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SA importers, and the rising cost of vessels and containers

By Robin Fredericks

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The import sector has seen an increase in demand despite the disruption Covid-19 had. Research predicts a year-on-year increase in the real value of global trade.

However, while the sector is headed towards healthy margins, there are rising concerns around the availability of vessels, containers and their increasing pricing. Can SA importers keep up with these costs and will it affect their import consideration set?

kees torn via Wikimedia Commons

Here Dr Greg Cline, head of corporate accounts at Investec for Business expands on the above in more detail.

How is the trade sector looking in SA, specifically when it comes to imports?

South Africa imported US$69bn worth of goods from around the globe in 2020. That dollar value reflects a -21.8% decline from 2019 to 2020 due to the pandemic and the halt on global trade, but the sector is certainly picking up as global trade resumed and pent-up demand, growth opportunities and focus on global market recovery comes to the fore.

Investec economic data showed the economy contracted by 7.6% in 2020 with an anticipated growth of 2.9% for 2021. However, while the renewed appetite in the sector is headed towards healthy margins, there are rising concerns around the availability of vessels, containers and their increased pricing.

Available data shows that imports to South Africa increased by 4.2% from a month earlier to R97.9 billion in January 2021, due to purchases of vegetable products 28%, base metals 16%, vehicles and transport equipment 16%, and original equipment components 56% - however, should these concerns become a real challenge across the board, some of these good performing sectors may encounter delays in receiving shipments, which may delay recovery projections.

How is the lack of containers and vessels affecting imports and local stock?

Given the increase in demand of import volumes, particularly for intra-Asia and Asia-US routes, importers need to become smart in how they plan and book their shipments given the lack of containers and vessels. This challenge has caused up to a threefold increase in container shipping rates, some delay in shipments or in more drastic cases an inability to place an order for new shipments which of course, has the potential to impact a business's ability to continue operating or meet the demands from its customers.

While locally, this challenge hasn't yet affected most business's ability to meet supply and demand, in the long run, if not managed properly, certain industries may encounter some challenges, therefore, making it crucial for importers to partner with a reliable and experienced import partner with a full view of the sector and its challenges to ensure all possible risks and disruptions can be mitigated as far as possible.

Cost – how can importers mitigate the cost that comes with demand exceeding supply?

By having guaranteed fixed prices up front, importers are able to determine the accurate profitability and viability of a product before committing to an order. With greater visibility comes improved control of relationships, costs and availability of the product – all of which goes a long way to operational efficiency and in turn, cash flow.

However, with less carrier consolidation than on deep-sea trades and major regional players competing for cargo, what was once deemed low-cost shipping routes have now increased prices due to the demand. However, these cost implications put importers in a tough position where they end up having challenges not only in ensuring their shipment arrives when needed and expected due to lack of container availability but also the curveball of increased prices which may increase operating cost and put a strain on working capital - meaning having to reschedule or re-negotiate with suppliers to ship at the next available date or alternatively to look at trade finance options.

Working with a reputable finance partner can help facilitate with upfront costs associated with import transactions which in turns improves business cash flows thereby releasing working capital.

The available working capital allows business to deploy cash elsewhere and focus on the day to day running of the business - allowing opportunity for growth by removing the administration and complexities synonymous with the import process and even more so now, in such a turbulent market.

Trade finance is also not necessarily only for companies that need the funding. Even companies that are cash-flush may wish to preserve their working capital for other projects or as a buffer in case credit becomes tighter. When you add the funding component to the logistical component, you start to develop a really good idea of the working capital benefit that can be accrued and used elsewhere in the business.

What can we expect from trade in 2021?

• Firstly, while the sector is well on its way to a recovery of 7.6% increase as predicted in global trade for 2021 – we still need to plan on how the sector can continue its growth projections while operating in a Covid stricken world.

• If lockdown restrictions continue to ease or remain, the trade sector will continue to improve however, however with talks of a possible third wave, the sector will likely be affected once again and so planning for all possible outcomes becomes crucial.

• In fact, pre-planning is more crucial than ever. Last minute planning usually means cost implications as delays can occur and overall efficiency can be compromised. Planning also not only allows you to take advantage of specials for set prices for example, but also allows you to take advantage of shipping with full container loads which mean you pay less for shipping costs than those that are on less container load shipments. Additionally, by having views up front, you can mitigate risks, streamline processes and ultimately keep costs down.

• Market uncertainly is also driving businesses to tighten control over their logistics process – where trade finance is now being viewed as a broader import finance solution rather than just a transactional one. This flexibility is critical in uncertain markets and importers are looking for this option to mitigate risks. In fact, many of our customers are looking at just this – indicative of the shift in the market.

• The pandemic has resulted in accelerated technology spend, with physical and financial supply chain services moving to online and app-based platforms providing for greater visibility and control of imports

What role can trade finance play in mitigating risk and allowing for capitalisation in this space?

With businesses continuing to find their feet in an ever-changing economic climate since Covid hit, the trade industry has also been trying to adjust to the fluctuations of market demand. And with trade finance accounting for 3% of global trade, worth some $3tn annually and as such will continue to play a critical role and can be seen as a catalyst to ensuring business continuity and maintaining market relevance in an unforgiving economy.

By financing the cost of goods as well as the forwarding, clearing duty and other local costs involved in the import transaction, working capital that is tied up in imports can be released and payment terms that closely match the cash flow cycle can be established. For business limited by cash flow, this is a life-saver – especially in a tough economy.

Couple this with facilitation of every aspect of an import transaction from order placement, confirmation and tracking through to the hedging of foreign exchange risk and the management of import logistics until delivery to the warehouse means the full process can be tightened and controlled further which mitigates risks and allows for further capitalisation and growth.

ABOUT ROBIN FREDERICKS

Editor at Bizcommunity.

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