Voice of the Independent

FEBRUARY 2021 | SERVING THE INDEPENDENT FREIGHT FORWARDING COMMUNITY | No.110

No happy new year for shippers

Ports face congestion as demand continues to surge

SURGING demand, in combination with restrictions on travel in some regions, has led some Chinese factories to stay open, or stagger closures, as they enter the new year holiday period.

While February, post-CNY, is normally the slowest month, this year it is expected that demand will continue throughout – and beyond. It marks the first signs of a predicted 'new normal', which could see steady flows throughout the year, with fewer significant peaks or troughs.

The week before the holiday was characterised by congestion in China, which forwarders predicted would take some time to clear.

Yantian was particularly affected, with the port requiring a week instead of two days as the cut-off time for gating-in export containers, as it attempted to clear congestion in the yards and roads.

"However, with equipment as tight as it is, a lot of carriers are releasing equipment as they come in from positioning moves," explained one forwarder.

"This means that if ships are delayed in berthing etc, then we, at times, are seeing equipment interchange receipts being printed a day before, or even day of, the shipping line cut-off.

"So if you don't get a container till days prior and the terminal now won't let you gate–in until seven days prior, there is no way to get on the ship."

> "a lot of carriers are releasing equipment as they come in from positioning moves"

And the cargo looks likely to continue to build up as factories, particularly in electronics, continue to produce goods.

"The factories are still producing but are running out of room to store the goods," added the forwarder.

In combination with Covid restrictions, this is putting enormous pressure on the country's trucking capacity.

"Most drivers transporting containers from inland to the ports will face three levels of Covid testing when they cross province borders, and this has resulted in the fear that domestic travel will be locked down once more, and lead to a large exodus of drivers from work to their homes so they don't get trapped by lockdown rules."

Similar concerns have led Pearl River Delta feeder and barge operators to suspend services from production sites in the upper delta to the ports of Yantian, Hong Kong and Nansha until after the holiday, or until the end of the month.

Asia-Europe rates remained relatively stable in the week preceding the holiday, but after spiking 265 per cent between the end of October and mid-January, they remain high; the transpacific, however, has not eased off. Although retail imports to the US have slowed since October, they remain "extremely elevated".

Lack of air capacity could alter competitive landscape

A medium-to-long term shortage of air freight capacity is causing huge changes in the way the market operates, according to forwarders who say they are having to "re-write the book".

But the 'new normal' could benefit larger forwarders who have been extending their control of capacity by booking increasing numbers of recurring charters.

"The second quarter led to a rethink of everything we were doing," said one head of procurement at a major forwarder.

"A big [number] of blocked space agreements disappeared overnight, the capacity was no longer there. The complete air freight system changed," he said.

"There was an expectation from big forwarders, unable to get the right capacity at the right prices. So forwarder-controlled networks were extended and extended from quarter to quarter."

But analysts have warned that this could distort the existing competitive landscape.

"Consistent with our view toward long-term capacity constriction, a number of large freight forwarders have articulated that charter will become a more permanent part of their service offerings," explained Bruce Chan, vice president, global logistics at Stifel.

> "The second quarter led to a rethink of everything we were doing"

"As charter usage becomes more mainstream, there may be some practical competitive implications. Namely, a market that prefers large players with density and economies of purchasing scale and scope.

"This trend likely accelerates consolidation that was already occurring around players with technology, sophistication, and global network differentiation."

He added that the trend would also mean that total average airfreight rates were likely to stay higher for longer.

"It may further separate the shipper "haves" from the "have nots"—that is, shippers with high-enough margins that airfreight rate increases are not as proportionately detrimental. We assume that any shipper that was on the fence about the airfreight cost-benefit trade-off, has firmly picked a side at this point."

Long-haul passenger travel is not expected to return until 2023, leaving large amounts of belly capacity unavailable. And where demand has not reined in passenger travel – governments have.

From 1 February, for example, international passengers to Canada can only land at four gateways – Vancouver, Calgary, Toronto and Montreal. That deprived Edmonton, a thriving cargo gateway, of international belly capacity for the second time in 12 months.

And in Hong Kong, authorities have signalled plans to implement new flight crew quarantine requirements that could force Cathay Pacific to reduce passenger capacity by 60 per cent and cargo lift by 25 per cent, the carrier warned.

But, said Chan, there are other factors influencing capacity and pricing.

"The e-commerce megatrend and supply chain regionalisation are altering demand cycles and routes. Rapid replenishment, quick lead times, and a distributed fulfilment centre network mean that belly space, which is intrinsically attached to passenger flight gateways, may not be the most efficient and effective source of capacity. Rather, all-cargo or charter flights to secondary gateways are becoming more common, in our view."

One forwarder agreed it was focusing on alternative hubs, following a year in which some major airports became "overwhelmed with cargo".

