

UNDERSTANDING THE EFFECTS

OF THE SHIPPING CONTAINER SHORTAGE ON RELOCATION

GRAEBEL HELPS CUSTOMERS AVOID DELAYS AND PLAN ACCORDINGLY.

The global steamship industry has faced difficulty over the last few years. The falling dollar and slow global economy caused cargo to decrease significantly. In response, shipping companies throughout the world cut their capacity, which in turn caused shipment container manufacturers to cease production.¹

Now, the global economy is starting to pick up steam, and shipping companies are seeing renewed demand in shipments. Unfortunately, the shortage of shipping containers, increasing fuel costs, and the slower recovery of the U.S. economy will continue to impact timelines and costs for international relocations. With these combined challenges looming, ocean carriers and forwarders are already predicting higher freight rates for later in 2011, similar to the peak-season surcharges of up to \$750 per 20-foot container for the Asia-Europe route that were imposed last year.²

After all, using vessels to transport household goods for international relocations is more economical than air shipments of property that is not immediately required to set up a household. Therefore, the problems facing the steamship industry could continue to add time and cost burdens to companies transferring employees for international assignments.

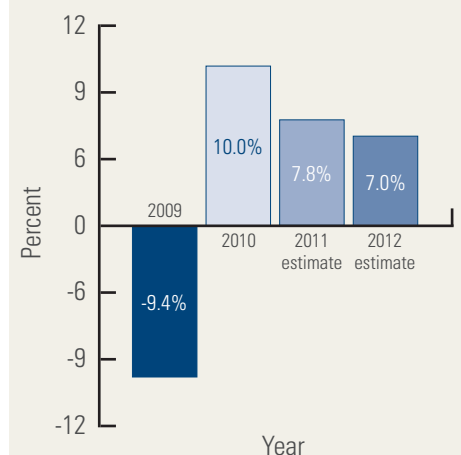


THE CONTINUING SHORTAGE

In 2009, global container trade experienced such significant declines from the recession that it caused container box sales to decrease by 89-percent.³ As a response to the sales decrease, companies stopped producing new boxes and instead focused on manufacturing reefer and specialized equipment.⁴ The drawback to this strategy is now in full force – cargo capacity is on the rise, ocean carriers need to purchase new containers, and supply is limited.

During the recession, companies delayed purchasing new containers that would supplement their supplies and replace containers that had reached their average lifespan of 10 years. Historically, the container shipping industry replaces 5.1-percent of boxes annually; however, in 2010, only 3.2-percent were replaced.⁶

FIGURE 1. YEAR-OVER-YEAR GROWTH OF GLOBAL CONTAINER TRADE⁵



¹ Bruce Barnard. "Carriers Face Renewed Container Shortage." The Journal of Commerce, March 8, 2011.

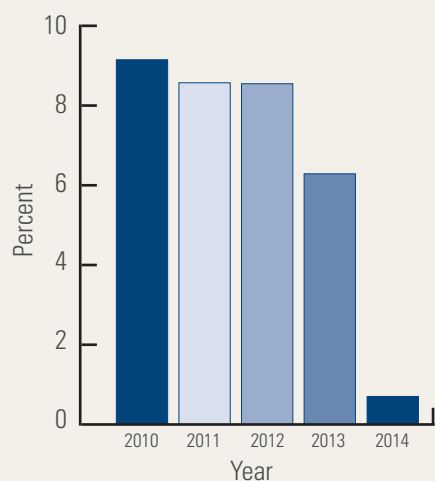
² "Container Shortage Looms, Alphaliner Predicts." The Journal of Commerce, March 14, 2011.

³ Ingrid Wel. "Container Manufacturing Sector." Credit Suisse, March 1, 2011.

⁴ Bruce Barnard. "Carriers Face Renewed Container Shortage." The Journal of Commerce, March 8, 2011.

⁵ Ingrid Wel. "Container Manufacturing Sector." Credit Suisse, March 1, 2011.

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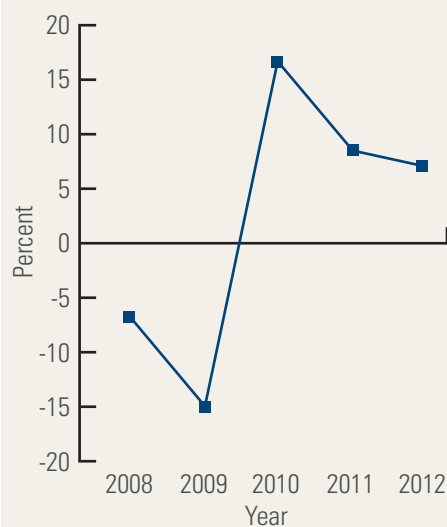
FIGURE 2. FORECASTED GLOBAL GROWTH FOR CONTAINER SHIP CAPACITY⁷


Production of container boxes will likely lag capacity growth, as manufacturers have to reopen closed facilities, increase production, revise manufacturing lines that may have been reallocated to other equipment, and train new employees. Alphaliner, an industry analyst, predicts the ratio of box inventory to capacity will drop to 1.99 by the end of 2011, compared to 2.03 in 2010.⁸

The shortage of containers will affect backhaul shippers in the U.S. and Europe the most, as shipping companies will want to return their container boxes to their most profitable and highest demand routes – Asia and China, in particular – as quickly as possible.

IMPORTS TO U.S. REBOUND SLOWLY

During the recession, the demand from the U.S. for imports decreased. With fewer goods coming into the country, the number of containers available for export shrunk as well. This situation created difficulty for inland

FIGURE 3. YEAR-OVER-YEAR PERCENTAGE CHANGE IN ANNUAL CONTAINERIZED U.S. IMPORTS FROM ASIA⁹


locations, such as Kansas City, Denver, Salt Lake City, Dallas, and Minneapolis.

