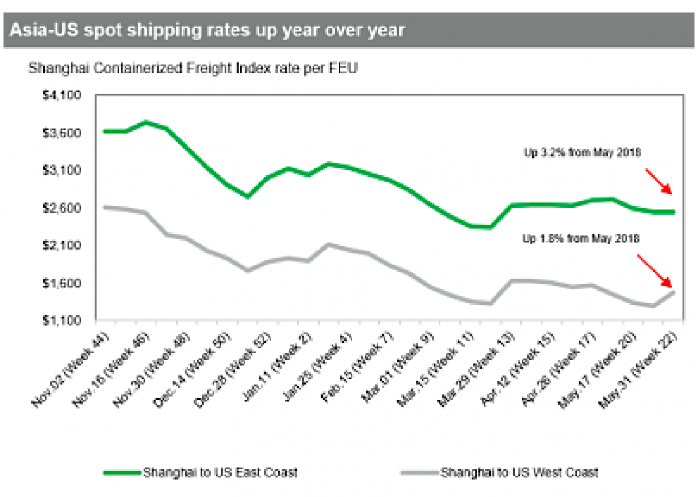
Tariffs, IMO 2020 promise a hectic peak season
Dustin Braden, Shipper Engagement Manager | Jun 05, 2019 4:30PM EDT

David Bennett, president, Americas, for Globe Express Services, speaks during the JOC Canada Trade Conference.
TORONTO — The dual threats of tariffs and the International Maritime Organization's (IMO's) low-sulfur fuel rule will power a spike in demand for trans-Pacific shipping services in the second half of the year, panelists told JOC's Canada Trade Conference Wednesday.
Several shippers across commodity groups told JOC.com they are already rushing shipments to avoid any potential tariffs on the remaining $300 billion in US imports of Chinese goods that President Donald Trump threatened after trade talks with China broke down in May.
"You will see spot market rates increase [and] start seeing space issues develop rather quickly," said David Bennett, president, Americas, for Globe Express Services.
"I think that's right. From my understanding, and discussions with carriers, there are currently space issues into Los Angeles-Long Beach," said Landon Bibeau, vice president of the Canadian Retail Shippers Association, echoing Bennett's concerns about finding capacity and the ensuing impact on rates.
Bennett and Bibeau agreed the IMO 2020 rule, which mandates a reduction in the sulfur content of marine fuel from a maximum of 3.5 percent to 0.5 percent, would also drive a rush in shipments, particularly as there continues to be uncertainty about the actual cost to shippers on an FEU or TEU basis.
Ocean carriers are also expecting a surge in volume from tariffs and IMO 2020.
"I would expect to see a strong peak season in the third quarter," Wolfgang Schoch, managing director of Hapag-Lloyd Canada, said in an earlier panel discussion.



The difficulties for shippers arising from the increase in volume could be compounded by carriers' newfound discipline in controlling capacity, which would reverse the recent declines in trans-Pacific spot shipping rates and push them up year over year. Spot rates to the US West Coast are up 1.8 percent from last year to $1,471 per FEU, and rates to the East Coast are up 3.2 percent to $2,541 per FEU, according to the Shanghai Shipping Exchange.

“Shippers, I beg you to monitor [blank sailings] closely,” Bennett said. “[Carriers] have never been more disciplined in aligning capacity to correct demand. This is no longer something that is going to happen on a quarterly basis, there is going to be a consistent flow moving forward.”
Blank sailings complicate life for shippers by delaying shipments and could force them to build inventory and extend lead times depending on how severely capacity has been impacted.

Container volume forecasting becoming more critical

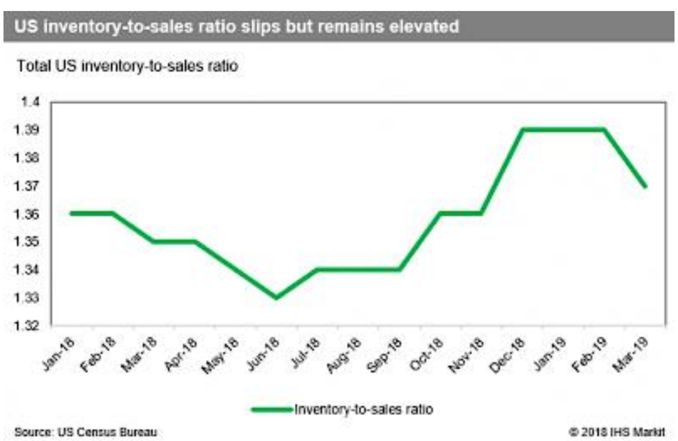
Many shippers view blank sailings as something outside of their control, but Bennett and Bibeau argued otherwise.

“Forecast, forecast, forecast,” Bennett said. “Make sure that they’re accurate because what happens is they forecast and don’t deliver, and that becomes a real challenge for us.”

More accurate forecasting gives carriers a clearer sense of upcoming demand and allows them to more efficiently allocate capacity, reducing the likelihood of unexpected blank sailings when bookings fail to materialize.

“Having accurate forecasts, while not easy, is very important. I think BCOs [beneficial cargo owners] have become very good at forecasting, but smaller shippers in the NVO [non-vessel-operating common carrier] market are not as good and really need to focus on it,” Bibeau said.

Beating the tariffs is only one part of the challenge for shippers, however, as US industrial real estate markets are already tight. Vacancy rates for logistics space nationwide remained at a record low 4.8 percent at the end of 2018, with an average rent of $6.14 per square foot, compared with a 5.1 percent vacancy rate and average rent of $5.84 per square foot the year before, according to real estate company Cushman & Wakefield.



The Port of New York and New Jersey provides a microcosm of these national trends.

The vacancy rate in the port fell to 3.4 percent in the first quarter of 2019, compared with 4.1 percent in the same period in 2018, according to Cushman & Wakefield. The average leasing rate over the same period increased to $8.16 from $7.32 the year before, the company said. Inventory fell by just under 1 percent, to 72.8 million square feet.

“Inventory levels are quite high,” Bennett said. “Trying to find capacity to store inventory right now is basically nonexistent, and what is existent is outrageously expensive. We’re dealing with that right now for quite a few customers that are trying to advance cargo.”

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