

Rolling downhill

Ro/ro carriers brace for auto surge amid capacity crunch

By Janet Nodar

ROLL-ON/ROLL-OFF (RO/RO) CARRIERS are managing their already tight capacity carefully as they brace for increased automobile production, a welcome signal of pandemic recovery but a challenge when ships are already chock-a-block with cargo.

Ro/ro vessels are fully booked, and current and potential new shippers are already hunting for additional space, carrier executives told *The Journal of Commerce*.

Consumers are eager to buy cars “all over the world,” according to Flavio Batista, senior vice president of sales for the Americas at carrier Wallenius Wilhelmsen. Sales are down only because there is not enough product to sell, he said. Hamstrung by factory shutdowns and a global shortage of semiconductors — microchips that are an essential component of products from automobiles to handheld electronic devices — automobile production has lagged demand for much of the COVID-19 pandemic.

“If there was no shortage of parts, the ro/ro industry would be struggling to move all the cars,” Batista told *The Journal of Commerce*. “Especially [when] combined with high and heavy, there is more demand than supply.”

A recovery in auto production from pandemic-induced lockdowns and parts shortages that began in late 2021 is expected to continue in early 2022, according to a January report on global auto industry trends from IHS Markit, parent company of *The Journal of Commerce*. The short-term outlook has improved thanks to a recovery from disruptions in Malaysia’s back-end microchip processing industry and fewer COVID-19 lockdowns. Manufacturers are also using strategies such as building cars with fewer chips, focusing production on certain high-value models, and using the “build-shy” model, producing and storing cars until chips arrive.

If automotive manufacturers “open up the faucet all the way, there will not be enough capacity to lift all the cargo,” said James J. King, director of ocean carrier service with Hyundai Glovis. “It will all just start backing up. It could definitely be disruptive.”

IHS Markit warned, however, that lead times for chips will continue to be much longer than pre-pandemic norms due to a lack of new manufacturing capacity. The chip supply will not be sufficient to truly address vehicle backlogs and



Rolling stock, vehicles, and breakbulk cargo are competing for space on ro/ro ships.

Wallenius Wilhelmsen

meet global demand consistently until the second half of 2023, the firm said.

Cho Young-hee, Wallenius Wilhelmsen’s senior vice president sales for Asia, similarly cautioned that although the chip shortage is easing, “it will take time” to produce enough to catch up with auto production demand.

“We expect the situation to be resolved in 2023,” she told *The Journal of Commerce*. “The economy and the global health situation are slowly starting to take a step in the right direction, and the development for light vehicle sales is following suit. The outlook for 2022 looks positive by comparison with last year, but that doesn’t mean the future is risk-free.”

Those risks include ongoing supply chain disruption related to the COVID-19 pandemic, noted Bjorn Gran Svenningsen, sales and marketing director for United European Car Carriers (UECC). “COVID-19 is leading to a lack of stevedores,



Flavio Batista
Senior Vice President Sales Americas,
Wallenius Wilhelmsen



Patrick Cooper
Director of Sales, NYK Group Americas,
Roro Division



James J. King
Director, Ocean Carrier Service,
Hyundai Glovis



therefore leading to lower productivity in port and increasing port congestion,” Svenningsen said, citing longer-than-usual vessel wait times at European ports including Bremerhaven, Zeebrugge, Livorno, and Piraeus.

New players in the electric vehicle (EV) sector from China and Southeast Asia are also set to enter global markets, either via their own branding or as partners with established brands, Patrick Cooper, director of sales with NYK Group Americas’ ro/ro division, told *The Journal of Commerce*. “A definite surge is now under way in the automotive sector, and space availability is a definite issue going forward,” he added.

In the US, vehicle import tonnage bounced back from 2020 lows during the first 10 months of 2021, rising 22 percent year over year to 5.3 million metric tons, according to data from PIERS, a sister product of *The Journal of Commerce* within IHS Markit. However, volumes have not quite recovered to 2019 levels,

when 5.5 million mt were imported into the US. The Port of Baltimore saw the sharpest recovery in imports for the period, with volume rising 34 percent to 873,669 mt from the same 2020 period, followed by Bruns-

“If there was no shortage of parts, the ro/ro industry would be struggling to move all the cars.”

wick, Georgia, which saw imports grow 20 percent to 638,211 mt.

