

SUBJECT Concerns over shipping costs and uncertainties
DATE 18 May 2021

Issue: high costs and supply chain disruptions

Chemical distributors provide over 100,000 chemical substances to their customers, enabling producers to manufacture anything from cosmetics to disinfectants and from paints to cheese. By facilitating chemical supply chains, chemical distributors contribute to the welfare of billions of people all over the world.

Chemical distributors rely on global transport networks to be able to deliver the chemicals efficiently, safely, and timely. However, their ability to do so is under significant pressure from excessive freight costs. Container freight rates have risen sharply the past months, reaching historical highs, see Figure 1. Moreover, the past year has introduced several new supply chain uncertainties.

This problematic situation has been caused by a combination of factors and was exacerbated by Covid-19:

- Due to recent consolidation amongst ocean carriers, shippers face limited choice and lack of bargaining power on many routes.
- Perhaps surprisingly, demand for shipping containers increased due to Covid-19. The pandemic triggered changes in consumption, such as e-commerce, resulting in more demand for manufactured consumer goods, which are primarily transported in containers.
- Supply chains have been disrupted by the trade imbalances, the pandemic and changing trade patterns. This has resulted in a mismatch between supply and demand for containers with empty containers being left behind and failing to be repositioned in time.
- Ports around the globe face capacity issues. Many of them have labor shortages, congestions and capacity constraints related to their inland transport systems, most notably a shortage of qualified truckers. ICTA has received reports of container ships experiencing delays of up to several weeks due to these capacity issues. As a result, some journeys now take up to twice as long. This can result in extra detention and demurrage costs for chemical distributors, even when they have no control over the delays.
- The blockage of the Suez Canal has had a negative albeit temporary effect. As ships took longer to reach their destinations, the shortage of available empty containers increased on nearly all routes.

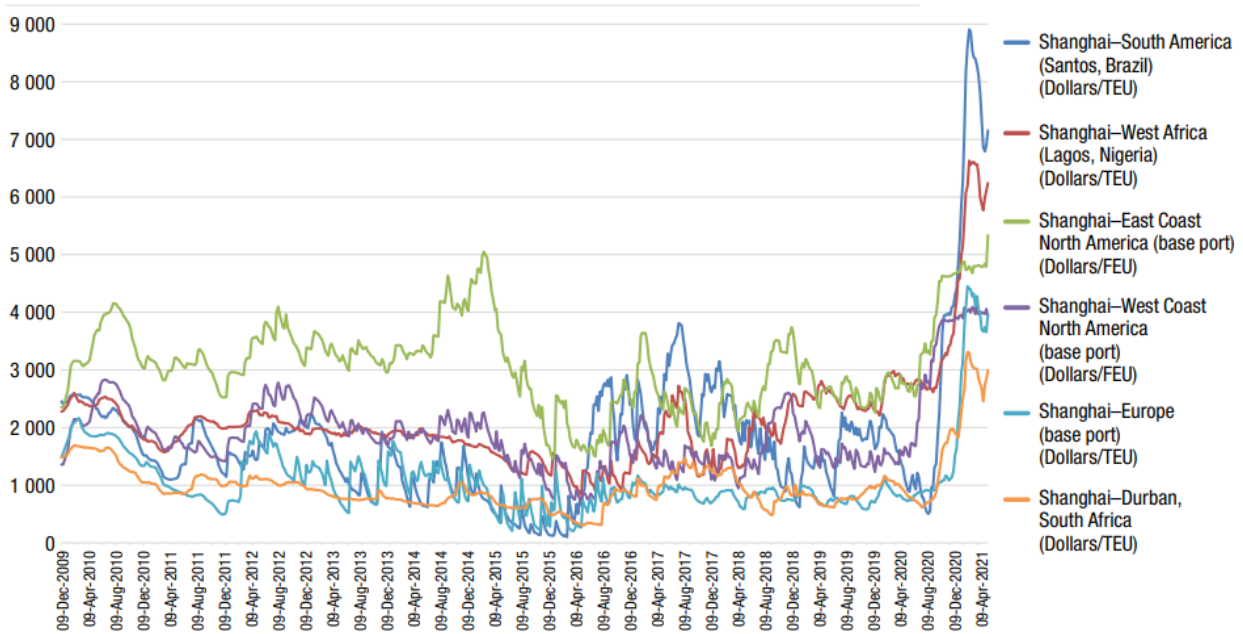
Solutions: increasing capacity and transparency

Chemical distributors require affordable, efficient, and predictable international transportation networks. Building on UNCTD¹ analysis, ICTA has several requests for policymakers around the world to reduce the current issues and prevent similar situations in the future:

- Invest in increasing port capacity;
- Improve intermodal transportation options by looking beyond just shipping. For instance, measures are typically needed to address local trucker shortages;
- Stimulate the use of maritime informatics to monitor the availability of containers. This requires promotion of transparency and collaboration along the maritime supply chain;
- Enable continuation of work during a pandemic, for instance by prioritizing port workers and truckers for Covid-19 vaccination and by enabling digital solutions to reduce physical interaction;
- Act in case abusive market behavior by large carriers takes place. The market for ocean carriage is increasingly consolidated and some carriers have earned double-digit operating profits in 2020. To be able to prevent uncompetitive behavior in the maritime transport supply chain, national competition authorities must have sufficient capacity for investigation and subsequent legal action.

¹ See UNCTAD Policy Brief 84

Figure 1 Shanghai containerized freight index, weekly spot rates, 18 Dec. 2009– 9 April 2021



Abbreviations: FEU, 40-foot equivalent unit; TEU, 20-foot equivalent unit.

Data: UNCTAD calculations, based on data from Clarksons Research, Shipping Intelligence Network Time Series.

ICTA

The International Chemical Trade Association (ICTA) represents the chemical distribution industry and promotes the safe and sustainable use of chemicals. The chemical distribution industry has an important role in enabling chemistry to make a positive impact, while managing the associated risks. Aside from taking responsibility for the safety of their own operations, the chemical distribution industry interacts with its customers and suppliers to maximize risk management measures and safe use. For more information visit www.icta-chem.org.