Shipping container crisis- The repercussion of the global lockdown

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Abstract

Shipping containers play an immense role in international trade. It brought about significant changes in cargo transportation by significantly cutting down cost and time. The global lockdown induced by the pandemic has created disruptions in container movement. Containers got stagnated at major ports waiting for customs clearance. The entire container clearance operation was slowed down for want of manpower and this created one of the worst congestions in recent years. Container shortage has led to increase in freight rates and some of the shipping lines have started making exorbitant profits utilizing this opportunity. The impact is more on India as many shipping lines have announced blank sailings to Indian ports. This article provides a glimpse of the grim situation that prevails and outlines the areas that require attention from the Government.

Key Words: Shipping containers, blank sailings, freight rates

Introduction

Containerization is a breakthrough in shipping industry. Before containers arrived cargo was handled manually as break bulk and was transported in pallets and gunny bags. The process was terribly time consuming and had high chances of damage and accidents as it involved multiple handling. The first standard shipping container was invented and patented by Malcolm McLean (USA, 1956). He observed the laborious task of loading and unloading and understood that a standardized process of cargo transfer would transformation the shipping industry to a greater extent. He started experimenting on this and came out with what we call today as the shipping container. In April 1956, the world’s first container ship, the Ideal X sailed from Port Newark to the port of Houston successfully carrying 58 containers [1]. These containers were strong and easy to handle and brought a revolution in freight transportation. Cargo was transported sealed and safe, this reduced pilfering and damage on all stages of conveyance. Containers have reduced labor required for loading and unloading and dramatically changed the port infrastructure worldwide. Cranes substituted men, ports were modernised to accommodate larger ships and loading facilities. Cargo handling became more sophisticated and resulted in shortened shipping time. Containers have reduced the packaging cost as the need to pack individual pieces of cargo was minimized. Warehousing cost also came down as there was no need for covered storage spaces as containers can be stored in open also. Soon there was a need to standardize the size of these containers so that ports across the world could become uniformly equipped to handle them. With standardization containers could also fit onto different modes of transportation with ease. The International Organization for Standardization (ISO) standardized the container sizes and though containers are available in different sizes, the most commonly
used are the TEUs (Twenty foot equivalent unit) and FEUs (Forty foot equivalent unit) containers.

A container moves back and forth from its origin to destination carrying cargo. The lockdown situation has created shortage of manpower in cargo handling and customs clearance which has caused serious disruptions in container network, with many containers getting stagnated at major ports. The impact of this situation is felt in the form of blank sailings, increased freight rates, detention /demurrage charges due to late clearance, transit delays and so on. This article broadly presents the repercussions of this container crisis on India

**Container ownership**

The shipping containers are either owned by a shipping line or owned by a container leasing company, a very small percentage of shipping containers are also owned by the shipper. The ownership is usually indicated by the writing on the side of the container.

Shipping lines such as Maersk are commonly the owners of the shipping containers that they use. Since they own the containers they are using, this is a cost-effective way for these companies to be able to transport goods without having to lease out containers. However, sometimes logistics or other complications require shipping lines to lease containers to fulfill requirements. Leasing containers can reduce the costs for shipping lines when it comes to repairs/maintenance, storage, and repositioning. There are also companies that lease containers to shipping lines. Container leasing companies build containers for the sole purpose of leasing them out to shipping lines around the world. They have demand locations across the world with a stock of specialty and general containers. Their operations include acquisitions, leasing, re-leasing, and sale of intermodal containers. Container leasing companies own approximately 52 percent of the global equipment pool. And in 2019 the container leasing market size reached $ 5,150 million. This is expected to grow to $ 6,100 million by 2024[2]. There are some smaller shipping lines which only lease containers. This is because they don’t want to bear the expense of owning their own containers. For such shipping lines container leasing companies come in handy. Besides a small portion of containers are also owned by shippers themselves. Regular exporters who require specialty containers for their products do so. Such shipper owned containers account for approximately 2% of the worldwide container population.

**The Container network**

A shipping container is suitable for transporting almost anything and everything, from perishables such as fruits and vegetables to consumer products such as shoes and textiles and also inflammable and hazardous materials for industrial purposes. These containers once loaded go through a rigorous checking system. The journey of a shipping Container from its origin to destination is as below [3]
In the container shipping industry, there are three main stakeholders involved:

- **Importer** – Who wants to receive cargo from another country
- **Exported** – Who want to sell and send the cargo to the importer
- **Shipping Company** – Who delivers the cargo by receiving it from the exporter and sending it to the importer

Besides other service providers such as port, trucking company, shipping agent, Freight forwarder etc are also involved to streamline the process.