High and heavy cargo imports followed a similar trend, with volume of 646,446 mt up 117 percent from the first 10 months of 2020 but down 15 percent from the same 2019 period. Baltimore also led US ports in terms of high and heavy growth with 222,778 mt through October 2021, up 111 percent year over year.

“The market for all segments — vehicles, high and heavy, and project cargo — looks strong at the moment,” Staffan Herlin, senior vice president and group marketing head at intra-Europe ro/ro carrier Finnlines, told *The Journal of Commerce*. “The ro/ro outlook [in Europe] is strong and steady at least for this year.”

‘Spilling’ into ro/ro

As with the multipurpose/heavy-lift (MPV/HL) sector, ro/ro carriers have seen a wave of inquiries for transporting “spillover” containerized cargo on top of recovering demand for auto and high and heavy transport. With vessels filling up rapidly, carriers may be forced to make difficult decisions about which bookings to accept.

“We continuously face a calibration of cargo moving between the different type of segments, and we have seen an increased interest as the market has been tight,” Oskar Orstadius, chief sales officer with Höegh Autoliners, told *The Journal of Commerce*. “We are pleased to see more customers identifying ro/ro as an alternative for their cargo, but as our [vessel] space is tight, it is important to work with the customers we believe will stay with our segment in the future.”

King, who said Hyundai-Glovis has seen a similar spike in requests to carry container cargo, noted that not all cargo can be converted to ro/ro.

“If it’s small boxes or crates and we can’t stack them high enough, it doesn’t make sense. If you stack, it can be a mess if it breaks loose,” King said, adding that for many shippers, containers are a more efficient usage of space for these types of cargo. Containers can be stacked and stuffed as full as the weight of the cargo permits, but on a ro/ro deck, break-bulk cargo must be packaged and on skids or a mafi trailer and cannot be stacked in the same way, he said.

NYK Line has accepted only a small amount of formerly containerized cargo, prioritizing emergency requests from the automotive industry, Cooper said. That’s partly because traditional ro/ro cargo demand “has greatly increased as a result of the surge in automotive manufacturing as well as in the construction and agricultural

equipment industries,” he said.

Wallenius Wilhelmsen has also been selective with potential clients looking for alternatives to container shipping, Batista said, from refrigerators and air conditioners to flooring. The carrier is taking some overflow, but it’s not telling all shippers to “bring it on,” Batista said. Shipments must be a good fit within Wallenius’ existing trade, he said.

Equipment manufacturers that build high and heavy rolling stock — e.g., tractors, backhoes, mining equipment, etc. — tend to containerize smaller equipment and

ship larger pieces via ro/ro, but this practice has evolved in the spillover market.

“We were proactive in changing modes,” said a logistics executive for an equipment maker who asked not to be identified. The company secured additional ro/ro capacity early in the pandemic for certain trade lanes and expects to stay with ro/ro for these products for several years. “This is about predictability and reliability. Cost is an aspect, but it’s more about getting the capacity,” the executive said.

And as chips become more

available, “autos will flood the market.... There will be little space available if it’s not already secured,” he added.

Ro/ro carriers tend to call dedicated ro/ro terminals, allowing them to get in and out of ports more quickly than container ships, but the disruption in global shipping is still an issue for the sector. “Congestion is affecting practically every port in the world, including dedicated ro/ro terminals,” Cooper said. “Berthing delays are being encountered, ports are being skipped, particularly in South America, and, in some cases, cargoes are being forced to alternative discharge ports for later delivery.”

William Kerrigan, vice president of logistics with terminal operator SSA Marine’s auto division, said port capacity is as constrained as he’s ever seen it, “and I’ve been around 40 years.” The spillover market creates “a real game of chess to match up your carrier capacity with your contracts,” he said. “There’s no space out there. We see it because we are stevedoring.”

The rationalization of port calls and vessel frequencies instituted during the early days of the COVID-19 pandemic, when cargo volumes were much reduced and vessels taken out of service, is still playing out during a time of rapidly increasing volumes, Cooper said. Going forward, “more cargo will be chasing less space,” he warned. “Therefore, rates are increasing at the same time that congestion surcharges are being applied.”