Shippers take control over high costs and delays

SHIPPER groups are taking control and booking their own ships to ensure timely and cost-effective services.

Intra-Asia carrier China United Lines (CULines) and Dusseldorf-based international purchasing association XSTAFF teamed up to operate the 2,702 teu Laila on a one–way voyage from China to North Europe.

And the two companies are already planning a second voyage after space on the Laila was fully booked "just a few days" after being offered.

Formed in 2016, by the Swiss COOP group and the Belgian Colruyt group, the XSTAFF network was expanded in 2019 with the addition of Spanish fashion giants Mango and Tendam.

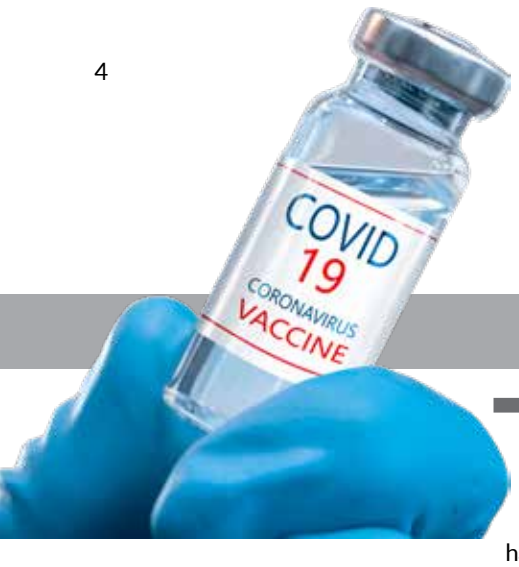
The ship is on a three–month charter to CULines at a daily rate of $24,500, due to expire on 15 March.

XSTAFF said it had partnered with CULines to offer clients "an alternative to the existing services on the Asia–Europe route". It said its clients were facing "extremely high cargo rates, limited container availability and frequent delays".

"Container spots on freighters headed to Europe are booked out weeks in advance – and that despite price rises of up to 800 per cent compared with the same time last year," said XSTAFF.

XSTAFF said the charter was planned as "a one-off initiative, due to strong demand" and that the focus "was not margins".

Nevertheless, a 'back of an envelope' calculation, adding charter hire, bunker costs, Suez Canal tolls, port costs and container leasing etc, would provide for a breakeven voyage result at about $5,000 per 40ft, assuming a load of 1,250 boxes. Current spot rates from China to North Europe can be as high as $8,000 per 40ft, after including carrier equipment and space guarantee fees.



Focus ON

Vaccine

Training and tech are key to hea

IF any one element of the supply chain has come under the spotlight over the past 12 months, it is pharmaceuticals. Roll-out of the various Covid-19 vaccines has only served to intensify this gaze. Since the final quarter of 2020, a growing chorus of airlines have announced they are vaccine ready, and many have begun delivering. For the International Air Transport Association's (IATA) Time and Temperature Sensitive Working Group (TTWG) and the WCA's Pharma network, the new scrutiny is welcome.

Manager of the WCA Academy, Leah McKenna, has been spearheading the efforts to bolster the pharma readiness of the network for small and medium-sized forwarder members. To achieve this, McKenna and the team have developed a series of training sessions. Given the events of 2020, these understandably migrated online. Even so, McKenna tells Voice of the Independent (VOTI) that they have been a complete success.

"We've had members take on the training from all over the world, and the feedback has been overwhelming, with so much positivity," McKenna says. "They have joined on with differing levels of ability and training but through the Academy and Pharma GDP networks, members have been able to move at the right pace for their staff, clients and, most importantly, the patients they will be handling products for."

Over the course of the last year, 15 virtual classrooms have been held in coordination with the WCA's training partner ASC. The training undeniably will assist in the vaccine rollout, with many members participating in the push. Nonetheless, as part of its quality control protocols, WCA has been quick to advise only those members with previous vaccine handling experience to proceed with vaccine logistics at this moment.

"One of the most important topics that we have been discussing with members on dedicated forums is the importance of security when it comes to such an important product," McKenna continues. "Full visibility and chain of custody is often something overlooked when the industry focus is so much on the 'here and now'. While WCA members will have an important part to play in Covid-19 vaccines, it is for the long-term planning as the requirement will be here for several years."

> "We've had members take on the training from all over the world, and the feedback has been overwhelming"

Chief executive and founder of Switzerland-based NV Logistics, Thierry Moreno, praises the work McKenna and the team have done when it comes to training.

Over the course of the last year, 15 virtual classrooms have been held in coordination with the WCA's training partner ASC

LEAH MCKENNA
WCA Academy

He also believes the WCA's "strict and controlled" growth of its Pharma Network will be pivotal to its success.

