



STATE OF THE INDUSTRY FAQ

THE SURGE IN PRICING

Q. Some say that COVID-19 caused a demand in home maintenance products, home office products, home décor, crafting, etc. coming from China?

A. True. Although there was a pandemic the U.S. Government pumped money into the economy so consumer purchases mushroomed because there was much more disposable income available (no commute, no eating out, etc.). The government continued to do this with its latest spending.

Q. Yet, during the height of COVID-19 shutdowns, China was also closed so supplies were depleted and backlogged. So during May-Aug of last year, the rates did not increase so much?

A. China was only closed for a short while. Once it reopened, it ramped up quickly to handle the influx of orders. It is important to recognize that the surge included many countries in the Far East and South Asia too. Rates did not increase last summer because the carriers frankly couldn't increase them right away without violating existing contracts and none of the carriers expected the disruption to last this long. Consequently they were cautious about raising rates or being seen as gouging but now the demand is so extreme that rate levels are at an all-time high.

It is important to understand that in February of this year carriers were expecting to sign contracts at last year's levels plus \$1000 to \$1500 so the benchmark China to U.S. West Coast rates would be roughly twice as high as last year. Today, the contract rates are about four times as high as last year with a \$5000 premium on top to guarantee space. Those customers who have expensive merchandise can easily pay this increase as it represents a small percentage of the cost. Other shippers with low value commodities are seeing dramatic increases in landed cost.

Q. During May-Aug last year, is it accurate that the carriers removed ships from the trade lanes due to low cargo volumes?

A. They idled many ships and kept them idle even when the increase began because they thought that it was temporary. When they discovered that it was a continuing surge, it was too late and the bottlenecks were in place.

Q. When did the production in China start to increase again?

A. Last summer.

Q. When did the carriers start to add ships back to rotation or did they NOT do this?

A. End Q3 2020.

Q. Did the carriers in fact keep ships off rotation and just increase the price of containers?

A. Even if they did initially, they rapidly deployed every available ship as they saw the surge in freight.



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Q. About when did prices start to jump? And what was the initial cause?

A. Prices surged at the end of Q3 through end of the year. They stabilized at a high level in Q1 2021 \$5k+ but have surged since then (doubling again to over \$10k at this point).

They are high because demand far exceeds supply. And on top of that...COVID in the USA and many other countries meant that workers were not available for normal hours. It takes multiple cranes and personnel to efficiently handle a large Panamax ship. However in the USA, the labor supply was severely curtailed so they were working ships with one crane and labor was short. Ships normally arrive and berth immediately and spend a few days in port. Ships in Los Angeles were waiting 10 to 14 days to berth and then spending extra days working at the port.

Putting it into perspective...the time from arrival to berth in Los Angeles today is 10 to 14 days. Normally the time is zero. So ships are sitting for this period (currently in Oakland it is 21 days). If you take that and project the delay into a schedule the ships are making far fewer port calls due to the delay. So if a 20,000 teu ship normally makes 6 calls a year in Los Angeles assuming a voyage through all ports of 60 days (and can now only make 4 calls per year), this takes away 1/3 of the available teus on every ship. This should make it clear why there are not enough containers or space.

The ILWU longshoremen were very cautious about Covid as a number of their members were affected so this situation didn't start to improve until a substantial number of their members were vaccinated. The longshore unions have resisted mechanization of the ports thus U.S. ports are roughly 50 per cent as efficient as ports like Singapore that have embraced computerization and mechanized cargo handling. As such, labor shortages affect u.s. shipments far more than in other countries.

One more thing - US Exports are also heavily affected because the rate differential between exports and imports is quite high. The steamship lines loaded (and continue to load) empty containers to Asia to take advantage of the extremely high pricing. It makes economic sense to ship empty containers to Asia instead of using a container for USA export cargo that pays one tenth of the revenue of a container loaded in Asia. Any delay in making that container available in Asia means far less revenue so better to send it empty so it can be used more quickly...if it can be loaded 2 more times, the revenue far exceeds the revenue they might have generated if it was a loaded U.S. exports. U.S. Agricultural producers are screaming for containers but the lines are not supplying containers because they are rationally maximizing profit.

But as more workers are vaccinated and more labor is available the time to work the vessels will decrease and then this crunch will start to disappear and we hope we will get back to normal schedules. However we do not expect prices to return to the levels of early 2020. The Steamship Lines have learned that companies will pay extremely high rates and they will reduce them very reluctantly.



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Of course the disruptions still continue...the COVID outbreak in Yantian is already wreaking havoc with schedules as this is the main port for South China and many ships are now omitting it. In Oakland, three Steamship Lines have just announced they are canceling all port calls for 60 days until the congestion eases as they cannot have ships sitting for 3 weeks.

GETTING LADEN ON BOARD

Q. What other reasons could affect cargo being accepted by the Steamship Lines?

A. Very few carriers are entertaining anything oversize or anything Military because they are full and don't need the headache of obtaining approvals in every port of call and frankly they don't need the cargo.

Some carriers are cancelling contracts with smaller shipper/forwarders/nvoccs and are pushing dynamic pricing utilizing spot rates which are vessel specific and carry a penalty if booked and canceled.

Ships are full in every trade and the rates from Far East to USA exceed \$10,000 per 40 container. Same with Asia to Europe. Even at these levels there is no space for weeks.

This situation is unique in the history of containerized ocean freight and will continue until the surge of cargo, lack of space and lack of equipment subsidies, maybe late this year. Until then, the steamship lines are taking full advantage of this unique opportunity to maximize profitability. However, it is important to note that some lines are protecting their long term shippers and others are less supportive. Shippers may not have many options during this time but most will remember which lines were helpful when the market returns to normal cargo flows.

Although all shippers are affected, Sea Shipping Line is fortunate that most Steamship Lines continue to value our long term relationships and we are still able to offer service on most trades during this time.