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Window on Washington: Container Crunch

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Like so much in life, the true impacts of the COVID-19 pandemic on the maritime industry will likely only become clear in retrospect. At the outset of the pandemic, industry stakeholders gathered on and off Capitol Hill, and with key Federal agencies, to discuss what kinds of assistance would be needed and when. As the cherry blossoms around D.C.'s famed Tidal Basin swung into full bloom, it became clear that the pandemic was going to impact different industry segments in very different and unique ways. The cruise and passenger industry quickly came under a paralyzing "no sail" order, but because the majority of those vessels and operators are flagged outside the U.S., it became apparent that any kind of Federal aid would be controversial. With people staying home and travel at a standstill, both the roll-on, roll-off and tanker sectors discussed applying for Federal aid, as did some bulk carriers. Container carriers, however, expressed hesitation and began to question the optics surrounding any request for relief.

Early signs suggested that things might not be all that bad in the box sector. Locked at home on the couch with a limitless diet of streaming home video, American consumers took to their phones and bought stuff. Lots of stuff. Stuff that came to them in containers. They bought PPE. They hoarded the sensible and the bizarre. Spending more time at home, many concluded that it was time to spruce up the place, upgrade the kitchen, take out a wall. Many built new outdoor and partially outdoor spaces, which became increasingly necessary for socially-distanced interaction. Sales at big box stores took off, supply chains strained, and shippers started complaining. Larger importers with sliding volume requirements service contracts were able to demand more and more volume under their agreements, in some cases more than doubling their demands for space. They still could not get enough. As they consumed more volume, even less space was available for smaller contract and uncommitted spot rate shippers. Rates eastbound from China climbed from $1500 a box to $4000 a box, and in some cases higher, within one service contract season. Smaller shippers complained carriers were walking away from commitments under service contracts with $1000 liquidated damages penalties and doubling their profit, even if the liquidated damages were recovered.

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