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The impact of COVID-19 pandemic in freight forwarding and international relocations industries

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Abstract

It has been reported globally that the entire freight forwarding industry is facing a severe disruptions since the start of COVID-19 pandemic. It has created a ripple effect supply chain crisis all across the globe. This is unfortunately an industry phenomenon that is impacting every industry and sector, including international relocations of household goods and personal effects. Apart from lack of availability of cargo space, long delays, schedule changes and last minute re-routings have become a common occurrence, while global ports deal with port congestion and backlogs as a result of COVID-19 closures. Ships are sometimes stuck outside ports for weeks awaiting clearance to dock, unload and reload their cargo while some routes have even been suspended indefinitely.

Kulcsszavak: *international relocation, freight forwarding, pandemic, congestion, container shortage, ocean freight*

1. Introduction

International relocations, however small sub-branch of logistics, are just as complex. It is not enough, for example, to know only one transportation mode and gain great experience in it. If I want to be precise, it is by no means enough having experience in certain sub-sectors of logistics to arrange an international relocation.

The relocation of household goods and personal effects is a very sensitive and demanding task. Who would not have a personal item in their home that they are very attached to, which is irreplaceable? Something that seems worthless to others, but invaluable to the individual. It is always recommended to customers to take the priceless and irreplaceable items with them during their trip, whenever it is possible. Of course, this is not always feasible, as such an object can even be a piece of furniture or a painting, which is quite difficult to check in as luggage on a flight.

The international relocation itself is not too complicated process:

- Pre-move survey

- Preparation and acceptance of quotations
- Full international packing and dismantling of furniture
- Loading of household goods and personal effects from residence at origin
- Export customs clearance
- International freight (via air or via surface)
- Import customs clearance
- Delivery to the residence
- Unloading of household goods and personal effects to residence at destination
- Full unpacking and reassembling of furniture
- Removal of used packaging material (debris) on the day of delivery

However, an international relocation is not always that easy. Relocation of two similarly sized shipments in the same relation can also generate two completely different problems. There is never time to get bored, due to the complexity of international removals, a lot of processes have to be coordinated at the same time in order to make sure that the customers feel as little as possible of any problems that may arise during their door-to-door move.

2. At the beginning of COVID-19 pandemic in 2020

In the spring of 2020, governments put their countries or parts of their countries under lockdown one after the other. No one knew the new "enemy" we were facing and how long the closures would last. Everyone was just guessing what would happen next.

Multinational companies have temporarily suspended the business travels for their employees. Business conferences were cancelled. Companies temporarily frozen their recruitments from foreign countries, but some people, although they had a signed contract, were unable to show up at their new (foreign) duty station due to travel restrictions. Business travels were permanently affected by the pandemic with employees living in new locations creating different travel patterns.

In the international relocation industry, life has come to a standstill. As multinational companies suspended or postponed the recruitments of foreign workers, the international removals were also postponed. The already planned moves were also cancelled by the customers, from one side they could not travel at the desired time, and on the other hand they were afraid to let the moving crew into their homes because they were fearful that they would become infected with the unknown virus.

In addition to the sequential removals cancellations, the industry has had to face with new problems. Although the shipments in route during the lockdown reached the airport or seaport of destination, they did not make it any further there because the Grand Handling Agents at the airports or the Port Agents at seaports or the Customs Authorities either did not work or their working hours were drastically reduced. There were also destinations where the ships were not allowed to dock, so that although the vessels reached their destinations, waited around the ports for weeks, whereupon the authorities allowed the ships to dock. Expeditiously it generated tremendous port congestions and backlogs at sea- and airports.

As shipping lines were unable to empty their containers on time that resulted container shortages relatively quickly around the world. Delays, re-routings and increased transit times have generated additional charges that neither the shipping companies nor the port agents have taken on. Thus, if someone wished to collect their shipment, they had to pay the excessive demurrage and port charges first.