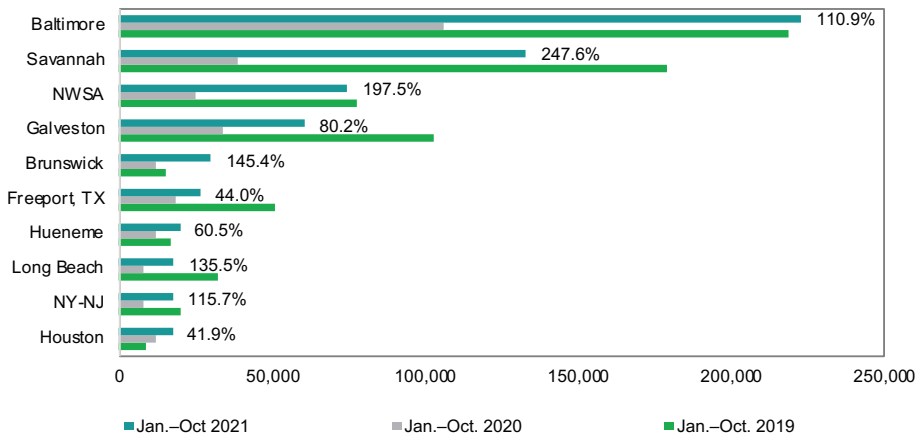
In response to the strong outlook for demand and increasing pressure to reduce carbon emissions, ro/ro carriers are investing in new, larger, and more fuel-efficient vessels. UECC, for example, will take delivery of the last of three dual-fuel liquefied natural gas-battery car carriers in the first half of 2022, while Höegh in January signed an order for up to 12 “Aurora-class” ships that can be powered by ammonia or methanol for delivery starting in 2024. **JOC**

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US high and heavy ro/ro imports spiked following 2020 decline

High and heavy import volumes at top US roll-on/roll-off ports, in metric tons, with 2021 vs. 2020 percentage change

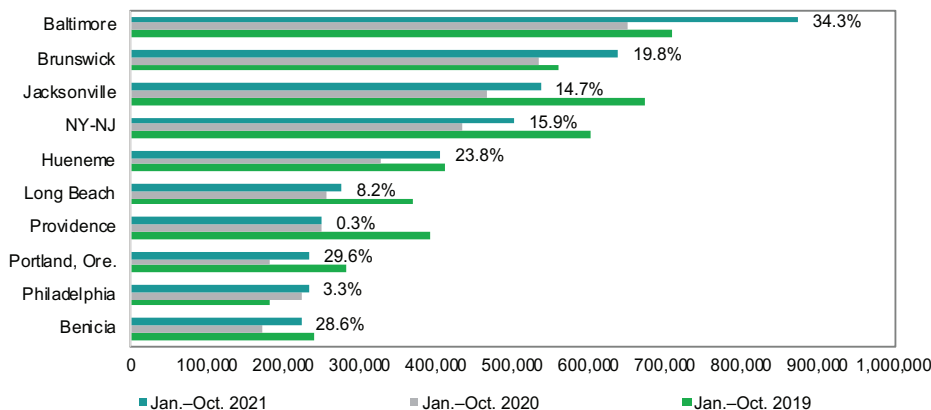


Source: IHS Markit

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US ro/ro auto imports rebounded in 2021 despite production shortages

Automobile import volumes at top US roll-on/roll-off cargo ports, in metric tons, with 2021 vs. 2020 percentage



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Prelude to a paucity

Rebounding vehicle production highlights looming landside labor shortages

By Janet Nodar

AUTOMOBILE MANUFACTURING IS in a tentative state of recovery from the microchip shortage and COVID-19 lockdowns that have obstructed global production, but auto makers and finished vehicle logistics (FVL) service providers worry a lack of car-haul drivers, dockworkers, and auto processing labor could snarl the supply chains that stretch between manufacturing plants and consumers' garages.

"We are approaching the point where chips will arrive and cars stored at the automotive assembly yards will be ready to be shipped," said Trish

Zarik, a 30-year supply chain management veteran and FVL consultant at the Automotive Industry Action Group (AIAG), a non-profit that seeks to bring original equipment manufacturers (OEMs) together with parts suppliers, logistics service providers,

"It's much easier to install a chip than it is to stop production."

and other related entities to improve manufacturing and supply chain practices.

The question now becomes whether there is enough capacity in an already congested global supply chain to handle an inevitable rush of new vehicles, Zarik explained. AIAG has been holding strategy-planning meetings with OEMs and their suppliers to ensure that roll-on/roll-off (ro/ro) carriers and inland transportation and storage providers "are not faced with more volume than they can handle at one time," she said.

