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Supply chains strained by misplaced shipping containers, grounded flights, high prices

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RPN image by Michael McCrady

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This is not a supply-demand issue. It's a logistical nightmare—a big, tangled mess of empty shipping containers, grounded airplanes and consumer demand surges.

And there isn't much anyone can do. In fact, Whitney Luckett is down to waiting—waiting for the cargo ships to move latex from Southeast Asia to customers in the U.S.

"I am still sitting on January cargo that has not moved from Vietnam," said Luckett, founding president of Southland Rubber Inc. and principal owner of Simko North America L.L.C. "That cargo normally would be in manufacturing plants by now, and I can't get it out of Vietnam."

She's not alone.

Across the North American rubber industry, product manufacturers, custom mixers and suppliers said they have seen three- to four-month delays in the shipping of goods and materials. It's a direct result of the COVID-19 pandemic, both in the way it forced shutdowns worldwide and in the way it shifted consumer demands, spiking the need for products such as personal protective equipment, electronics and at-home gym equipment.

But the underlying problem may not be what you think.

"People think we have a container problem," said Mahesh Srinivasan, associate professor of supply chain and operations management and director of the Institute of Global Business in the College of Business Administration at the University of Akron. "It's not quite that there are not enough (containers) in the system, the problem is: Where are they?"

Mahesh Srinivasan

During the COVID-19 crisis, U.S. ports were backlogged as economies ground to a halt and the spread of the virus left ports—particularly in hard-hit California—short-handed. That bottleneck was compounded by the imbalance of trade.

What has resulted is a whole bunch of empty shipping containers in locations that aren't exporting as much as they need to import.

"If we take U.S.-China trade for example, we import more from China than we send to China," Srinivasan said. "When we look at the imbalance, there is more coming in and not enough going back. Obviously, that's an issue. If you are not sending enough goods back, you aren't sending back containers to get enough shipments coming in."

But it's not just in North America where containers are stuck. *The New York Times*, in an March 6 article exploring the issue, said that the surge in deliveries of PPE around the globe during the pandemic has fueled the container location problem, leaving empty containers stranded in regions like Africa, where exports aren't high enough to return them.

Rubber industry impact

This container location issue is the root of many shipping delays, and for the North American rubber industry in particular, that's problematic, according to Eric Sharp, CEO of Ace Rubber Products & Consulting L.L.C.

North America is reliant on Asia for raw materials and chemicals. When a small blip turns into a larger logistical headache, the North American rubber industry doesn't have much wiggle room.

"The U.S. is not fully sufficient in being able to supply its own rubber materials," Sharp said. "Some of that came to light during the peak of the trade wars. We were reliant upon imports for things that were tariffed under a blanket tariff, but we also don't necessarily make those things in the States."

Shipping complications now are putting some of those needed materials in short supply—at least in terms of accessibility. Natural rubber and EPDM are just two materials that have suffered from the more problematic delays.

"There are two parts to things," Sharp said, "…but if you dive deep into the capacity issue, a lot of capacity on the raw materials side is a logistics issue."

As companies across the board battle for precious cargo space, shipping costs are escalating, which has potential to make small shipments unaffordable. Srinivasan notes that China-to-U.S. shipping costs have increased 200 percent year-over-year to about $4,900 for a 40-foot-equivalent unit.

Erick Sharp

Week-over-week freight rates have increased between 4 and 5 percent of late.

Moreover, high-value consumer products or consumer products that are in high demand get priority on available cargo ships, bumping the smaller-load, niche materials that are essential to the rubber industry.

Chemicals—especially those such as actuators—are most impacted because they have overall smaller shipments and the comparative demand is low.

"The more niche the product," Sharp said, "the bigger the risk."

Securing affordable cargo ship space may be only half the battle, especially when shipping to California ports. Those ports are experiencing unloading delays due to worker shortages and import surges, both results of the coronavirus spread and consumer demand in the wake of stay-at-home orders.

Mousa Kassis, director of the Ohio Export Internship Program and Ohio Small Business Development Corporations Export Assistance Network, discussed the concerns during a webinar hosted by the ACS Rubber Division on Feb. 24.

"If you look at Long Beach and San Diego, you see the containers waiting in the ocean for about four weeks," Kassis said. "That means, also, containers (are slow to) move from the beach all the way to the warehouses."

That delay in unloading has a domino effect: Transportation to warehousing takes longer, which delays trucking and further decommissions containers that normally would have been filled with cargo and sent somewhere else.

"This is a really well-oiled machine that was operating with nearly ballet-like timing," Tor Hough, CEO of Elm Analytics L.L.C., said of the shipping industry. "It got thrown off in one place, which threw off the next and threw off the next. It's snowballed."

By air and by land

Shipping delays and skyrocketing costs go well beyond poorly placed containers and floating cargo ships.

Air freight, it turns out, has problems of its own.

Matthew Portu, president of Freudenberg NOK Sealing Technologies' North American operations, will be among the first to say so. In recent weeks, the auto supplier has been fighting for air freight—precious cargo space on commercial airlines whose flights have been grounded and scaled back amidst the COVID-19 pandemic.

