TSA

EQUIPMENT AVAILABILITY: FACTS AND RECOMMENDATIONS

June 2011

Container equipment availability in the Asia-US trade is an issue of concern to both shippers and carriers. While there is likely to be adequate vessel space and capacity deployed to handle current and forecast demand, the ability to obtain containers as needed is less clear.

The TSA, with valuable input and assistance from its Shipper Advisory Committee, has prepared the following short fact sheet for shippers. In it we provide a concise summary of the issue, as well as some "best practices" applied successfully in the past that shippers and carriers can consider, to alleviate equipment concerns.

BACKGROUND – REASONS FOR THE POTENTIAL SHORTAGE

- Worldwide production of containers is concentrated almost entirely in China.
- Container production fell sharply from 3.2m TEU in 2008 to 450,000 in 2009 – a 1.4% reduction in the global fleet – as a result of global recession and a decline in worldwide cargo demand.
- Container factories closed by the recession have been slow to ramp up. At 1.6m TEU in 2010 and 3.5m TEU in 2011, production is unlikely to keep pace with global cargo growth, which this year could exceed 2008 levels by 11%.
- Slow-steaming to reduce vessel emissions and fuel consumption requires additional ships, and those added ships require 5-7% more boxes per string.
- Record dry container prices, at around $3,000 for a new 20-foot unit, have limited carriers' equipment spending.
- Leasing companies in the current environment are offering only long-term leases, contributing further to tight short-term supply.
- The Japan tsunami/earthquake has impacted equipment supply through both lost/damaged boxes and increased cargo demand as the country rebuilds.
- Container shortages are a global issue, with tight equipment demand across carrier networks. While ~10 million FEU moved in the transpacific trade in 2010 and 4-6% growth is expected in 2011, both Asia-Europe (12 million FEU in 2010, 5-9% growth forecast) and intra-Asia (20.4 million FEU in 2010, 10-13% growth forecast) will be competing for finite container resources.

- Amid declining freight rates in 2011, carriers face difficult financial decisions in allocating scarce equipment; containers will go where the revenue levels are most compensatory and velocity is greatest.

WHAT CAN SHIPPERS/CARRIERS DO? SUGGESTED BEST PRACTICES

- This is an individual carrier issue and different carriers have their own solutions and programs; shippers should make every effort to familiarize themselves with their carriers' particular situation and plans. Do not hesitate to ask your carrier(s) for more information in this regard.

- Carriers are encouraged to make sure that front line representatives who deal with customers are well versed in your own container situation and plans.

- Carriers can also assist by providing more information with regard to your global network issues and cargo trends in other trade lanes, so that transpacific eastbound shippers are better informed as to how their container supply might be affected.

- Do contracts contain specific clauses relating to equipment provision?

- Have both parties discussed accuracy of forecasting? Are shippers able to give carriers better medium and long-term forecasts regarding demand (i.e. by lane segment or origin-destination pair, by week or month) to enable carriers to plan better?

- Where shipment timing permits, is it possible to book space and equipment at least 10-14 days in advance, allowing carriers ample time to make equipment arrangements?

- Is there clarity of commitment in the contract? Is it clear what the MQC represents on the part of the shipper (relative to your total expected volume) and on the part of the carrier (how much space, equipment etc will you provide up to, and beyond the MQC)?

- Have both parties discussed free time? It is important to understand how shippers' equipment needs may be impacted by concurrent practices of holding containers for extended free time.

- If the contract does not have any specific clauses regarding equipment, have both parties discussed contingency plans in the event of possible equipment issues, whether an unexpected increase in demand on the shipper side or unexpected container shortages on the carrier side?)

Communication and information-sharing is the key to effective equipment management and planning. The ability for carriers and shippers to candidly discuss and share detailed information in advance about their respective needs and concerns, the less likely it is that either party will be caught by surprise should market conditions suddenly change.