"Since 2015, it has grown fast, but in a strict and controlled manner," he tells VOTI. "Each new application is duly checked by our network director Adam McKenna and each member has been duly certified in terms of quality system management and their experience in the delivery of pharma industry logistics. With each member having had to prove that their staff has been duly trained in line with the current GDP standards, the knowledge that you have reliable supply chain partners is a real boost. For those that don't, that's where the recently created WCA Pharma Academy has been a real life-line, it gets all members up to this even level."

Much like the WCA Academy, IATA's TTWG is geared towards provision of guidance for air cargo industry stakeholders. Moreno recently joined the TTWG. And, like many, he believes "technology is key" when it comes to improving pharma and vaccine handling standards, and that this is where TTWG could have its biggest impact.

"As an example, internet of

distribution

althy logistics

things and the blockchain will revolutionise our industry in a very short time and we cannot afford having each party working with closed and legacy systems," Moreno says. "Our industry needs to work with open and interoperable systems, and this will be one of the major challenges. TTWG can play a key role in this push as the whole air cargo industry, not only cargo handling agents, airports, airlines, forwarders, but also packaging providers and pharmaceutical companies, everyone is represented by it."

For Moreno, the working group must look towards provision of practical, "efficient" solutions that improve the quality of pharma handling by air. He says he does not want to be spending time producing "tonnes of papers" but rather to develop ways that increase the safe delivery of drugs for the benefit of patients across the world.

"My personal involvement will give me the opportunity to meet and discuss with key opinion leaders in this industry," he adds. Top of which will undoubtedly be his determination to modernise the sector.

Moreno's focus on tech – a staple topic of air cargo conversation over the last decade – has become increasingly frustrating for him. Having previously served on an IATA tech working group, "five years ago, and no progress has been made since" he worries how the industry's luddite qualities could affect its place in pharma supply chains moving forward.

"We made no progress, and this is largely the result of airlines not shifting from the legacy systems they implemented in the 1980s," he continues. "You need only look at IATA's prior predictions on removing paper from the industry. In 2011, the association forecast that by 2015 we would be a '100 per cent paperless industry', we are now in 2021 and I can assure you, unfortunately, that we are far from achieving this goal.

"I think it's a real stamp of approval for WCA members, especially those in its specialty Pharma network, to have one of their own in the TTWG. I am pleased to be a part of the working group. I think it can be seen as a great achievement, a recognition of the independent forwarder and the real role they have to play in delivering for pharmaceutical shippers."

> "I think it's a real stamp of approval for WCA members, especially those in its specialty Pharma network"

THIERRY MORENO
NV Logistics

LCL on the rise as box prices soar

HIGH freight rates in air and sea, and a shortage of containers in major tradelanes is driving demand for less-than-containerload (LCL) solutions.

With boxes only available at exorbitant rates, more shippers and forwarders are open to less-straightforward alternatives to full container offerings.

"Demand is up," confirmed Graham Cousins, chief strategy officer of Vanguard Logistics Services. "A lot is driven by shippers' need for flexibility to find a solution to move their cargo."

And when container rates are high, many users become more sensitive to cost, which brings LCL more to the fore, he added.

Jan Philipp Harnisch, global COO at Rhenus Logistics, added that the Covid-crisis has accelerated the need for more flexible shipping options.

"With air travel far less frequent and reaching record-high prices, as well as stock quantities fluctuating, LCL gives clients the flexibility to fill up only the space they need in a container, rather than renting the whole thing."

Harnisch said the LCL trend "provides a great insight" into the future needs of cargo owners, namely transparency and flexibility.

"One of the biggest pain-points for LCL has always been its lack of transparency," he said. "Often, nearly a dozen different companies will assist in getting a shipment from A to B.

"Tracking this progress between so many logistics companies isn't just difficult, it's nearly impossible. And without it, the headaches may outweigh the savings."

But the recent trend towards digitisation has worked in LCL's favour, allowing providers to offer better quoting capabilities and shipment transparency.

"A lot of companies are better with technology platforms that provide better quoting capability for LCL and better track and trace," said Cousins.

However, not many of those platforms are fully digital, and not many cover the full life cycle of a shipment, he acknowledged, but there has been unmistakable progress.

> "A lot is driven by shippers' need for flexibility"

GRAHAM COUSINS
Vanguard Logistics Services

And customers' approach to the issue has undergone some change, he added. Now there is a greater focus on their side on what an LCL provider can do to remedy the situation if a shipment is not on time.

Broadly speaking, the advances in digitisation have raised the appeal of LCL considerably by making it an easier service, Cousins said. This is important, as FCL is easy to understand, which helps its appeal to shippers.

With digitisation, LCL has become more of a management solution with improved visibility. It can help optimise cost and offer more routing solutions, he said, adding that this makes it easier to position LCL as a possible alternative not only to full container shipping but also to airfreight.