Due to delayed deliveries, there has been a shortage of all kind of commodities around the world. Let's just remember the toilet paper shortages at the start of lockdowns. On one hand, with the closure of offices, the need of households has increased, at the same time, the demand for larger rolls used in offices has decreased. The market was quite slow to react due to transport difficulties and delays, resulting in a rapid shortage, which was also contributed to by people's hysterical acquisition. Another great example is the deficiency of microchips that is still not solved.

Airlines and shipping lines are prioritizing the commodities when accepting booking for freight. Medicines, vaccines, blood samples, perishables, foodstuff always had priority, while household goods and personal effects consistently had least priority. During the pandemic the gap has just widened, there were periods and relation when and where it was almost impossible to book sea- or airfreight for household goods and personal effects. As a consequence, shipping fees both via air and via surface in the international relocations industry have significantly increased.

3. The story continues in 2021

Congestion at ports around the world has meant that only 40% of container ships arrived on time in the first quarter of 2021 according to the reports released.

Based on Sea-Intelligence reports the transit time significantly increased to Asian, European and even to US seaports. Normally the sea transit time is fourteen days from Shanghai to Long Beach port, however in 2021 the time increased to over thirty days. It does not mean that the sailing time has increased, it is the same, and however, vessels spend twice the time waiting to be unloaded (Sea-Intelligence, 2023).

Hapag-Lloyd have been diverting its ships to less-congested ports and has bought an extra 450,000 containers since 2020 to add to their capacity. Hapag-Lloyd reported the congested supply chains present a huge challenge to all market participants. In the middle of 2021, Hapag-Lloyd ordered 6 more 23,500 TEU (twenty-foot equivalent units) ships. “The German shipping line said announcement the new container ships will be outfitted with a state-of-the-art high-pressure dual-fuel engine that will be extremely fuel efficient. Their engines will operate on LNG but the vessels will also have sufficient tank capacity to operate on conventional fuel as an alternative” (Freight Waves, 2023).

The Federal Maritime Commission (FMC) in the United States has signed an agreement with the antitrust division of the Department of Justice, as the Biden administration attempts to prevent anti-competitive behavior. Predictably the agreement will increase oversight of foreign ocean carriers that serve American international container trade lanes. The government has encouraged the FMC "to take all possible steps to protect American exporters from the high costs imposed by the ocean carriers" and to "crack down on unjust and unreasonable fees, including detention and demurrage charges" (Competition Policy International, 2023).

In the summer of 2021, European companies involved in international relocations encountered difficulties from increasing ocean freight costs and a shortage of shipping capacity as they attempt to overcome travel and visa restrictions that have impacted the market over the last twelve months. In addition, finding space on a vessel for household goods and personal effects is causing further delays in shipping. The relocation companies reporting up to 6-8 weeks lead time to secure a booking on a ship bound almost to any destinations (Fédération Internationale des Déménageurs Internationaux, 2023).

In the fall of 2021, international relocations companies experienced further pressure as ocean carriers start to reduce the amount of import container free time at North European ports.

Importer corporations, struggling with congested ports from Le Havre to Hamburg and a shortage of container trucking, are receiving little or no notice about the reduction in free time (the period that a container is allowed to remain in the port before incurring port storage, detention and demurrage charges). According to the Shipping lines the reduction in free time at ports provides motivate to take delivery of shipments more expeditiously.

The situation was even more critical in the United Kingdom where Evergreen Shipping Company informed the shippers that with immediate effect, the free time at the Port of Southampton reduced from seven days to five (The Load Star, 2023).

4. Present situation

Regrettably, the circumstances in the relocations industry did not significantly change in 2022. Challenges remained for international relocations companies. Industry news were coming regularly from different parts of the world to keep the international relocations companies in the loop.

"The Port of Long Beach set another new single-month record in April as the port continues to clear marine terminals of cargo ahead an expected new wave of imports in the coming months as China opens up from COVID-19 lockdowns.

