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Disruptions in sea transport from China

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In recent months, the situation of supply chains based on sea transportation on routes from China to Poland has significantly deteriorated. The stability of the flow of goods from Asia, including China, has suffered from the almost week-long obstruction of the Suez Canal at the end of March by the grounded vessel Ever Given. However, the normalisation was faster than expected, and the effects of this event turned out to be less severe than initially assumed.

However, the improvement and stabilization of the situation proved to be impossible due to the restrictions imposed on port operations in Shenzhen and other Chinese ports in Guangdong province in May and June in response to COVID outbreaks. They led to a dramatic piling up of containers in those ports and disruptions in the processes along supply chains. In August, Ningbo port's operational capacity was significantly reduced due to restrictions imposed after the detection of one case of Delta variant among the port staff. Rerouting of vessels to Shanghai resulted in a rapid increase in the number of containers awaiting at the terminals and in extended processing time.

In the fight against the Delta variant of the coronavirus, the Chinese authorities have adopted the "zero infection" strategy and they have implemented draconian measures to contain the spread of the virus. The effects of the Chinese port shutdowns have had, and will continue to have, a far greater impact on supply chains than the obstruction of the Suez Canal, which was a one-time event. China's outbreak-related disruptions have been longer and recurring and they can still reoccur in the coming weeks or months.

The disruptions in the supply chains have resulted in skyrocketing freight rates for container shipments from Chinese ports to Europe. China is the second largest exporter to Poland after Germany, both in consumer and industrial goods. Sea transportation is still the dominant mode for conveying goods from China to Poland. Rapidly increasing freight rates will therefore be one of the factors adding to the growing inflationary pressure in Poland. Those problems will not be alleviated by using alternative modes of transportation, such as rail or road, as they pose similar challenges amplified by the low throughput while crossing the borders. The direct impact of rising costs of imports from China on prices will be limited, considering their ratio to GDP. It will be particularly strong in those product groups in which China has a significant market share, e.g., electronic and optical products, electrical appliances, clothing, textiles, some components for the automotive industry.

However, the ripple effects of the repetitive disruptions in Chinese ports have contributed to increased transportation costs from other Asian countries and had a global domino effect influencing the freight charges and stability of supply chains on global scale. The overall impact of events in China on the inflationary pressure in Poland will be therefore much wider and stronger as they influence the prices of goods imported from other countries.

Disruptions in supply chains have also prompted importers to revise their supply management policies and to increase inventories. This can also translate into higher prices and growing inflationary pressure or into lower margins and reduced business profitability. Due to the significant gap between freight rates based on short and long-term contracts, the increase in transportation costs will severely hit Polish small and medium enterprises. Some companies importing goods from China have already reduced or may significantly reduce their business operations. Some companies trading in low-value goods, for which imports from China have been the core of the business, may decide to exit the industry due to loss of profitability. The growing problems in procuring goods from China can force Polish companies to switch to sourcing products in Poland or other European countries.

Not only importers but also exporters have been facing growing challenges. Freight rates for exports to China are several times lower than for imports from the PRC. The divergence in freight rates caused carriers to quickly collect empty containers in European ports and hastily ship them to China, where they could be made available to Chinese exporters immediately, after unloading from the vessel. This mode of operations was more profitable than processing goods destined for exports from Europe. In result, even urgent export shipments have been delayed or even canceled. The priority given to Chinese shippers and consequently to imports from China have had negative impact on the situation of Polish and other European exporters.