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A box too far

Rate hikes and container shortages are hamstringing US ag exporters

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Rate hikes, container shortages hamstring US ag exporters

By Bill Mongelluzzo

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US AGRICULTURE EXPORTERS are finding it harder to secure equipment as peak season nears, and now they face steeper all-inclusive costs for shipments to Asian customers, with little hope that new general rate increases (GRIs) of $100 to $1,000 per container will make equipment more available.

Spot rates in the eastbound trans-Pacific will still be at least four or five times higher than the westbound rates even with the GRIs, so carriers will still prefer to ship empty containers back to Asia as quickly as possible to be refilled with US imports, rather than delaying the return of the containers for weeks to carry low-paying agricultural exports to Asia.

"Carriers really want to discourage the inland shipment of equipment," said Hayden Swofford, independent administrator of the Pacific Northwest Asia Shippers Association, which represents shippers of agricultural and forest products.

Soybean exporters sounded the alarm on the shortage of containers at inland locations on Oct. 23 after Hapag-Lloyd notified customers it was refusing agricultural shipments in the interior US in order to rush empty containers back to Asia,

where there is a critical shortage of equipment for Asian exports to North America and Europe.

Agricultural exporters have since admitted that they probably unfairly singled out Hapag-Lloyd for criticism, because most carriers have de facto been refusing export loads without notifying their customers they were doing so.

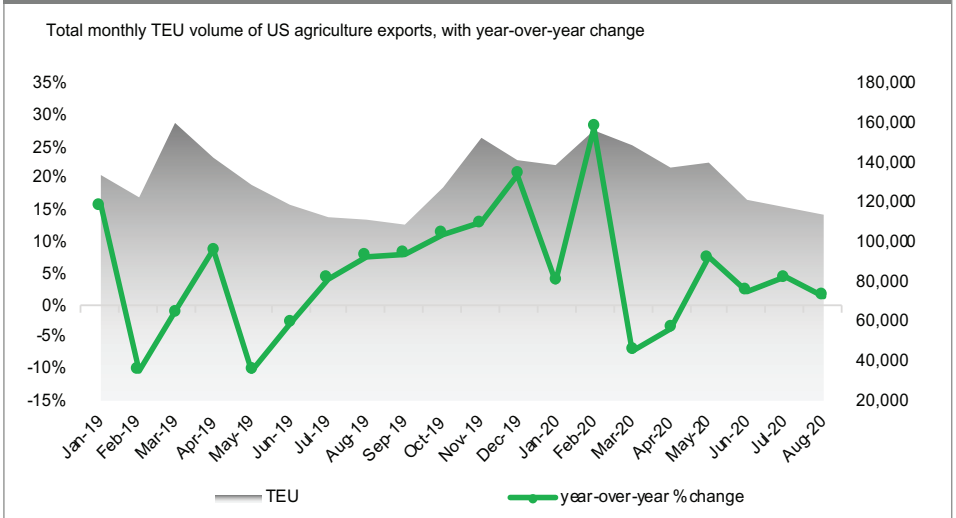
In fact, Hapag-Lloyd over the years has been more reliable than many carriers in dedicating assets to exporters in the US interior, so the line's suspension of agricultural export bookings will have an impact, said Bob Sinner, president and owner of SB&B Foods, a soybean shipper based in North Dakota. Farmers understand the economics of the shipping industry and how the container shortage is affecting carriers' global operations, but they also hope that carriers attempt to understand the shipping and equipment needs of US farmers, he said.

> "Carriers really want to discourage the inland shipment of equipment."

Agricultural shippers in the upper Midwest are especially concerned about a reduction in equipment. Farmers in the region depend on Minneapolis as their source of containers, and they struggle even in the best of times, Sinner said.

"Minneapolis is chronically short of containers because exports exceed imports," he said.

US ag export growth slows following post-lockdown uptick



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Record rate spread

Although eastbound freight rates are always higher than westbound rates, the spread between the two is at record levels. Spot rates from Asia to the US exploded this summer as the economy reopened from the lockdowns during the first phase of the coronavirus disease 2019 (COVID-19).

The Shanghai–US West Coast spot rate for the week ended Nov. 6 reached $3,871 per FEU, up from $1,678 per FEU on May 22, while the East Coast rate stood at $4,665 per FEU, up from $2,543 per FEU, according to the Shanghai Containerized Freight Index, which is published in the JOC Shipping & Logistics Pricing Hub. By contrast, port-to-port export rates to Asia are about $500 per FEU from the West Coast, according to data from the pricing hub.

Shippers of soybeans, hay, and other agricultural products grown in the Midwest say that while they do not normally applaud rate hikes, they understand that carriers base their business plans on round-trip economics — when the differential

between eastbound and westbound rates is large, carriers will favor the headhaul import lanes, even if it means turning down westbound revenue loads.

"Clearly, if faced with the dilemma of no containers or higher rates, shippers will agree to pay marginally more," said Mike Steenhoek, executive director of the Soybean Transportation Coalition.

