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Container shipping facing a mix of challenges both old and new

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There appears to be no end to the alarmist headlines regarding the impact on container shipping from the rapidly changing political decisions taken by the new US administration as well as wider geopolitical challenges.

Perhaps it is time to add another perspective into the mix.

Let us get a few things straight first.

The Red Sea crisis continues to have a major impact on the container shipping sector. The diversions around southern Africa are what continues to keep container vessel capacity in short supply. The amount of idle container vessels has been well below 1% since February 2024 and the latest data for February 2025 shows an idle ratio of 0.6%. This is the same low level of idle capacity we saw during the height of the pandemic disruptions and implies that there is effectively no material excess capacity available.

This is the foundation for freight rates remaining at a relatively elevated level despite recent declines.

But it should similarly be noted that despite the Red Sea crisis, the supply chain adapted to the new situation and freight kept moving, with 2024 being yet another record year in terms of total TEUs shipped.

Another fact to keep in mind is that during the worst of the pandemic disruptions, we saw spot rates increase to levels far beyond anything seen previously. Even the Red Sea crisis in 2024 did not bring rates anywhere near the peak of 2021–22.

It should be kept in mind that despite those extremely elevated rates, freight continued to move at record levels, and none of this led to the onset of a major financial downturn. High rates during the pandemic may have contributed to ongoing inflation, especially in the US, but they did not bring the economy to a standstill.

This brings us to the challenges of 2025. The Red Sea crisis appears likely to continue for the medium term, which also lays the foundation for a strong peak season in 2025 — unless demand is negatively impacted by recession or inventory corrections, or a combination thereof. But with new capacity continuing to be delivered, the pressure on the supply/demand balance in 2025 will be less than in 2024, and hence clearly a manageable situation.

The rapid changes in tariffs driven by the new US administration creates major uncertainties for shippers. But this is mainly a monetary uncertainty in terms of how much landed costs are going to be, and in the case of exporters, how competitive they will be. The tariff challenges do not translate into any specific operational bottlenecks in terms of vessel or equipment capacity — although concerns could be raised as to whether customs clearance in the US might become a bottleneck.

So, yes, US importers and exporters may well see significant challenges related to the tariffs, but these challenges are not caused by the container shipping supply chain. If anything, the flexibility of the container shipping networks will likely lead to a fairly swift and efficient change in network coverage should a more stable tariff environment emerge that allows shippers to shift to better sourcing and/or routing of cargo.

Risk of rising costs, port congestion from USTR proposal

And finally, there is the issue of USTR 301 — the proposal by the United States Trade Representative to hit Chinese-made and -operated vessels with fees of $1 million to $1.5 million per US port call.

Various estimates place the annual cost of this between $20 billion and $30 billion if implemented with no changes. My own estimate presently is about $24 billion. A ripple effect will be that carriers are likely to reduce their port coverage in the US, favoring larger ports and deselecting some of the smaller ports. This was confirmed by Mediterranean Shipping Co. CEO Soren Toft at TPM25 last week.

Carriers will also likely attempt to route more cargo via Canadian and Mexican ports, as well as reduce the number of services while phasing in larger vessels. That, in turn, will create congestion issues in the ports.

Does this constitute a calamity for the supply chain? It depends on the individual assessment of what a “calamity” is. But if we draw on the lessons from the last five years, while it will not stop the flow of cargo, it will raise costs for US importers and exporters.

The estimate of the total costs of USTR 301 amounts to an average of approximately $1,000 per FEU for all US import and export containers. This will likely be substantially more on the import cargo and less on the export cargo. Seen in the context of the freight rate spikes endured by shippers affected first by the pandemic and then by the Red Sea crisis, an increase of $1,000 per FEU or more has indeed been handled before. But, of course, not without cost to the shippers.

Still, the more troubling aspect of USTR 301 is the risk of creating more port congestion.

The real driver behind the price spikes in 2021–22 and 2024 was capacity shortage. Port congestion effectively removes capacity from the market, and presently there is no excess capacity. The $1,000-per-FEU impact of USTR 301 might pale in comparison with the freight rate increases that could follow congestion-linked network changes.

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