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Q&A-Ocean freight traffic backlog from Ever Given blockage in Suez "almost clear," but ripple effects, further delays to be felt for some time: E2open execs



Even as the backlog in ocean freight traffic is "almost clear," there will be at least a week-long delay in deliveries as vessels wait to be unloaded at destination ports, **executives at E2open**, a provider of supply chain management software that books 20% of the global ocean freight, told the Reuters Global Markets Forum on Tuesday, April 6.

Taiwan-listed Evergreen Line's Ever Given container ship was lodged on a southern section of the Suez Canal where it had been blocking traffic for nearly a week.

"The ripple effects will be felt for some time as the system of vessels and containers rebalance themselves over time," said Michael Farlekas, CEO of E2open.

"I expect to see local supply step in where possible to fill in; some products will see delays which will catch up sooner ... others will see longer impacts," said Pawan Joshi, senior vice president for products and strategy at E2open.

Following are edited excerpts from the conversation:

Q: How much of a backlog do you see Ever Given blocking the Suez Canal?

Pawan Joshi: At the peak of the disruption, we were tracking about 285 vessels on either side of the canal waiting to cross over. Within a 100-mile radius, there are typically around 25-30 vessels under normal conditions. Almost a week after the resumption of service we are tracking around 30-35 vessels, so it is still clearing up and the backed-up vessels making their way.

Q: How long will it take to clear this backlog from now?

PJ: The backlog at the canal is almost clear - the ships are making their way to the destination, most of them are at least a week late. Some of the vessels were re-routed via the cape of good hope, South Africa - those will be also delayed.

Michael Farlekas: The ripple effects will be felt for some time as the system of vessels and containers rebalance themselves over time. We can expect further delays at the destination ports as the vessels wait to be unloaded.

Q: From a physics point of view, is the Suez even capable of taking in such massive supertankers?

PJ: The canal is designed for a certain size of vessels along with certain operating conditions. Even complaint vessels can get into trouble when they run into conditions that are not nominal - this is what we saw with Ever Given. In case of supertankers and super container vessels, the operating conditions will be even more important. The Suez may not be the route (for) some of the larger vessels.

Q: Do you think global shipping routes need a revamp? They were built for an older time, but ships are now larger and more sophisticated?

PJ: Shipping routes are constantly being tweaked by the carrier lines - new lanes are added and older ones are phased out; demand and supply and the availability, or lack thereof, of alternate modes of transportation -- like the trans-Siberian railway, air capacity, etc. -- all have contributed to it. The emergence of larger container ships has also resulted in the shipping lanes changing.

Q: Any estimates on what this will mean in terms of costs for companies, especially given the post-pandemic supply chain shortages that we were already facing?

MF: My view is that it shines a light on and is accelerating what is already happening. That is, enterprises that are involved in making and bringing goods to market, want to be less concentrated and less static in terms of their own enterprise. This means more diversity of supply and manufacturing, and the ability to be more agile to adjust to these kinds of disruptions.

Q: Will the effects of the Suez incident highlight the shortcomings of globalization and integrated supply chains?

MF: I do not think it means less globalization, but perhaps more as brand owners diversify around the world and enable themselves to make changes to their supply chains much closer to the event horizon. Whatever that event is -- weather, natural disasters, geo-political events, demand and/or supply dislocations.

PJ: As a backdrop to Michael's points, globalization is here to stay – often, when we think about globalization, we think about where products are made, we tend to ignore where products are sold – you cannot have one without the other and in that backdrop it is here to stay. The important thing is how to ensure that there is resilience built into the operations supporting the business process.

Q: From tracking data of global ocean freight, how much of an impact did the industry feel from the pandemic itself?

PJ: The pandemic has had an impact on multiple levels. The consumption patterns have changed - we are spending more time at home on items that we would not have in the past – more household goods, food, etc., (and) less on travel, restaurants, etc. As a result of this, the demand patterns have changed. This on the backdrop has changed the logistics needs – especially with air freight capacity become constrained, more product is moving over ocean. And that has created a backdrop where we are seeing up to 25% more sustained demand for ocean shipping.

The constrained capacity has been further impacted by the Suez incident -- goods not getting to their destination in time, containers not being emptied in time and returned back for getting filled up, ships out of place and not being able to get to their destinations in time, and hence late to their next pick up points. All (of this) continues to drive the demand supply imbalance. We will see the impact for months before it comes back to the new normal -- which will not be the same as before.

Q: Do you see your clients putting a greater emphasis on local production?

PJ: The industry will continue to manage around these constraints – I expect to see local supply step in where possible to fill in; some products will see delays which will catch up sooner -- apparel, as an example -- others will see longer impacts.

MF: My personal view, it was not the pandemic itself, but the natural cause and effect of a rapid change in demand across the board. In a matter of weeks, the demand profile for just about every good changed dramatically – some things went to zero, some things quadrupled – through it all the system adjusted with a lot of hard work and costs. This is where much of the investment will come -- how can a company be better prepared for a disruption in demand or supply – whatever the cause.

Q: Do you see the shift from air to ocean shipping sustaining as a trend in the next few years?

PJ: The air-to-ocean trend is here to stay and potentially grow as logistics operations and decision-making becomes more sophisticated. And as supply chain operations get better connected end-to-end and decision-making becomes more holistic, logistics options along with broader manufacturing and distribution alternatives will become more important sources of competitive differentiation. The key to making this happen will be the brand owner's ability to operate in a dynamic manner to take advantage of the diversification options that globalization offers -- digitization of processes and decision-making will be the key. We should look at the Suez as just another incident that happens when large scale systems operate at global scale. We have seen these before, resiliency is the key for sustained success.

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