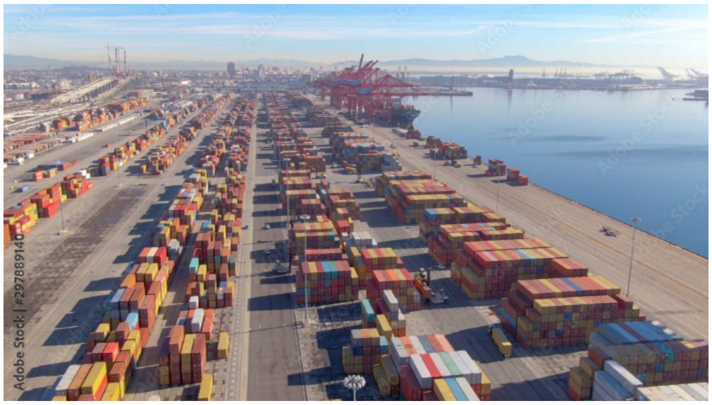
CHINA CENTRIC ASSOCIATES

SKYROCKET FREIGHT COST (PART 2 OF 2):

STRATEGIC CONSIDERATIONS



10% Higher Than Our Last Report

In the last Newsletter, "SKYROCKET FREIGHT COST PART 1: NEW NORMAL OR TEMPORARY", it was reported that the root cause of the increasing freight cost was port congestion, backlogs of empty containers returning to China, limited supply of liners, and high demand of shippers.

It is expected that these root causes will continue to worsen. Reports show that the situation has been further impacted by the operation disruption at Ningbo-Zhoushan Container Terminal Port in China, where an employee tested positive for COVID-19 in mid-August. (*Note: The Port is back to normal operation by end of August.*)

The spot freight rate from Shanghai to LA reached USD 11K per FEU; which is 10% higher than the rate in mid-August.

CCA Newsletter Sept 7, 2021

The CCA Newsletter is summary of articles about the Asia Business environment that is published bi-weekly. This month's topic is the Skyrocketing Freight Cost. Please follow-us on **Linkedin** for more.

About China Centric Associates

Since 2003, China Centric has assisted 250+ companies and 30+ Private Equity firms to develop and execute customized regional business strategies in China and Asia. We provide Consulting and Project Management, Outsourced Supply Chain Management and Hosted Facility and Administration.

Learn more at **www.chinacentric.com**

Your input is valuable to us

China Centric Associates always welcome your contribution of the questions and feedback to the subject of this newsletter. You are also welcomed to raise specific topics that you are interested. Our team members will make response to your request in quickest manner.

Spot Freight Rates by Major Route

Route	12-Aug-21	19-Aug-21	26-Aug-21	Weekly change (%)	Annual change (%)
Composite Index	$9,421	$9,613	$9,818	2% ▲	351% ▲
Shanghai - Rotterdam	$13,653	$13,698	$13,787	1% ▲	637% ▲
Rotterdam - Shanghai	$1,651	$1,650	$1,647	0%	35% ▲
Shanghai - Genoa	$12,993	$13,261	$13,464	2% ▲	594% ▲
Shanghai - Los Angeles	$10,322	$10,969	$11,362	4% ▲	235% ▲
Los Angeles - Shanghai	$1,461	$1,358	$1,398	3% ▲	170% ▲
Shanghai - New York	$13,505	$13,505	$14,136	5% ▲	262% ▲
New York - Rotterdam	$1,171	$1,154	$1,142	-1% ▼	107% ▲
Rotterdam - New York	$6,390	$6,435	$6,461	0%	164% ▲

Source: Drewry

Measures or Alternatives of the Stakeholders

The increasing freight costs are hurting all stakeholders along the supply chain. Changes are being made to reduce the risk of ocean freight obstruction by:

- Increasing the container supply by producing more containers – the Chinese government is coordinating with the container manufacturers to increase their output to 500,000 TEU per months (normally 410,000). Ministry of Transport (MoT China) advised that "Shortage of empty container requested has fallen to 1.3% since May"; about 12% down from the beginning of the year.
- Improving liners' capacity and efficiency – MoT China has been proactively providing guidance and assistance to liners operators and other concerned parties to increase the carrying capacity, improve container boxes turnover efficiency and monitor the costs/charges involved to stabilize freight cost.
- Using the China Railway Express as an alternative – the Chinese government has been promoting the CRE (Trans Euro Asia Railway) as an alternative for shipping cargos from China to Europe using inland freight cars. 700K TEU were shipped via CRE to Euro in H1 2021 alone vs 1.1 million TEU for 2020 which has been a significant increase.
- Using more vessels in the pipeline – In the first 5 months of 2021, a total of 208 new container ships were ordered globally (worth $16.3 billion). In 2020 and 2019, only 120 and 114containers, respectively, were ordered. The container ships on order will add 5 million TEU to the carrying capacity.

Will these alternatives help the situation?

The measures to ease the capacity measure mentioned above have certain shortfalls:

- Unexpected Disturbance of Port Operations is still a critical risk. There are new variants discovered from time to time which makes it difficult to prevent the COVID-19 outbreak. This is a new normal that cannot be avoided.
- Increase of New Build Container Supply may shorten cargo loading queuing temporarily. The number of empty containers stacking at the port of arrival will worsen if the gap of shipping volume continues.
- Most New Order Container Ships won't be delivered until early 2023, which means the carrying capacity will not have a major increase until the orders are delivered.
- 700K TEU in 6 months for CRE to Europe is only equivalent to 27,000 TEU (or 2 New Panamax Container Ships) per week, which is approximately 14% of the capacity for liners from China to Europe.

China Centric Associates Observation

Some shipping analysists claim that there are various indicators suggesting the shipping environment will ease in the upcoming months. However, the above shortfalls may prohibit easing of the current situation. Moreover, from Sept to November, it is normally the peak season for Christmas shipments. So, the shipping prices may stabilize in the next few months but will very unlikely decrease significantly.

China Centric Associates Recommendations

Shippers need to rethink their mid-term and long-term strategies to tackle this "new normal" including:

- Increasing the door-to-door lead time buffer in the schedule planning.
- Considering setting up safety stocks near targeted markets.
- Alternative shipping modes as backup plans in case of shortages.
- Consider rerouting cargos orders directly to other less congested continents before shipping to the final destination.
- Critically rethinking the current approach to packaging load more in a container- the high container cost provides potential benefits from packaging redesign.