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**Lara L. Sowinski** | Feb 14, 2020 10:50AM EST



APL will charge a peak season surcharge of \$2,000 per reefer container for shipments from Canada and the United States to Asia, while CMA CGM will apply a port congestion surcharge of \$1,250 per container for exports to Shanghai, Ningbo, and Tianjin/Xingang. Photo credit: Shutterstock.com.

Container lines are levying surcharges of up to \$2,000 per refrigerated (reefer) container amid reefer plug scarcity at Chinese ports due to the coronavirus, underscoring how the outbreak is threatening to derail substantial gains in US reefer exports to China.

In a Feb. 13 customer notice, APL said it would begin charging a peak season surcharge of \$2,000 per reefer container starting on March 12 for shipments from Canada and the United States to Asia. Citing slow flow through some Chinese ports due to the coronavirus, CMA CGM

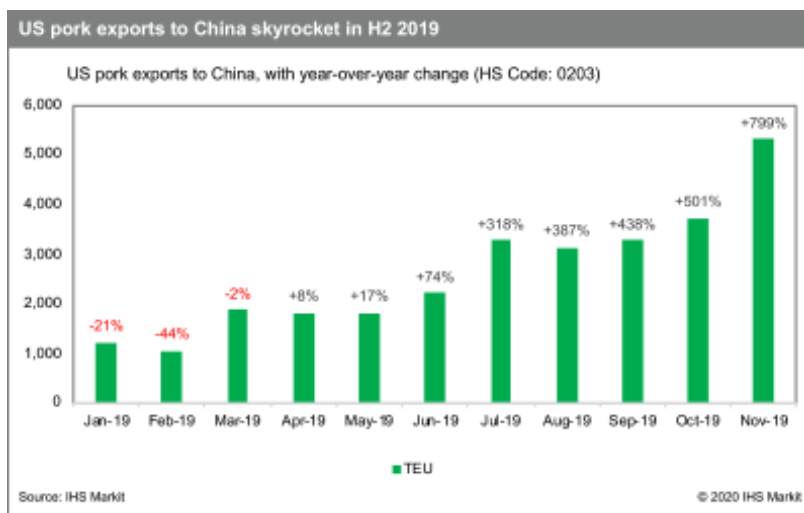
in a Feb. 13 customer notice said it would apply a port congestion surcharge of \$1,250 per container starting March 13 for exports to Shanghai, Ningbo, and Tianjin/Xingang.

In the notice, CMA CGM said “most reefer plugs at the yards of all container terminals in Shanghai, Ningbo, and Tianjin/Xingang are already being occupied. CMA CGM is then forced to divert reefer cargo to other ports.” Hapag-Lloyd and Maersk have also warned customers of reefer plug scarcity.

In recent months, US exporters of poultry, beef, and pork have seen shipments to China skyrocket thanks in large part to another outbreak: African swine fever. Since August 2018, nearly half of China’s pigs have been killed by African swine fever, prompting the country to ramp up imports from the United States, Europe, and Brazil.

At the same time, China’s commitment to boost purchases of US farm goods under the “phase one” trade agreement signed in January is raising pork exporters’ expectations, while US beef and poultry exports to China are experiencing an uptick following the easing of import restrictions on these proteins last November.

Peter Friedmann, executive director of the Agriculture Transportation Coalition (AgTC) said the timing of the coronavirus, which has had an outsized impact on the so-called cold chains that support the movement of perishable goods, is “unfortunate” given that US agricultural exporters are “still in an upswing with our export volumes, and it has already begun to impede those.”



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Containerized shipments of pork from the US to China more than doubled in the first 11 months of 2019, jumping 118.7 percent year over year to 28,808 TEU, after falling 39.4 percent in the same 2018 period, according to PIERS, a JOC.com sister company within IHS Markit. That growth was driven by triple-digit percentage increases in each of the last five months, capped off by a 799 percent surge in November. US exports of beef to China jumped 32.3 percent through November, while poultry shipments were up 7 percent from the previous year, according to PIERS.

## ‘Cascading effect’

Ocean carriers have already announced [82 blank sailings on the trans-Pacific trade](#) through

March, 21 of which can be linked directly to the coronavirus outbreak, and the latter number could continue to rise if factory closures in China persist, according to maritime analyst Sea-Intelligence Maritime Consulting.

Meanwhile, CMA CGM and COSCO Shipping are among those that are waiving detention and demurrage fees for certain cargo, but Friedmann noted there's no guarantee as to how long the waiver will last.

In an open letter dated Feb. 3, the AgTC requested a formal announcement from its ocean carrier partners on an extension of "free time" beyond Feb. 9, the last day of the extended Lunar New Year Holiday. "Our US exporters need assurance they will not be charged detention (per diem) or demurrage while the supply chain remains dysfunctional due to the coronavirus," the association wrote.

The situation is compounded by a growing paralysis up and down the supply chain. China's restrictions on the movement of people — aimed at slowing the coronavirus' spread — means longshore workers, customs inspectors, truck drivers, and others are unable to get to and from their jobs and, as a result, cargo isn't moving from the ports to inland destinations and vice versa, bringing the flow of freight in and out of the country to a grinding halt.

At the ports of Xingang and Shanghai, for example, a backlog of reefer containers has been piling up and all reefer plugs are currently being utilized. But Friedmann said the disruption is by no means limited to China.

"The 'backup' in China extends all the way to this side of the Pacific," he said. "Our members, the US agriculture and forest products exporters, are finding cargo getting 'stuck' at inland origin points, at rail ramps, at truck yards, at refrigerated warehouses, and at the marine terminals here at US ports."

