

How the surge in shipping costs are sparking shortages

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Yahoo Finance Video



June 14, 2021, 3:16 PM

Xeneta CEO and Co-Founder Patrik Berglund joined Yahoo Finance Live to break down the outlook for the shipping industry.

Video Transcript

- Let's talk about the cost of shipping containers, because it's been skyrocketing. It's something that we've been following here for the last couple months. Shipping freight rates hitting a new record this week. And of course, this is causing a huge issue for trade.

So we want to talk a little bit more about what's going on exactly and what's behind the huge price spike. And we have Patrik Berglund. He's the CEO and cofounder of Xeneta. And Patrik, it's great to have you here on "Yahoo Finance."

I know your company tracks the cost of containers. You also help companies navigate the price spikes at a time like this. Talk to us-- just, I guess, explain to us exactly what's happening, why we're seeing such a big price spike here for shipping containers and also whether or not this could potentially get worse.

PATRIK BERGLUND: Yeah, I mean, first and foremost, thanks for having me on today. I really appreciate the opportunity to do this brief with you. I think it's-- the fundamental is mismatch between supply and demand, right? That's what's causing this.

The root cause for that, actually, stems years back where this industry has been in deep, sort of, problems for almost decades in order to try and make any money. And through that, you've had these waves of consolidations, mergers, and acquisitions, and even in 2016, a bankruptcy, as you might even remember with Hanjin going bankrupt. And this has led this industry into a situation when, when COVID-19 hit, the industry didn't have, you know, the infrastructure in place to tackle such a shock.

And this started right when consumers dropped their consumption of durable, nondurable goods, services-- everything stopped in February, March as China shut down. And since then, it's been just events after events, like Brexit, like Ever Given getting stuck in Suez, whether it's [? Yongpyong ?] shutting down. And these sort of incidents, like the port strikes you've had on the East Coast, right, has created disruptions in these supply chains and have moved the equipment, the boxes, into various areas of the world where they're not necessarily needed and the same on vessels and capacity. And this has made rates skyrocket.

- So Patrik, help us understand how-- because you're growing your business, who your clients are and how they use your business to circumvent-- I mean, when you look at the average rate, it was \$3,000 for one of these containers in some places. And now it's over \$10,000. How does your client use that information or your company to their advantage?

PATRIK BERGLUND: Well, yeah, so first and foremost, they need to understand where the market is at any given time in order to not be exposed to the risk of not getting shipped, which is one of the key challenges today, right? So whether you pay actually \$2,500, \$3,000, or \$10,000, the problem is to get shipped.

And this is part of the problem. Like, companies working with us, anything from Nestle, Unilever, Louis Vuitton, or any type of industry, whether it's chemical companies, pharma companies, they all feed in their freight prices to our platform. And we aggregate that to create these indices for the different trade routes around the world.

And for them to understand why is there such a spread in the market-- let's say from \$2,500 to \$13,000 on the most extreme, if you look at Asia to Europe-- and then trying to navigate and understand where can they sit in order to have goods moving, either on the spot market or on the contract market. Right? And this is the conundrum they're facing today because you have extreme market conditions, like Home Depot went out today and announced that they're chartering their own vessel in order to secure the flow of goods on the Trans-Pacific into the US.

And you know, our customers need to understand, our budgets, are they doubled, tripled? Because we're talking about rate increases here on Asia to South America of almost 800% compared to a year ago.
