How the container industry has changed due to Covid

By Kashief Schroeder

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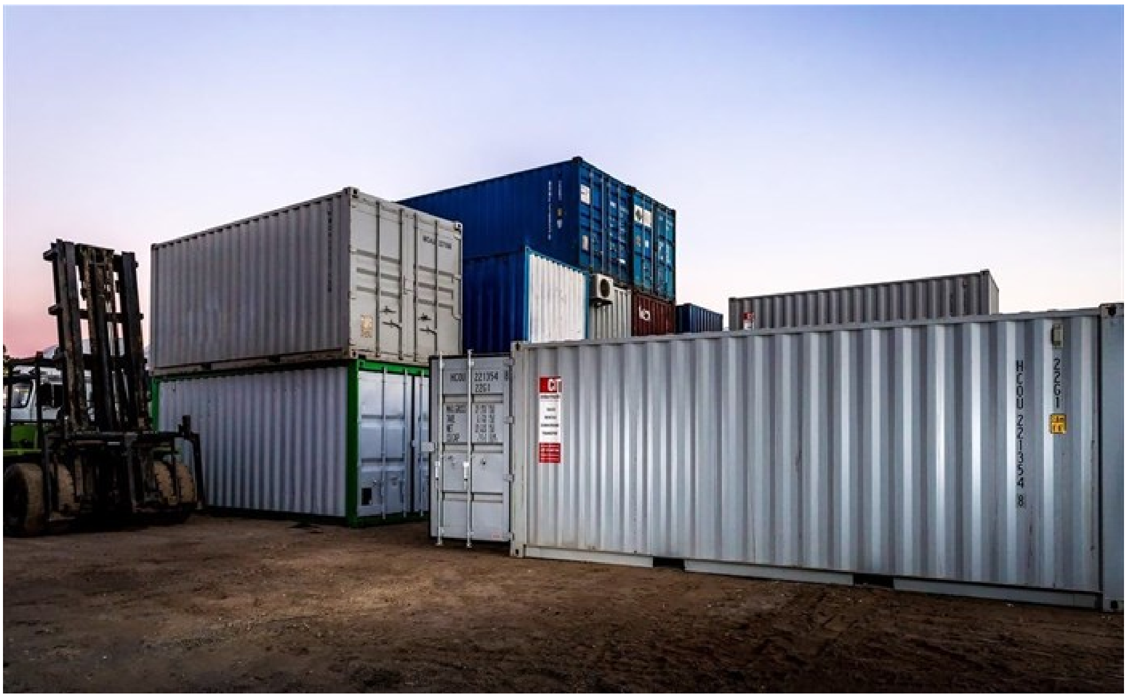
We rarely think of the journey our favourite items take before they reach us. That was until the ripples of the Covid pandemic threatened to hinder access to the necessities we have become dependent on.



Source: Supplied

To begin to grasp how important the international logistics landscape is to our daily lives, it is essential to realise that almost everything you touch has been in a container at some point on its journey to get to you. Either as a whole product or as the parts and raw material that make up the final product.

To say that the fluctuations in costs involved in containers and freight shipping rates impact our livelihood would be a gross understatement. As the world scrambled to adjust to operating in new conditions, there is no doubt that the shipping and container industry has changed drastically over the last two years. However, the question remains, what do these changes mean for the average South African consumer's bank balance?

Price increases at the factory level

Like any product, containers eventually age and need to be replaced with new ones. The container manufacturers that produce this stock play an indescribably pivotal part as they are the start of the entire intermodal process. One of the challenges facing the consumer at the moment is that the initial role container factories play in the global scheme means they have a huge influence on the cost chain of shipping.

When the initial cost of a container goes up, it causes a chain reaction whereby the price of shipping commodities also increases.

In hindsight, the price of containers did need to be adjusted as they were significantly undervalued as a trading commodity, and it is positive that container factories are realising their worth in the global logistics market. The prediction is that there will be a levelling out of the cost around the end of 2021, but as long as the demand for containers remains so strong that is far more likely to be the first quarter of 2022. Unfortunately, the downside is that as consumers we are left to shoulder the increase.

Price increases on container rentals

Also impacted are the leasing terms of second-hand containers as the price of new containers directly determines what the cost of second-hand prices are going to be. This inevitably leads to a global increase in price. Compared to last year when a new 20-foot general purpose shipping or freight container was approximately $2,100 dollars, this year’s price stands in excess of $3,700 per container.

“When the capital outlay to purchase a 2nd hand container is higher due to the original owners needing to cover their cost, companies like CIT, for example, are forced to increase rental rates to cover the increase.

Price increases on freight rates

The shipping lines were placed in a position where they needed to claw back the additional costs of the containers by renegotiating freight rates. Many of these lines have leveraged their necessity and begun running at half their capacity for a far superior freight rate. This has led to even some historically problematic shipping lines, declaring a profit for the first time in decades.

We see many shipping lines seizing the opportunity and capitalising on the necessity of their continued operation to the livelihoods of consumers and businesses alike.

Ultimately, the danger is the most severe for the small business entrepreneur and South African consumer as we feel yet more financial pressure and are left to deal with the increasing cost of products we rely on. The fact is that structurally these higher rates work better for the container manufacturers and shipping companies’ bottom lines, and they hold the power to increase these rates again going forward even if prices do equalise in 2022 as predicted.

It is a wonderful opportunity for us as South Africans to rethink our position and perhaps become more technically orientated, pour more resources into becoming again more manufacturing orientated and build a more diverse local economy that is not so reliant on imports for our survival.

As our economy struggles under the strain from the pandemic, we should work together to consider longer-term strategies to help protect us from increased consumer debt and decreased consumer savings in the future. Invest in our local economy and become more conscious of what and how we consume to mitigate the price increases that are out of our control.

ABOUT THE AUTHOR

Kashief Schroeder is CEO and co-founder of containerisation service company Container Intermodal Trading (CIT).