However, Ed Zaninelli, president of Griffin Creek Consulting, who ran the export division of container carrier OOCL for a number of years, said a marginal increase in westbound trans-Pacific rates will not be enough to motivate carriers to reposition empty containers to grain-loading facilities in the Midwest given the spread between eastbound and westbound rates.

"If the rate goes up $1,000, it will divert some containers to ag shippers," Zaninelli said. But if the westbound GRI is $100 to $300, "I don't think these increases will get more containers to exporters."

Reducing free time

In their calculations, carriers consider the revenue potential per container, but they also look at the free storage time allotted to US exporters for the loading process and to Asian importers for unloading. Total free-time allotments can be as much as 30 days, said M. Can Fidan, vice president of business development at MTS Logistics.

"Thirty days to sit idle is a huge opportunity cost," Fidan said. In today's environment, unless an exporter is a consistent large-block shipper, carriers hesitate to reposition empty containers to the US interior, Fidan said.

Sinner noted that carriers are pulling back on free storage time, which they negotiate directly with their shipper customers. If reducing free time is necessary to ensure a steady supply of equipment, shippers will work with their overseas customers to make that happen, he said.

Even large-volume agriculture exporters are struggling to get sufficient containers, because carriers are so short on equipment, said Peter Friedmann, executive director of the Agriculture Transportation Coalition (AgTC). Carriers may attempt to provide the large shippers with some containers, but equipment is so scarce they may not be able to meet the full allotment, he said.

In fact, containers are in such short supply that members reported in a recent AgTC conference call that some carriers have been canceling export bookings they had agreed to previously. "They are finding they

Carriers hope a $1,000-per-FEU GRI will be enough to discourage container shipments to the interior US.
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Trans-Pacific rate spread surges as US import demand soars

Cost differential between average weekly eastbound and westbound trans-Pacific spot container rates per FEU

Source: Freightos

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don't have the equipment," Friedmann said.

Some agriculture shippers are seeking assurances of equipment and vessel space through contracts negotiated via the New York Shipping Exchange (NYSHEX). In NYSHEX contracts, both the carrier and the shipper are held to their contractual commitments and charged a penalty for not meeting those commitments.

Gordon Downes, CEO of NYSHEX, said he has definitely seen an increase in contracts executed on the platform involving agricultural shippers since the container shortages emerged. In light of the shortages, carriers are holding customers strictly to their weekly allotments. When equipment was not an issue, shippers might underestimate their slot requirements, knowing they could increase their commitment at the last minute, but that is not the case today.

"What the shippers contract is what they get," Downes said.

Demand for guaranteed contracts has grown significantly since NYSHEX's founding in 2014, particularly among US exporters. Container volumes contracted on the platform more than tripled in the first half of 2020, with westbound trans-Pacific shipments accounting for 94 percent of those volumes, according to NYSHEX.

Reputation at stake?

Agricultural representatives said that if carriers implement a $1,000-per-FEU GRI to make it worth their while to reposition empty containers in the interior, that could increase the transportation cost so much that it drives exporters out of the international marketplace.

"They can't absorb a $1,000 increase," Friedmann said.

Soybean shippers are being hit especially hard by carriers' rejection of export loads. Although most US soybean exports, especially to China, move in bulk vessels, shipping soybeans in containers is crucial for secondary markets, Steenhoek said.

> "Ag shippers rely on containers to these markets, and now the rug is pulled out from under them."

According to the Soy Transportation Coalition, the top destinations for soybean exports in containers are Taiwan (28 percent), Indonesia (25 percent), China (11 percent), Thailand (10 percent), Malaysia (9 percent), Vietnam (5 percent), Japan (5 percent), and South Korea (2 percent).

"Ag shippers rely on containers to these markets, and now the rug is pulled out from under them," Steenhoek said.

The Specialty Soya and Grains Alliance noted that all types of agriculture shipments could be harmed by carriers' decisions to reject export loads. Farmers in the upper Midwest ship a variety of exports to Asia, including identity-preserved grains, peas, lentils, and other agricultural products for human consumption.

"This disrupts the food supply chain," said Sinner. "Companies in those countries rely on us for their food manufacturing. We've got our new crop harvested, and we're making significant and consistent bookings with carriers to get our products shipped quickly and as soon as possible."

In a broader sense, US agriculture exporters say their reputation as reliable sources of all types of agriculture products is at stake. US products have always had an advantage over competitors in other agricultural export nations when it comes to their ability to fulfill commitments to overseas buyers and to ship their products in a timely, cost-effective manner, due to the superior US transportation network.

"Cost-effective, reliable transportation versus our competitors, especially in South America, is our main advantage," Steenhoek said.

And if agricultural exporters cannot serve the markets they have worked hard to develop — either because freight rates are too high or because they can't secure the equipment they need — they could lose those customers for future business when the market returns to normal, Steenhoek said.

"What's the recipe for long-term success? Maintaining reliability and predictability," Steenhoek said. JOC

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