**On Exporter’s Side**

Once the consignment is ready, the exporter will first select a particular shipping company whose container will come to its factory for cargo loading. This container may be either owned or taken on lease by the shipping company. If the cargo is large enough the exporter will use Full Container Load (FCL) in which case full 20 feet or 40 feet container will be booked. If the cargo to be shipped is less in quantity, then he will use Less than Container Load (LCL). With LCL, the payment is made per cubic meter or per metric ton for space occupied inside a container.

There are freight forwarders who assist both the importer and exporter for the transportation of cargo. They get the containers from the shipping company and bring it to the exporter for filling, stuffing, and sealing of cargo. After loading, the containers are sealed and an identical no. or a particular id is given to the exporter so that they can track their goods. If the goods to be transported are dangerous in nature, such as gas or a toxic chemical, The IMDG (International Maritime Dangerous Goods) Code provides guidelines and regulations to ensure safe transportation.
Maritime Dangerous Goods) containers are used. The IMDG Code regulates transport of
dangerous goods by sea. Likewise, if the cargo is perishable or temperature-sensitive, reefer
containers will be used. The Freight forwarder will then arrange for the intermodal transport i.e.
transporting the container from the exporter’s warehouse or factory to the designated shipping
port for loading into the vessel.

Then the representative of the exporter, a shipping agent, performs all the port paperwork,
customs checks, and does the final inspection of the container and pays the port dues to shift the
containers inside the port warehouse or storage facility. The shipping agent will also collect the
bill of lading from the shipping line after handing over the documents and mate’s receipt to the
shipping line. Now the chamber of commerce will issue the certificate of origin to the exporter.
In the port, the container weights are measured and the entries are made according to that. The
container is stacked in the port in such a manner that they can be taken out easily as per the
schedule of their assigned vessel. Now the container is ready to be loaded on the ship.

On the Vessel

The ship’s Master is informed in advance about the cargo containers to be loaded on board in a
particular port. The cargo loading plan is prepared by shipping companies’ cargo planners, who
will take the data from the Chief officer regarding the current load condition of the ship
including the cargo stowage, fuel & water quantities on the ship. Once the ship arrives, the
container is brought from the port storage facility, near to the ship by container port trucks. Now
the container is loaded as per the cargo plan by the gigantic port cranes, which lifts it from the
truck and transfers it to the ship. The container can be stored either inside the ship’s cargo hold
or on the deck. If the container is due for unloading in the next port, it will usually be kept on
the deck. All deck containers are provided with extra lashing so that they do not become loose
and fall overboard when the ship is out in the rough seas. Container lashing is done by shore
workers also known as stevedores. Once the ship loading is finished, it will now proceed for the
next assigned port. During the voyage, the ship officers are responsible to keep a check on the
containers. Cargo lashing is checked from time to time to ensure that all the containers are
secured properly.

On Importer’s side

Once the ship reaches the destination port, the container will be unloaded by the port cranes and
will be transported to the port bay or warehouse using the port container trucks. After this the
representative of the importer will present the bill of lading and other documents to the port and
shipping line. Once the custody of the shipment is acquired by the Importer’s representative or
by the freight forwarder, the cargo will be transported using the intermodal transport to the
importer’s warehouse where the container is unloaded. The empty container is now returned to
the shipping lines designated container yard, an inspection will be carried out to check for
damage, the need for cleaning, etc. Once the repairs and cleaning have been performed, the
container will be stacked and made available for another export load. If a container is leased it may be off-hired at that port and redeliver.

The world is connected through this invisible network which drives international trade across the globe. Any disruption in this network will have huge impact on international trade and its stakeholders. The current pandemic has caused huge delays in clearance of containers from major container terminals leading to the worst congestion of all times. This was due to acute shortage of manpower customs clearance, equipment handling drivers etc.

In 2021, the largest container terminal in China, Yantian was shut due to Pandemic which caused huge disruption. The top shipping companies are owned by Chinese, COSCO, the Chinese Government owned shipping line is the third of the largest in the world [4]. They own 51 container terminals and handle 126.8 million TEUs making them the world’s largest container terminal operator. At this hour of crisis these containers are directed back to China, creating further shortages.

