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Logistics insights

“Good, old sea freight”

Good? Old? These days, it is a very hard and very capital-intensive business! The larger and longer the ship, the lower the resistance and crew costs with respect to tonnage. The largest cargo ships today carry up to 23,000 standard containers and only a few ports can accommodate them when they are fully loaded. If you were to put 23,000 containers on a single train, it would be over 150 km long. Such dimensions therefore pose challenges on the land side as well.

Carriers plan loading and unloading ports in a loop. Incoming freight, loading processes, dwell times in port, weight balance and logistics must all be optimized. The necessary equipment must also be available for use again at the correct location for the outgoing freight. Forecasting of transport volumes, even under normal seasonal fluctuations, is an art in its own right. When cargo space is in surplus, carriers take ships out of the loop or save energy by “slow steaming”, meaning they simply travel much more slowly. During boom phases, which are not expected in the coming weeks, a “peak season surcharge” is billed, and containers back up. No normalization is expected for the next six to twelve months. Logistics specialists are expected to organize the transports according to the prevailing circumstances and to be able to tell customers where the goods are currently located and when they will arrive. In the current situation, this is all the more important.

India and Malaysia recently closed their ports for weeks, although COVID-19 has not yet fully arrived in the southern hemisphere. The concept of country risk has suddenly become a hot topic. What if a customer wants or needs to back out of a transaction? What if a ship cannot enter the destination port and is forced to stand idle for days?

The good, old bank-certified letter of credit, appropriate communication prior to shipping and the right Incoterms can significantly reduce the risk but cannot eliminate it entirely! The virus is faster than a ship voyage, so air freight is more predictable.

Every day, new facts generate incongruities between production and acceptance, cargo space and goods. China is working through the week-end, while automotive factories and retail shops in Europe are closed; meanwhile, the ship is on the way. Air freight responds most rapidly, with sea freight lagging behind, including with respect to operational problems. While empty containers are stacking up in Asia, they are lacking in Europe, limiting export capacity. On the other hand, the “Iron Silk Road” is proving to be quite stable, thanks in part to being relieved by many passenger trains. The faster route through Adriatic ports is currently more expensive than the route through northern ports.

It is recommended to always book sea freight early, to currently allow for larger time buffers and to consider the “Iron Silk Road” as an alternative for transport to and from China. Also important: select a logistics partner with a good shipment tracking system, take country risk into account, clarify expected unloading options for exports and plan in advance for storing imports.