Dockworkers and terminal operators at the port moved 820,718 twenty-foot equivalent units (TEU) worth of container cargo last month, up 10% from the previous monthly record set in April 2021. April now marks the fourth month in a row that the Port of Long Beach has set new monthly cargo records" (G Captain, 2023).

The United States Federal Maritime Commission has approved a settlement that will force Hapag-Lloyd to pay a 2 million US dollar civil penalty for their detention and demurrage practices.

"We must ensure powerful ocean carriers obey the Shipping Act when dealing with American importers and exporters. The case that was concluded today is just part of an ongoing effort to investigate any conduct alleged to violate FMC rules – and in particular, the interpretive rule on detention and demurrage charges," commented the chairman of Federal Maritime Commission, Daniel Maffei (Shipping and Freight Resource, 2023).

According to Maersk (the world No. 1 container shipping company), the ocean freight costs has increased with average 25-30 percent since the start of the pandemic.

"Logistics is very energy and labour intensive, and those are two of the areas of the economy that are subject to significant inflationary pressure" (Reuters, 2023).

4.1. Comparison of ocean freight rates

I have prepared the below table to demonstrate the increase in ocean freight rates from Asia to Europe. I have compared 20' and 40' FCL (full container load) charges for Laem Chabang, Thailand/Naples, Italy relation.

Table 1 – Comparison of Ocean Freight Rates 2019-2022

Laem Chabang port, Thailand - Naples port, Italy		
40' box container		
Ocean freight rate	*Currency*	*Date*
3,020	USD	August, 2019
10,880	USD	March, 2021
13,972	USD	August, 2021
15,950	USD	June, 2022
20' box container		
Ocean freight rate	*Currency*	*Date*
2,195	USD	August, 2019
7,925	USD	July, 2021
9,025	USD	September, 2022

Source: own data collection and editing

The table properly indicates that the ocean freight rates for containers from Asia increased not only with 25-30 percent, but the current rates are 4-5 times higher than before the pandemic.

The situation is similar in South Korea, the current charges shows 400% increase in 2022 compared to 2019.

Table 1 – Comparison of Ocean Freight Rates 2019-2022

Incheon port, South Korea - Naples port, Italy		
40' box container		
Ocean freight rate	***Currency***	***Date***
3,460	USD	October, 2019
3,550	USD	October, 2020
16,345	USD	July, 2021
14,400	USD	April, 2022
14,400	USD	May, 2022

Source: own data collection and editing

In the meantime, there are areas where there is no drastic increase in the ocean freight rates, but only the said 25-30%. Please see Chile as an example:

Table 2 – Comparison of Ocean Freight Rates 2019-2022

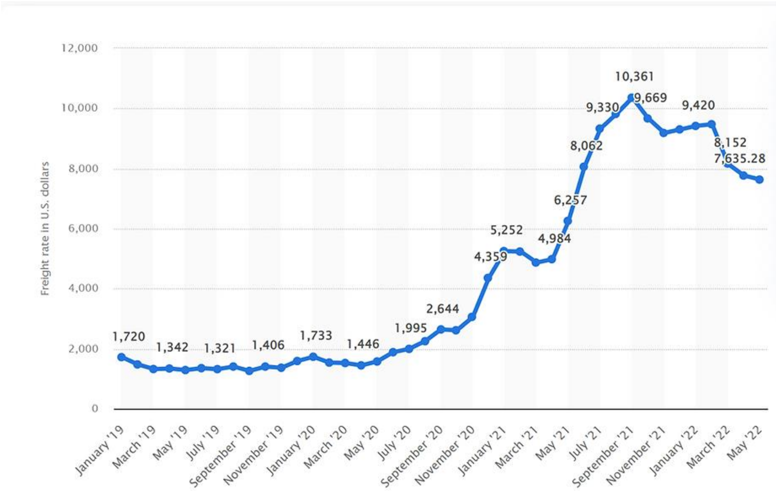
San Antonio port, Chile - Naples port, Italy		
40' box container		
Ocean freight rate	*Currency*	*Date*
2,210	USD	January, 2019
1,592	USD	December, 2019
1,930	USD	November, 2020
2,093	USD	July, 2021
2,650	USD	February, 2022
20' box container		
2,000	USD	July, 2018
2,000	USD	August, 2019
2,050	USD	December, 2020
2,070	USD	November, 2021
2,550	USD	July, 2022