Michael Arnold, operations supervisor for North America vehicle logistics at Ford Motor Company, and Paul Roosen, planning manager for North American finished vehicle logistics at Ford, told *The Journal of Commerce* they expect an increasing supply of chips will open the floodgates for cars and trucks that have already been produced and are just waiting for those essential components.

Total US new vehicle sales are expected to grow 1.3 percent in 2022, according to online car dealer Edmunds.
Georgia Ports Authority





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Trish Zarik
FVL Consultant, Automotive Industry
Action Group (AIAG)



Barry Williams
Vice President of Operations,
Hansen & Adkins



William Kerrigan
Vice President of Logistics, SSA Marine

“When the chip shortage eventually subsides and part supply returns to a sense of normalcy again, I think the network is going to see a flood of vehicles hit the pipeline that will cause the overall network to slow down due [to an inability] to match equipment and resources with shippable inventory,” Arnold said.

During the shortage, many OEMs have continued building cars, temporarily installing chips to move those vehicles into storage and then removing the chips for use in the next batch of cars that comes off the manufacturing line. “It’s much easier to install a chip than it is to stop production, which creates layoffs and unemployment,” Marty Colbeck, director of East Coast sales for automobile processor Auto Warehousing, told *The Journal of Commerce*.

Barry Williams, vice president of operations at Hansen & Adkins, a California-based trucking company that specializes in hauling vehicles, said the company has already seen a rebound in volumes of new vehicles. “As we speak, many of the original equipment manufacturers are ramping back up. Some are at full speed, some are more sporadic,” he said.

A ‘rolling thunder’

At the same time, a shortage of drivers with the necessary training and experience to load and haul finished vehicles, a highly specialized segment of the trucking industry, will make it difficult for trucking companies to handle the expected surge in vehicle volumes.

With auto production hindered for much of 2020 and 2021, “we had

drivers sitting for days at a time, and that affects pay, so they were seeking other work,” Williams told *The Journal of Commerce*. “In August, I had seven owner-operators sell their trucks and buy regular tractors to haul grain and sand. And they are making more money.” As of January, the carrier employed roughly 600 company drivers and 350 owner-operators, down from 933 company drivers and 374 owner-operators in 2019, according to Williams.

William Kerrigan, vice president of logistics with stevedore

“Rail yards will fill up, [and] the OEMs will need facilities to store cars because they can’t get them to market.”

SSA Marine’s auto division, said the driver shortage could be exacerbated by a lack of available rail capacity. Auto plants in the US send finished automobiles via rail to inland ramps, where they are picked up by trucks for final delivery, whereas imported vehicles are picked up by truck at major ports Baltimore and Brunswick, Georgia.

“We are telling rail they have to pick up more volume,” Kerrigan said. “The problem is getting empty rail cars to the right place at the right time.” Balancing equipment supply with demand is always tricky, but

“it’s going to get worse as volumes ramp up,” he said.

“I predict rail yards will fill up,” added Williams. As production returns to normal levels, “the OEMs will need facilities to store cars because they can’t get them to market,” he said. “It’s going to be a real rolling thunder.”

Colbeck said vehicle processors like Auto Warehousing, which prepare imported vehicles for delivery to dealerships and exports for shipment overseas, are also having difficulty finding enough workers after a drought of work prompted layoffs. “We park vehicles in an off-site location and wait around until they become shippable,” he said. “Then we rehire people and bring them back in to process.”

With labor costs rising, “rates must go up for rail, truck, and ocean carriers, and that’s the last thing the producers want to hear,” Kerrigan said.

Much as with last year, OEMs and analysts expect strong consumer demand to dwarf new vehicle supply through much of 2022. According to a December forecast from online car dealer Edmunds, total US sales will grow only 1.3 percent year over year to 15.2 million new cars for the full year.

“In 2022, there won’t be a question of how many new vehicles consumers will buy, but how many vehicles automakers can actually produce,” the firm said.

Despite the improving short-term outlook, auto production will continue to feel the pain of chip shortages until the second half of 2023, when new chip manufacturing capacity sufficient to address vehicle backlogs and booming global demand is expected to come online, according to a January report on global auto industry trends from IHS Markit, parent company of *The Journal of Commerce*.

Nevertheless, the FVL providers are preparing now, so they’ll be ready when newly chipped vehicles are ready to ship, Zarik said. “Demand is high, but if there is no one to transport the cars it will be a major supply chain backlog,” she said. **JOC**

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