

# Logistics Report

## Current Challenges in International Shipping

November 2014



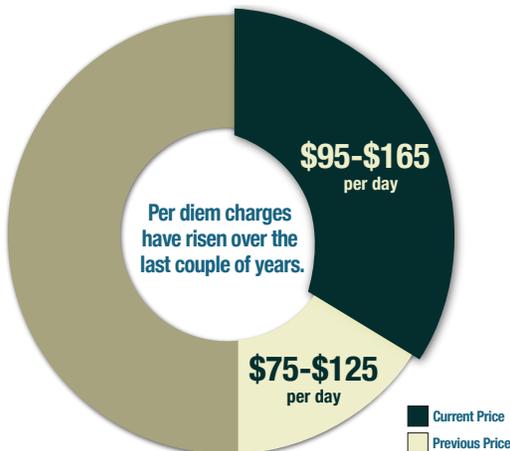
### Chassis Shortages at Ports

Historically, chassis were carrier-owned, ever since ocean container shipping began 50 years ago. However, over the last three or so years, carriers have been exiting chassis ownership due to the headaches of maintenance and repairs, storage and other ownership costs. Many were sold to equipment leasing companies. This transition has resulted in shortages and dislocation of chassis at the large ports, causing truck drivers to wait in longer lines and miss appointments.<sup>1</sup> The outcome of the chassis shortage has been delayed deliveries and higher operating costs.

### Per Diem Charges for Containers

As the steamship lines begin to understand that their business model depends on movement of containers on vessels, they have begun to increase the cost that shippers pay to hold the containers beyond a 7-10 day period.

Per Diem charges have risen 25-35% over the last couple of years from \$75.00-\$125.00 per day, depending on the line, to \$95.00-\$165.00 per day. These charges are likely to continue to increase over the next couple of years now that the steamship lines are in the business of collecting revenue for containers that they are not able to reload onto a vessel.



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**T**here are many challenges facing the international shipping industry at this time. Congestion at ports, chassis shortages, per diem charges, increased volume, higher fuel costs, and a potential Port Congestion Surcharge; all of these represent real issues that will not be resolved overnight.

The ports that will come out on top, once the dust settles, will be the ports that best demonstrate their ability to meet these looming challenges over the next five to 10 years.

Until these issues are resolved, we can expect volatility in the market. Freight rates will continue to fluctuate but will trend upward, and space limitations will be a problem that all imports will contend with for another year or more, depending upon how quickly the ports are able correct the current congestion issues.

### Congestion at the Large Ports

Congestion - even "gridlock" - has recently been an issue at many ports across the U.S, especially at the Port of Los Angeles/Long Beach. The East Coast ports, New York in particular, have had their share of congestion issues, as well. Last winter, during the months of January and February 2014, the Port of New York and New Jersey experienced gridlock due to freezing equipment and issues with snow removal.<sup>2</sup> For 2015, the Port Authority of New York and New Jersey will roll out a "winter plan" in an effort to avoid a repeat of that scenario.<sup>3</sup>



### Congestion Surcharges Considered

Recently, ocean carriers have considered implementing the Port Congestion Surcharge (PCS). Carriers filed the PCS with the Federal Maritime Committee earlier this year. The PCS is being considered as a possible option due to the increasing congestion and worsening conditions at West Coast ports, resulting from the disruptive ILWU labor situation. This Surcharge, if implemented, is just one more factor that would negatively influence the cost of imported goods, and would likely drive more ocean traffic to East Coast ports which, in turn, would increase congestion issues at those ports as well.

### Increased Volume at East Coast Ports

Due to the extreme congestion issues on the West Coast, Los Angeles/Long Beach in particular, Beneficial Cargo Owners ("BCO's") are continuing to route a majority of their cargo to the East Coast in lieu of using the West Coast ports. With a higher percentage of cargo being routed to the East Coast, vessels are expected to remain full and the traditional drop in cargo to the East Coast will be non-existent.

### Ocean Freight Rate Increases

With the high cargo volume expected to continue through early 2015, the spot freight market will remain high. 2015-2016 contract rates from base port China to the East Coast ports are expected to settle somewhere between \$3,600.00 and \$4,200.00.

There will likely be an additional General Rate Increase (GRI) attempt in January 2015 to attempt to recover some of the higher costs that will be incurred by vessels having to use low emission fuels when they near the ports in North America and Europe. Although space will not be as big a concern as it was in July, August, and September, it will still be an issue going forward.

#### References:

1, 3. Journal of Commerce website: [www.joc.com](http://www.joc.com)  
2. [newyork.com.cbslocal.com](http://newyork.com.cbslocal.com)

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