Freighted by the pandemic

A severe container shortage driven by imbalances in imports and exports is pushing up exporters' cost of doing business

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The modest revival in exports has brought some cheer to a whole swathe of industries from automobiles to textiles. Exporters would have been cheering louder had their efforts not been limited by the most basic of shortages: Containers.

This is an unusual imbalance caused by the lag in the revival of domestic demand following the Covid-19 lockdown. In normal times, shipping companies usually have more empty containers on offer to transport Indian exports, since imports are higher than exports. This time, subdued imports — a function of poor demand in India — has meant that there are fewer containers entering Indian ports to turnaround for use by exporters.

"Our exports grew around 20 per cent in the third quarter. Growth would have been higher, but container shortage was an issue," said K N Radhakrishnan, director and CEO, TVS Motor, during a post-Q3 earnings call.

This shortage has a knock-on effect. Fewer containers also translates into a shortage of imported inputs, such as speciality steel and semiconductors, impacting the entire supply chain.

"This is a cause for concern just as India's auto industry has started showing signs of recovery after coronavirus lockdowns eased," said Vinnie Mehta, director general, Automotive Component Manufacturers Association of India (ACMA).

This double whammy in the supply chain has forced companies to absorb higher costs.

Freight rates to US ports have increased to $3,500-4,000 from $1,800-2,000 last year. The trend is similar for Europe-bound exports — freight rates rose to $1,600 from $400-500. For imports, especially from South East Asian countries, rates rose by two to three times.

One automaker's logistics provider said he was forced to hire five charter aircraft since July to ensure his client's production lines were not disrupted. He said shipping lines used to operate around 20 ships in a month to Chennai from South East Asian ports; now, the number has halved. Besides, the transit time, which used to be around two weeks, has increased to 30-45 days. The shortage has meant that the automaker and its suppliers import 400-500 containers every month against 800-1,000 in pre-pandemic times.

Sivaramakrishnan Ganapathi, managing director of one of India's largest apparel exporter, Gokaldas Exports, said shipping freight rates have surged since July and the container shortage has led to exporters finding it difficult to sustain normal trade operations as outward freight movements are delayed.

"It's a logistical hassle," said Ganapathi, adding that production schedules are impacted since it takes 30-45 days to get raw materials, which raises the cost of doing business. The cost of disruption includes an increase in working capital and interest costs since exporters have to pay for warehousing facilities and factor in the cost of idle inventory to honour delivery commitments, which is critical in this business.

Zen Linen International, which exports textiles, was forced to halt production at its unit in Chennai for about 10 days since goods could not move out from the factory. Managing Director Milind Mungikar said he has now hired three warehouse and is paying ₹4.5 lakh a month to store finished goods, since there is no space in the factory.

An additional problem is that even after the containers are filled, shipping lines delay issuing Form-13, which is required to move the container into the port, resulting in the payment of huge trailer detention charges — and this is over and above the increase in ocean freight rates.

Mungikar claims there is net loss of around ₹55,000 per container on account of detention, temporary storage and labour charges as production is suspended for almost 50 per cent of the time. Add in the additional costs towards export freight, import freight for raw materials and revenue losses and exporters are taking a substantial hit.

Worse, it is impossible to pass on these cost increases to the customer, since that will encourage them to immediately shift the business to China, which is managing well with empty containers and also on time schedules, he said.

A spokesperson of Maersk Line, one of the world's largest shipping companies, said although carriers are positioning empty containers into India where possible, it is not sufficient to fully satisfy the demand from all origins in the country.

This situation is not limited to India. Many countries are experiencing similar challenges for a multitude of reasons. Container production fell drastically in the first half of 2020 due to Covid-19, congestion has built up in some key ports around the world, and different markets have recovered at varying speeds.

"Freight rates are a function of demand and supply. Typically, when demand exceeds supply, freight rates increase; and vice versa," said the spokesperson.

The company claims it has tripled the number of empty containers being brought in from West Asia — more than 100,000 in the last quarter. For some customers, Maersk even brought in a vessel full of empty containers to support their requirement for export orders. Within India, it is repositioning empty containers from the pockets with higher imports to pockets with higher exports to maintain the balance to the extent possible.

"At the moment, it is difficult to predict when the situation will fully normalise. It will depend a lot on when and how the various bottlenecks in global supply chains are resolved, when the Covid-19 vaccinations are rolled out in markets across the world, and when the buying patterns of the global market revert to pre-Covid-19 trends," the Maersk spokesperson said, adding that the situation has been caused by a combination of factors that are beyond the control of shipping lines.

ON HOLD

Containers are in short supply...

Auto and component manufacturers see supply drop from 800–1,000 a month pre-pandemic to 400–500 now

And freight rates have jumped...

FROM US: $1,800–2,000 to $3,500–4,000

FROM EUROPE: $400–500 to $3,500–4,000

Pushing up costs

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