Source: own data collection and editing

4.2. Statistics

"In the third quarter of 2021, main container shipping companies had an average profit margin of over 56 percent, up from about 8.5 percent two years earlier. Some of the carriers are using these profits to increase their carrying capacity by buying new containers and ordering new container ships. However, delivering newly ordered ships is still years away" (Statista, 2023).

Table 3 – Global container freight rate index from January 2019 to November 2022

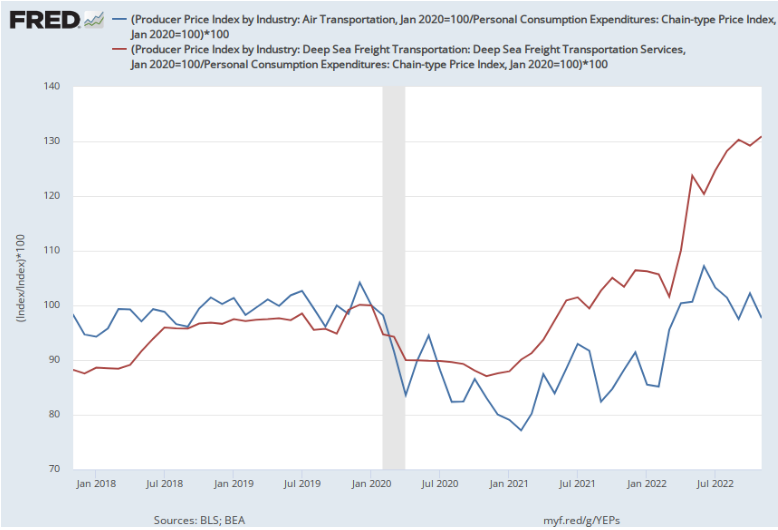


Source: Statista

The below FRED graph shows deep sea freight and air freight price indexes. The price indexes demonstrate the growth in the real price of shipping.

In March 2020, when the pandemic hit the world, first the indexes decreased, but then both indexes started ascending. In the middle of 2021 the deep sea freight index incremented above air transportation. By middle of 2022, the air transportation index recurrence to pre-pandemic altitude, while regrettably, the price of deep sea freight remains enhancing (FRED Economic Data, 2023).

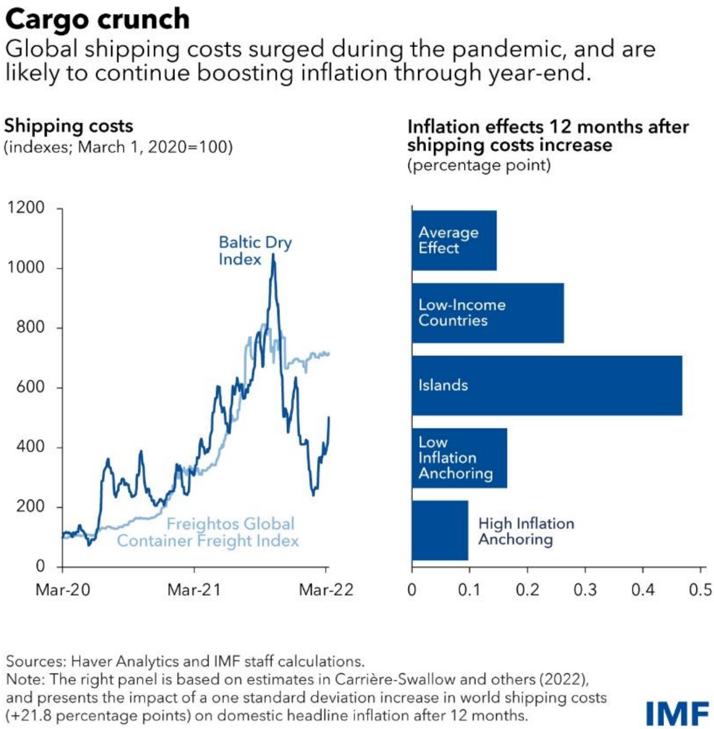
Table 4 – Producer Price Index January 2018 - July 2022



