Mrs Adina Vălean
European Commissioner for Transport
European Commission
1049 Brussels

By e-mail

Brussels, 28 June 2021

Disruptions in Maritime Supply Chains

Dear Commissioner,

The global pandemic is creating a huge imbalance in the availability of containers between Asian and European and other western countries ports for sea freight. This imbalance is further exacerbated by the reduction in liner shipping capacity. This has serious consequences for our companies who rely on global supply chains for the products they sell.

As a result of the pandemic-related production stops and plant closures, more and more containers are being stored in one location and are no longer available for other destinations. This has resulted in a - continued - lack of availability of 20 and 40 inch containers in Asian ports. Maritime freight companies have reacted to the disruption caused by COVID by raising their rates, and have been holding back ships which were laid up, resulting in waiting times getting longer and longer. The World Container Index, an indicator of price developments for shipments on the main routes between Asia, Europe and America, has more than tripled since the beginning of the pandemic in early 2020.

Existing contracts are often no longer being respected, so that containers that were booked in good time are subsequently no longer available, nor at the originally negotiated price: charges for containers are now typically 2.5 to 3 times higher than the agreed contract price. For new contracts, prices are up to ten times higher than before the pandemic.

The lack of alternatives means that companies are forced to pay these higher prices, but even then there is no guarantee that delivery times will be respected, as shipping companies reserve the right not to transport containers if there is no equipment or supposedly no capacity available on a ship. Furthermore, shipping companies are frequently unloading containers at other ports than agreed in the bill of lading if there are bottlenecks at that port. Onward transport and possible costs for veterinary examinations at the arrival port have to be borne by the importers.

This significant disruption of supply chains is already leading to supply bottlenecks for certain imported finished goods and for intermediate products needed by European industry. But it is most acute in commodities offered in a low-price segment of one euro or less, such as canned food. With retail and wholesale operating at very low margins (typically 1-3%), the impact of this feeds through to the consumer. This disruption of supply could lead to shortages of food and other products which cannot be replaced by European alternatives.

Sea freight carriers are meanwhile reporting profit margins of 38% in the first quarter of 2021. After years of low profitability, they are now limiting the supply of shipping (arguably artificially) on the Far East-West Bound (FEWB) trade lane to take advantage of an already critical situation. They are free to do so in view of the recently renewed Consortia Block Exemption Regulation (CBER), which permits close cooperation between shipping line consortia to share space on vessels and to coordinate sailing schedules. This has led, as described above, to shippers and their end-customers facing decreased capacity, a substantial decrease of service quality and skyrocketing prices.

We would therefore ask the Commission to investigate the developments in the sea freight sector over the past two years closely and take steps to help restore a balance in shipping conditions, based on real market value.

I am copying this to Executive Vice-Presidents Margrethe Vestager and Valdis Dombrovskis.

Yours sincerely,

Christian Verschueren
Director-General