Friedmann acknowledged that the ocean carriers cannot be blamed for the lack of equipment. Without headhaul consumer goods coming from China's factories to the US, there aren't containers available for the backhaul, including reefer containers. "It's a cascading effect," he said.

## **A second wave of disruption?**

Koray Köse, senior director, supply chain research at Gartner, is concerned about a potential "second wave" of supply chain disruption once workers return from the extended Lunar New Year holiday. He warned that the tight living quarters of factory employees and heightened exposure to others could reinvigorate the spread of the virus.

"People are coming back to the factories in China, where many workers live 24/7 in compounds and campuses. They share rooms, bunk beds, with sometimes eight people to a single room," he explained.

Köse praised several European companies operating in China for their decision to delay reopening to avoid compromising the health of their workforce and limit the risk of another outbreak. However, other companies are instead opting to get up and running as soon as possible, effectively choosing "short-term production increases" over employee health, he said.

Putting workers back in close proximity to one another and potentially spreading the virus again

would be disastrous for the country's labor force in the long term. As it is, some factories are already facing employee losses of more than 20 percent following the Lunar New Year holiday.

Köse emphasized the need for companies to rethink how they approach risk, noting that the coronavirus illustrates how the “probability approach” to traditional risk management has failed. In other words, it's no longer a question of “if” a previously unforeseen disruptive event — be it a global pandemic or a natural disaster — will occur, but “when.” What's more, it has become increasingly more difficult to recover from a financial and operational standpoint when such an event occurs, he said.

According to Aon plc, economic losses from natural disasters that occurred during 2010-2019 reached nearly \$3 trillion, marking the costliest decade on record.

“People are complacent when it comes to risk and making sure they have a diversified supply chain,” said Köse. “Risk management is an investment; it's not an expense. On the contrary, recovery is an expense.”

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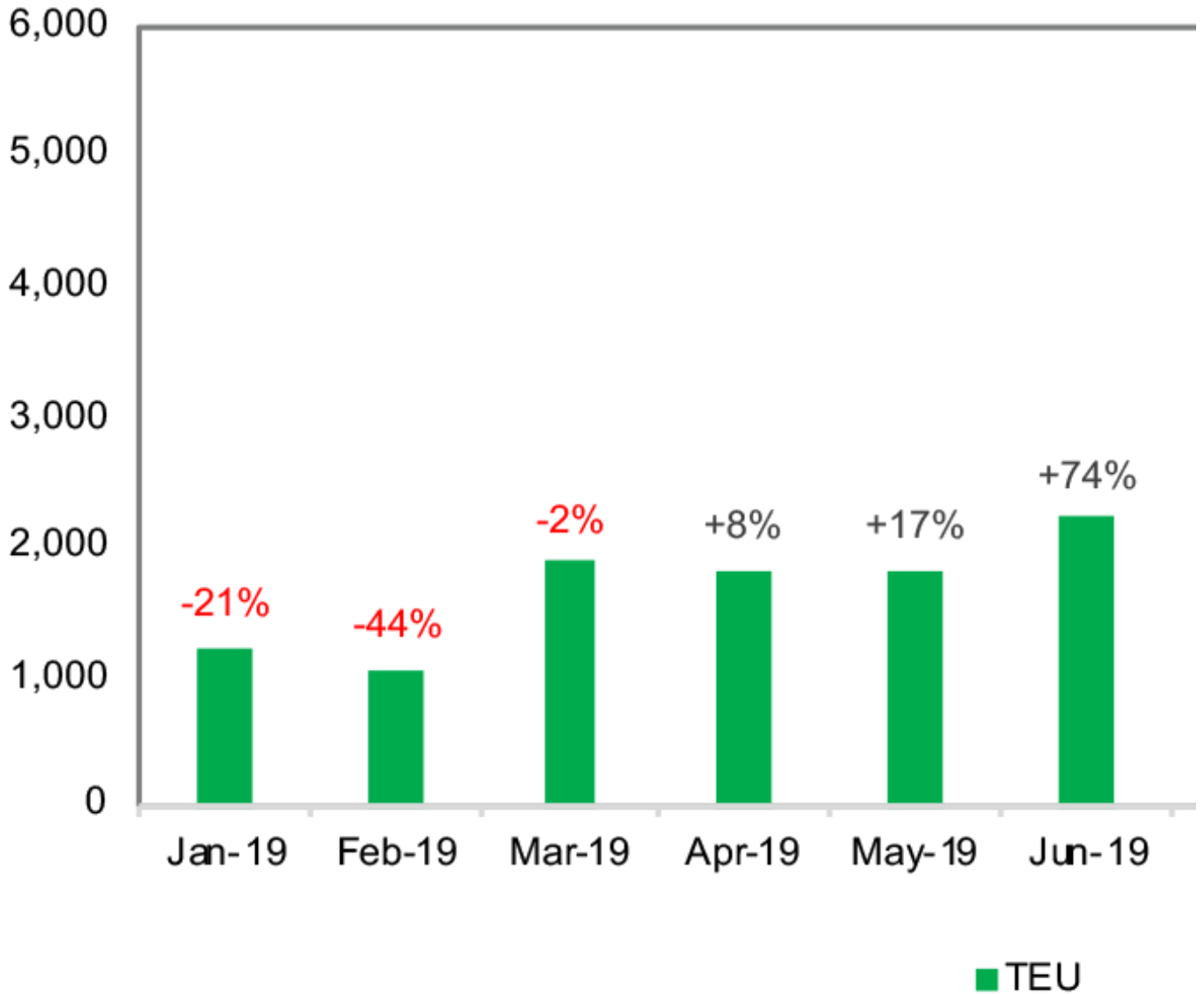
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# US pork exports to China skyrocket in H2 2019

US pork exports to China, with year-over-year change (



Source: IHS Markit