Source: Fred Blog

According to the study of IMF "shipping costs are an important driver of inflation around the world: when freight rates double, inflation picks up by about 0.7 percentage point. Most importantly, the effects are quite persistent, peaking after a year and lasting up to 18 months. This implies that the increase in shipping costs observed in 2021 could increase inflation by about 1.5 percentage points in 2022". The study also point out that the increase of shipping costs affect inflation in some countries more than others. Countries, whose consumption is more from importing goods than own produce face greater inflation (International Monetary Fund, 2023).

Table 5 – Shipping cost indexes March 2020-March 2022



Source: IMF Blog

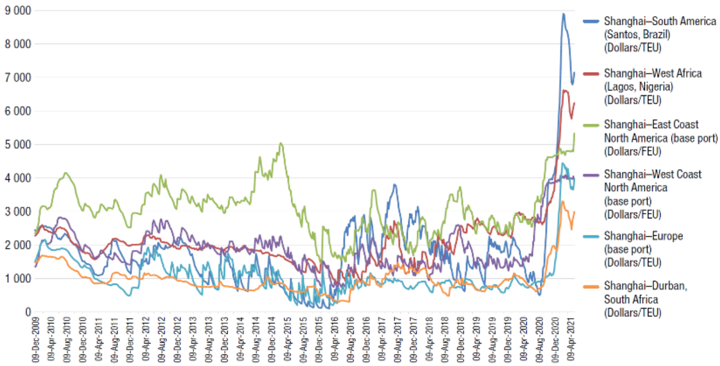
According to United Nations Conference on Trade and Development (UNCTAD), transport charges are significant part of trade costs, therefore the continuous increase of freight charges raise difficulties to the world economy (United Nations Conference on Trade and Development, 2023).

80 percent of the world's consumption is shipped via sea, as a consequence the charges of a container freight influence on global trade. At the beginning of the pandemic the demand for container shipping decelerated for a short while, but then had a massive growth (United Nations Conference on Trade and Development, 2023).

"Currently, rates to South America and western Africa are higher than to any other major trade region. By early 2021, for example, freight rates from China to South America had jumped 443% compared with 63% on the route between Asia and North America's eastern coast" (United Nations Conference on Trade and Development, 2023).

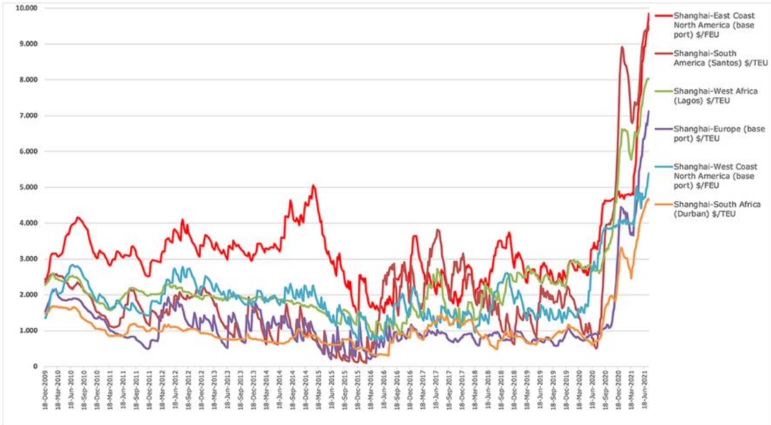
The lack of return consignment explains the main reason of the extensive increase as it is very costly to ship the empty containers back to China (United Nations Conference on Trade and Development, 2023).

