (i.e. 0.5% in 2022 and 0.3% in 2023).”

Year-on-year growth must be seen in the context of this “base effect” said Hadland, with Drewry now expecting growth to slow with projections of a more moderate 2.6% for 2025.

In part, Hadland argues that the US West Coast ports have seen a return of some cargo with due to the threat of industrial action in the east, but with some “defensive shippers”, who moved cargo to the east coast when dockers in California were negotiating a new contract, now reverting to the West Coast to avoid possible East Coast disruption.

Current disruptions to the Asia-Europe trades have been well documented, with a diversion of some 4,000 miles around the Cape to avoid the Red Sea danger area, there has been significant changes to cargo flows as a result.

Sri Lanka’s Colombo port, which had itself been hit by political and economic disturbances in 2022 and 2023, has been a significant beneficiary of the carrier diversions, recording a 12.5% according to Drewry in the first half of this year.

“We expect that some volume loss when Suez re-opens but depends on timing. Colombo has been operating near capacity for several years, but new equipment / expansion of East Container Terminal (operated by SLPA) and construction of West Container Terminal (Adani-Keells JV) will provide significant new deepwater capacity that should help secure volumes,” explained Hadland.

Dubai and Mundra have also benefitted from the Red Sea crisis, both rising two places in the port top 30, to places 10 and 24 respectively.

Speaking about the three hubs Wadey said: “Instead of carriers creating new and expensive services around the Cape of Good Hope to compensate for lost connectivity, it is just as easy to relay Middle East/Indian Subcontinent-Europe cargoes to regional hub ports, and then transhipping onto existing intercontinental services to Europe that will be passing by. “It is no coincidence that these three ports are predominantly hubs.”

Drewry said Mundra port volume increases of 11% in Q1 is a result of the booming Indian economy rather than the impact of the Middle East crisis.

“There is an expectation that re-opening of Suez will further boost Mundra throughput due to improved access to key markets,” argued Hadland, Jebel Ali is in a more challenging position, with a similar problem to Mundra, in that the route to markets in the US and Europe has increased, “But the bigger threat to Jebel Ali volumes is the opening of CMA CGM’s new terminal in Khalifa Port in 2025,” said Hadland.

Mediterranean ports will need to readjust after the resumption of Suez Canal transits, both analysts agree.

“Tanger Med is likely to retain volumes due to shipping line investment in terminals providing enhanced loyalty; and Gemini Alliance using the port as a key hub – eg. serving some North European ports via Tanger to secure better transit times vs. northwest European hubs,” said Hadland.

“When the Red Sea situation allows for ‘normalised’ trade flows, the path of least (cost) resistance will indeed be through the Red Sea and Suez; fewer vessels and shorter distance... it’s the economics! In practical terms, this makes east Mediterranean hubs like Port Said and Piraeus much more efficient hubs for east Mediterranean cargoes,” said Wadey.