Commercial flights relied upon to transport auto parts were grounded during the COVID-19 pandemic, cutting into shipping options.

"Right before this meeting, I was on a call and we were fighting pretty hard to get some things on an aircraft," Portu said. "Perhaps it's little known, but the commercial flights we take have a decent amount of automotive products on them. And those planes aren't flying."

The squeeze on available air freight space—both through commercial airlines and air freight companies—is causing costs to skyrocket. Prior to the pandemic, Kassis said, air shipping costs were around $2 a kilogram.

Today, they're about $8 per kilogram.

The trucking industry, likewise, has seen its share of challenges as a direct result of the pandemic.

Trucking, Srinivasan said, is like any other industry. It has big players and small players, and the balance is a delicate one. Last year's shutdowns and slowdowns weighed heavily on small trucking companies and put many out of commission, leaving mostly large companies to pick up the slack.

"If you look at the trucking industry, it used to be highly fragmented," Srinivasan said. "You used to have a lot of truckers and small lease truckers… and what has happened is—and we see this across the board—the small guys and the small players don't have the sustaining power. … The power is with the big people right now, and that definitely is causing capacity issues."

That leaves companies fighting for space on trucks, just as they fought for space on planes and ships.

"International shipping has been slow, even simple things like getting a coil of steel on a truck in the U.S. has been more difficult," Portu said. "It's something we are all struggling with."

Trucking capacity issues also have caused further price spikes in shipping, as much as 25 to 30 percent in most cases, Srinivasan said. Average trucking costs are around $2.50-$2.60 per mile today, up from $2 per mile last year, he said.

"If you are contracting with trucking, you can't expect to get the same rates you have been getting for the last few years," Srinivasan said.

Matthew Portu

As shipping concerns linger across transportation type, suppliers are doing all they can to get the needed materials and products to customers. Corrie MacColl Ltd., for instance, has broadened its shipping capabilities as much as possible, according to Ryan Wiener, global head of sustainable development and strategic marketing.

"Shipping delays and the spike in rates led to us increasing lead times and increasing providers/carriers so we could get space," Wiener said in an emailed statement. "We increased communication between central logistics and our global commercial teams, so everyone was up-to-date with any issues, which we relayed to our customers."

Meanwhile, rubber product makers are doing what they can to adjust to the near-term shortage of materials caused by delays across the board, even if it means securing different suppliers to fill in short-term gaps. Whether on the natural and synthetic rubber side or the chemical side, they're making adjustments.

But those adjustments also require additional testing to be sure that the products made with materials from different suppliers still meet the company's demands. This has led to a small surge in business for Ace.

"With polymers we are seeing the effect across the board, especially for our customers," Sharp said. "We are being exposed to this through our customers, where our customers urgently need to get another supplier through and verified. We are seeing a lot of those approval requests come through."

Supply chain management

Right now, it may seem as if there is little good to be found in the global logistical entanglements that have gripped the rubber industry and its end markets. But Hough believes the weaknesses exposed by the pandemic-induced supply chain complications are opportunities for real growth.

The trucking industry has been stretched thin in the wake of the COVID-19 pandemic.

And that growth likely comes from rethinking supply chains altogether.

The inefficiencies of just-in-time manufacturing have hit the auto industry prominently this year. Shipping delays and shifts in product demand led to microchip shortages that forced auto makers to scale back production.

Hough isn't surprised. There are risks along every supply chain. Historically, the rubber and automotive industries are strong enough and adept enough to circumvent the challenges.

"Supply chains will fail," Hough said. "No matter how well you plan, they will fail. How you respond to that failure is what sets you apart from others."

Ultimately, he believes markets will adapt and industries will realign. They will find ways to reinforce the weakest links, and may do so in unusual ways.

"Lean manufacturing, as we know it, is not sustainable for products or commodities," Hough said. "You have to have some inventory on shore if you are going to have a 15,000-mile supply chain. You have to have on-shore inventory to buffer problems that happen upstream and across that 15,000-mile supply chain."

But there's an incongruity between what may be good business practice and what is good business practice on paper. Moving away from a just-in-time supply system to ensure a several-month window of parts and supplies seems like good business, allowing companies to react in real time to supply chain hiccups.

Tor Hough

But that's not an approach that Wall Street rewards.

Hough believes the market will find a way to accommodate the inconsistencies and bridge the gap. After all, he said, "the market always finds a way."

"I have talked to others in the industry who back the theory that what we will see happen in the next couple of years is a new ecosystem developed by someone in the middle … that will hold inventory on consignment," Hough said. "It won't be on the books of a manufacturer or the large Tier 1, but that store of parts will have to exist someplace if we are going to have efficient countermeasures against what we have seen."

Only time will tell when and how the logistical logjams work themselves through.

In the meantime, rubber industry manufacturers and suppliers are left fighting for cargo space. From there, it's just a matter of waiting.

"Unfortunately," Wiener said, "there is very little you can do in these situations except for manage the situation best with your team and customers, which I think we did very well."

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