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Disruptions always lurking in container shipping: analyst

Major supply chain disruptions are not the exception, they are to some degree also part of the norm, according to analyst Lars Jensen. Photo credit: Robert Mandel / Shutterstock.com.

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The container shipping market has clearly reverted back to a state of normality. Freight rates on the major corridors from Asia to Europe and North America continue to decline below pre-pandemic levels, clearly driven by the unwillingness of carriers to reduce capacity commensurate with the collapse in demand. And, yes, "unwillingness" is the correct term as carriers clearly demonstrated in early 2020 that they indeed do have the ability to remove capacity in line with a demand collapse, as well as the ability to do it quickly.

But this all has a distinct feel of normality as well, as it exemplifies the significant competitive pressure between the carriers as well as the different strategic directions they attempt to move in.

Supply chain bottlenecks are also on the verge of having been restored to pre-pandemic levels. This does not mean there are no bottlenecks — there were clearly also problems pre-pandemic. The supply chain was never without challenges. There are always strikes, typhoons, mechanical breakdowns, and other smaller such issues. This is also part of normality.

It would therefore be easy for shippers to "lean back" and breathe a sigh of relief for coming back to this state of affairs. And even though carriers certainly do not look with relief at the current freight rate erosion, they too might feel somewhat more at ease now that markets are normalized and the playing field is more well-known.

But this is where there is a lesson to be learned from the past few years. Major disruptions are not the exception — they are to some degree also part of the norm. A pandemic does not happen very often, but we do not know when the next one will strike. But a pandemic is not the only major impact we have seen.

Just to mention a few examples of major disruptions to container shipping, one could look at the US West Coast labor issue in 2015, the bankruptcy of Hanjin in 2016, or the cyberattack on Maersk in 2017. And this is before we look at not just the pandemic in 2020, but also the blockage of the Suez Canal in 2021.

More disruptive events coming

Major disruptive events happen more frequently than the market appears to plan for. But the lesson the market ought to learn from the extremes of the last couple of years is to retain larger buffers in the supply chain because we will yet again see major disruptive events in the coming years. Or a different approach is not to have larger buffers, but instead financially account for the savings associated with a lean supply chain and "save" some of the gains for the disruptive events which are sure to happen.

With the risk of sounding like "I told you so," it would be worthwhile to look at the analysis I wrote for the *Journal of Commerce* in March 2021 on this exact topic. At that time, four categories of events each with low probability but high impact were listed. One was the risk of the blockage of the Suez or Panama canals — which then actually did happen to the Suez only a few weeks later. The second was the outbreak of war or hostilities preventing or restricting access to key shipping lanes. Since then, we have seen parts of the Black Sea and the Sea of Azov become off-limits. The third element was a cyberattack crippling part of the maritime infrastructure — we have been lucky to avoid this for now, but it should be noted that it appears the level of cyberattacks have increased in the wake of the escalation of the conflict with Russia. Finally, the fourth element was natural disasters where the potentially worst outcome would be an earthquake impacting the port complex in Los Angeles-Long Beach, for example.

None of these risk elements have abated two years later. We cannot influence natural disasters, but the other three risk elements are man-made, and events over the past year indicate that the risks have increased.

And this brings us back to the key message: Yes, the market has to a large degree normalized, but all stakeholders would do well in choosing a strategy that takes operationally disruptive events into account as we will surely see more of those in the coming year. This can be done either by having buffers in the supply chain or creating a financial buffer whereby the sudden cost of handling disruptions is offset against the savings accrued in more stable conditions.

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