Table 6 - Shanghai containerized freight index, weekly spot rates, 18 December 2009 – 9 April 2021



Source: UNCTAD

Table 7 - Shanghai Containerized Freight Index (SCFI), weekly spot rates. 18 December 2009 to 23 July 2021, selected routes



Source: UNCTAD

4.3. The International Federation of International Movers (FIDI)

The International Federation of International Movers, in French: Fédération Internationale des Déménageurs Internationaux (FIDI), is based in Zaventem, Belgium. FIDI is the largest global federation of international relocation companies, with members in more than 100 countries. FIDI members have one thing in common, and that is the high quality of service, which they can prove. FAIM – FIDI Accredited International Mover – is a quality label that is mandatory for all FIDI members. The strictest and most comprehensive quality standard for the international removals sector, regularly audited by an independent third party, Ernst & Young (Fédération Internationale des Déménageurs Internationaux, 2023).

Like any industry, the international relocations industry is constantly changing. The FAIM program has been developed for nearly 25 years and is constantly evolving to meet the current needs of the industry. Certified members must not only meet operational requirements related to quality of service and supply chain management, but also ought to be financially and organizationally stable (Fédération Internationale des Déménageurs Internationaux, 2023).

In addition to certification, FIDI provides several services:

- FIDI Academy
- FIDI Conference
- FIDI Payment Protection Plan
- FIDI Charity
- FIDI 39 Club (Fédération Internationale des Déménageurs Internationaux, 2023)

4.3.1. FIDI Conference in 2022

In 2022, FIDI held their annual conference in Cannes, France. The members discussed the current situation and forecast of the industry.

FIDI reported that the invasion of Ukraine upended a region that was just emerging from the pandemic. “The moving business started to develop after COVID and clients started again to plan expansions into new locations”. However, following the invasion, “investments are on hold; nobody dares to decide as the situation is very fluid”. With the war expected to continue for some time, companies in countries impacted by the conflict are moving from short-term emergency relocation needs to meeting longer term solutions, with more global companies requesting long-term assistance including work and residence permits, school assistance and housing (Fédération Internationale des Déménageurs Internationaux, 2023).

4.3.2 FIDI has written to the European Commission

Brussels-headquartered international moving federation, FIDI, has written to the European Commission to demand a review of its competition regulations for container shipping.

FIDI and IAM (International Association of Movers) representing numerous international moving and relocation industry associations have urged the European Union to review the practices of the container shipping industry against the European Union Consortia Block Exemption Regulation.

The European Union regulation removes container shipping lines from many of the competition law checks and allows them to exchange commercially sensitive information to manage the number and size of ships deployed and the frequency and timing of sailings on trade routes around the world (Container News, 2023).

According to FIDI, European businesses have suffered huge disruption to the movement of goods by container shipping with many sailings being cancelled or diverted to other ports. At the same time shipping rates remain 3 to 4 times higher than before the pandemic.

The letter to the European Commission points to the example of the recommendations by the Federal Maritime Commission in the United States that resulted in the new Ocean Shipping Reform Act (Fédération Internationale des Déménageurs Internationaux, 2023).

5. Conclusions

Unfortunately, with the continued impact of the pandemic, the situation in the airfreight and shipping sectors remain instable and uncertain; air and shipping operations have been severely disrupted, with reduced frequencies, airport and port congestions, containers and equipment shortages causing a ripple effect and resulting in huge backlogs and price increase all across the world.

The increase of ocean freight charges made the international relocations considerably expensive that employers needs to swallow. For example, if a newly recruited staff member lives in Bangkok and relocating to Rome, the organization needs to cover the charges of the relocation in this relations despite the fact that the ocean freight charges have increased with 4-500% in that area. The company would not decide to hire someone from Chile, only because the ocean freight rates in South America are less expensive.

The transportation charges always had an impact on the inflation. In case transportation charges are more expensive, the retailer price of the products are increasing, because the entry price of the product is also enhancing.

Furthermore, the current Ukraine-Russia war will lead to further difficulties in supply chains that could maintain the ocean freight charges together with their inflationary effects higher for longer period.

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