The U.S. economy is on the uptick, and according to the Global Port Tracker report, the first half of 2011 should see a 6-percent year-over-year increase in imports.¹⁰ Unfortunately, improvements in container supply to the U.S. as a whole will not be realized until the majority of the import shipments begin to move into the country.

RISING FUEL PRICES

Just like the average consumer, rising fuel prices are hitting shipping companies in the bottom line. The price for bunker fuel – the oil shipping vessels use – can account for up to 70-percent of a vessel's operating costs.¹¹

When traveling at full speed, the largest ships burn 320 tons of fuel each day; however, steamship owners can reduce fuel consumption to 280 tons if they travel as slowly as possible using a process

known as slow steaming.¹² This technique is a significant money saver, when bunker fuel prices are hitting record numbers – a two-and-a-half-year high in mid-April at \$680 a ton.¹³

Under slow steaming, vessels cruise at 18 knots or lower, not the 25 knots they usually use,¹⁴ and doing so increases ocean freight transit times and the pressure on an already tight supply of container boxes. This situation could, in turn, cause rates to rise during periods of seasonal demand and take longer for relocating employees' belongings to arrive at their destinations – which will increase overall relocation costs through per diem expenses.

RECOMMENDATIONS FOR RELOCATION POLICIES

To help its clients successfully and cost-effectively relocate employees internationally during the shipping container shortage, Graebel recommends companies look for flexible and creative solutions.

Graebel suggests companies begin by reviewing their temporary living policies as well as air freight allowances. By making adjustments here, companies can provide their transferees with support while they wait for their items that are arriving by sea.

Companies should also work with their relocation company to review their global mobility policies. Graebel can help identify risks, review policy exceptions and the corresponding approval process, and forecast potential costs (e.g., higher per diem spend from slower ocean transit) that may arise from the container shortage. Employers should also encourage their employees to work with Graebel's global mobility professionals who are familiar with policy entitlements and costs. This assistance is especially recommended for employees with capped lump sums, as it will help prevent employers from

⁷ Alphaliner. "Carriers, Analysts Face Off Over Capacity Outlook." The Journal of Commerce, March 14, 2011.

⁸ Bruce Barnard. "Carriers Face Renewed Container Shortage." The Journal of Commerce, March 8, 2011.

⁹ PIERS. "Carriers, Analysts Face Off Over Capacity Outlook." The Journal of Commerce, March 14, 2011.

¹⁰ "US cargo imports set for 6% growth in first half of 2011." Post & Parcel, February 18, 2011.

¹¹ "Rising oil prices may bode well for container shipping sector." Channelnewsasia.com,

April 12, 2011.

¹² Alaric Nightingale and Kyunghye Park. "Container Ship Rates Rally as Fuel Prices Rise: Freight Markets." Bloomberg, January 19, 2011.

¹³ "Rising oil prices may bode well for container shipping sector." Channelnewsasia.com, April 12, 2011.

¹⁴ SCDigest Editorial Staff. "Global Logistics News: Federal Maritime Commission to Relook at Slow Steaming, Has Concern over Ocean Carrier Alliances." SupplyChainDigest, January 13, 2011.



becoming challenged with associates' ongoing requests for additional funding for their global relocations. This level of communication will help employees best determine the items that should be transported via ship or air and what should be placed into long-term storage.

By comparing current supplier freight pricing with GraebelONE[®] freight forwarding rates, companies can avoid surprises. Graebel continuously negotiates preferential pricing and removal services for its clients that book shipments with Graebel. As a result, Graebel has earned the Overseas Movers Network International (OMNI) platinum award for tonnage volume to and from the Americas for the last 17 consecutive years.

Graebel | CONNECT[™], the company's newest global import and export removals services, focuses on small-sized shipment consolidations for customers who must relocate under strict time constraints. Using an efficient tri-regional transit schedule and employing dedicated household goods drivers in each region, Graebel | CONNECT specialists can accurately forecast cube and can consolidate customers' goods to optimize container capacity for shipments destined for ports in Los Angeles, New York City, Seattle, Houston, and Miami. By taking advantage of the Graebel volume-based forwarding pricing and global supply chain, Graebel | CONNECT

helps keep relocation costs low and helps mitigate the risk of the container shortage slowing down clients' relocation timelines.

Additionally, Graebel can offer clients attractive national-based permanent storage rates, as it is the only privately owned mover with its own coast-to-coast modern and secure storage.

"In the wake of the box shortage, other rapidly rising costs, and the likelihood that many firms will relax storage policies to expand the amount and length of goods stored that are employer paid, companies are encouraged to examine movers' storage facilities and security processes," explained Jim Petzel, president of Graebel Movers International, Inc. "Then, companies should negotiate multi-year permanent warehousing terms to ensure best-in-market pricing to safeguard relocation budgets and employees' property that is placed in storage."

Petzel added, "Graebel | CONNECT is quickly becoming a popular option with our clients, and our overseas partners' customers because Graebel | CONNECT is cost-effective and saves time in the face of the container shortage."

Communication plays a vital role in the international relocation process – especially when challenges facing other industries could impact the relocation industry. All parties – transferees, employers, relocation companies, and international forwarders – must remain in constant touch to ensure important deadlines are met and expectations for realistic transit times are set.



Ranked #1 in the "HRO Today" Full-Service Relocation Baker's Dozen – two years running, 2010 and 2011.

WHAT DO YOU NEED? HOW CAN WE HELP?

For more information, contact your local Graebel service center or:

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