**The impact of container crisis on India**

None of the Indian shipping companies figure in the top ten list which means that it depends on foreign vessels for exports and imports. The challenge now is that a good number of containers are owned by Chinese and the freight from China to US and Europe has skyrocketed with shipping lines giving preference to this route. With Christmas approaching the container vessels are overbooked and many shipping lines have started announcing blank sailings to Indian ports. The direct weekly sailing to Europe from Chennai/Cochin skipped Cochin call on 19th April ,26th April, 10th May, 28th June, 12th July [5]. More blank sailings are expected in the months of September and October also. The ships that call at Indian ports are also refusing to accept export cargo which has led to cargo getting stuck up at ports. Many shipping companies also cancellation contracts without notice and exporters were asked to book on the spot basis. Container shortage has increased the freight rates for both 20FT and 40FT containers. Higher exchange rates are being charged by the freight agents and shipping lines at the time of the release of Bill of Lading. Also to get bookings in the current vessel, members are asked to pay extra. The Ocean Freight charges have increased tremendously which is presented in the table below.
Table-1 Freight rates compared between March 2020 & August 2021 from Cochin & Mundra ports

<table>
<thead>
<tr>
<th>Origin</th>
<th>Destination</th>
<th>Freight 2020 March</th>
<th>Current Rate</th>
<th>Increase in value</th>
<th>Increase in %</th>
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<tr>
<td></td>
<td>20ft</td>
<td>40ft</td>
<td>20ft</td>
<td>40ft</td>
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<td>Cochin</td>
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<td>$7,300.00</td>
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<tr>
<td>Cochin</td>
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<td>$500.00</td>
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<td>Cochin</td>
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</tr>
<tr>
<td>Cochin</td>
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<tr>
<td>Cochin</td>
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<tr>
<td>Cochin</td>
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<tr>
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</tbody>
</table>

Source: The Great Shipping Crisis of 2021, a report jointly presented by All India Spices Exporters Forum –AISEF, Kochi Indian Spices & Foodstuff Exporters’ Association –ISFEA, Mumbai Federation of Indian Spice Stakeholders –FISS, Unjha 24 August 2021

From the above table it clear that the increase in freight rates is so high and it is only affordable for some high value cargo exporters. Some of the top shipping companies have utilized the crisis in their favour. They have formed a cartel amongst themselves and are controlling the freight rates, their profits have hit a record high which is depicted in the table below.
The transit time has also increased during pandemic, the feeder vessels are also unduly delayed and such transshipment delays have increased the transit delays more than twice compared to what it was in 2019. Many Indian exporters who have signed long term Cost Insurance and Freight (CIF) contracts are suffering huge losses as customers are not agreeing to revise contracts. Shipping companies usually provide 14 days free time for loading and documentation after which detention and demurrage is charged but now this has been reduced to 7 days and during a period of container shortage the entire process of picking up an empty container stuffing it and returning it takes more than 7 days causing heavy detention charges. Also the shipping lines nowadays charge cancellation charges if the empty containers are not picked up on the issued delivery order. A notification was issued last year not to charge detention or demurrage on import shipments on late clearance but it is still charged adding to the woes of the pandemic.
Conclusion

The prevailing situation indicated that there is an urgent need for the Indian Government to take up this matter with international trade regulatory bodies and shipping lines to protect the interests of its exporters. It has to take steps on war foot basis to stop blank sailings and further increase of freight rates. The situation also throws light on the fact that though India is a maritime nation with a long coastline of about 7516 km, and massive port infrastructure, it has a long way to go when compared to its international counterparts. The pandemic has exposed India’s excessive dependence on foreign shipping lines for freight transportation and its dearth for containers. Though the country has impressive policy measures for strengthening its maritime sector there are still inadequacies which need to be addressed. The country must device long term strategies to promote Indian shipping lines to be on par with global standards. The fact that none of the Indian Shipping companies are among the top ten is a matter of concern. More container manufacturing facilities should be created and the proposed facility at Bhavnagar should be accelerated. Port infrastructure also needs to be further strengthened to avoid transshipment of cargo. Major initiatives from the Government of India such as Maritime Agenda 2020 and Maritime India Vision 2030 have been implemented to propel India to the forefront of the global maritime sector. The country has also permitted 100% FDI into port sector besides many port development projects have also been undertaken through the Public Private Partnership (PPP) mode. The disruptions experienced during this pandemic only shows that the country needs to speed up the measures to strengthen its maritime sector.

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