Requirements for broader, more sophisticated services are also on the rise. Customers have shown heightened interest in final-mile solutions as well as in door-to-door offerings and ways to bypass distribution centres, Cousins noted.

Spotlight ON

Peter MacSwiney

A government of half-truths

Chairman of ASM (UK) Ltd, trade chairman of the Joint Customs Consultative Committee (JCCC) and EU Transition Sub Group

"ONE common denominator is that the devil is in the detail," says forwarding industry representative and customs software provider Peter MacSwiney. MacSwiney is speaking to Voice of the Independent (VOTI) one month on from the end of the Brexit transition period, which cemented the UK's departure from the European Union. It is safe to say that he believes the protracted divorce could have been handled "a lot better".

"Brexit became the leading light of this government, a government of a three-word policy," he says. "Those words being 'get Brexit done', and you have to give it to him, that's what [PM Boris Johnson] did. He got Brexit done.

"But for business it has been a complete and utter shambles for one very obvious reason, because the government did not care about business. When Boris said 'f**k business', he was not joking. They have rammed mechanisms in that do not work, that are not fit for purpose, and that they knew would not be fit for purpose before the end of this year – and now we are seeing the results."

> "They have rammed mechanisms in that do not work, that are not fit for purpose"

MacSwiney's ongoing rebuke of the government has received stern pushback, with a cabinet office spokesperson noting that it has always been made clear that there would be new processes and rules at the end of a transition period. This, they say, is why they published a comprehensive Border Operating Model last July and an updated version in October, setting out what to expect at the border. And why they continue to "work closely with businesses" to help them address the challenges resulting from Brexit. This, however, leads to MacSwiney's strongest repudiation of the whole saga.

"There is absolutely nothing in their comments that you can say 'that's definitely not true', they have done all the stuff that they say they have," he says. "So, their comments rebuff my criticism at some level, but they completely miss the point, it is responding in half-truths. Firstly, of course it was clear that new processes would be coming, everyone knew, or at least should have known, this. But the point is, who is going to read a border operating model that provides a feeling for what to expect, but lacks the specifics? The devil is in the detail and it is at this level that the messaging has been really poor.

"Secondly, when they say they have spoken to industry, they have done that – but again, it is only a half-truth because they did not speak to industry before they acted. The first I heard of GVMS [the Goods Vehicle Movement Service, responsible for coordinating the movement of vehicles at the border] was when it was announced in the breakout group of a seminar attended by [Brexit cabinet minister] Michael Gove – no one knew about it beforehand, or at least few did. Government just wanted to be able to turn around to the EU and tell it 'yes, we can comply with your rules'. Once that was out of the way, they came out and consulted business, but they've shown no inclination of changing what they've done, and I think we could have made it better.

"So, yes, there's an issue of speaking in these half-truths that slants the situation in opposition to reality. A reality that has resulted in me receiving hundreds of calls from traders seeking help in trading with the EU."

For MacSwiney, a major headache caused by this "three-word" model of government is that it filtered down into Her Majesty's Revenue and Customs (HMRC). In so doing, he says it has undone a decade of work put in by HMRC and completely flipped what motivates this aisle of civil service. He does not blame HMRC entirely for this, noting that "to a large extent" it was hampered by the late-in-the-day announcement of a deal. And he goes further offering praise for the roll-out of GVMS, a feat he describes as a "technological marvel, but a trading disaster". Nonetheless, he believes the revenue service holds some responsibility for troubles at the border that are only expected to intensify as volumes begin rising following a post-Brexit/pandemic lull.

> "The devil is in the detail and it is at this level that the messaging has been really poor"

"Yes, HMRC was hampered by a deal only being struck the day before Christmas, but it still should have been better prepared because we all knew the end result," MacSwiney continues. "It moved away from working with business, which has compounded the problem because it is this that goes against everything customs authorities at HMRC have been motivated by over the past decade; a motivation that led them to ask, 'is this good for business?' before they acted.

"But all this went out of the window over the past nine months and, seemingly, now all they care about is 'is it legal?' The end result of which has been an absence of synergy between the rules and the practicalities of operating cross-border supply chains. What's going to happen after this, I don't know. We are facing, and will continue to face, changes this year. It's too early to tell."

Insights IN

Seafreight – comment by Mike Wackett

Obscene profits could wreck carrier growth prospects

MIKE WACKETT
Sea Freight Consultant, FICS

THE record profits made by ocean carriers in the final quarter of 2020 will only be outstripped by the huge surpluses that they rack up in Q1 this year.

Maersk for instance saw its transport and logistics sectors yield reach a record net US$1.3 billion profit in Q4 2020, driven mainly by its liner business, and said it expects to see even better results in the first quarter of this year.

And carriers say that their visibility for full ships on the main east-west tradelanes extends well into Q2.

"We're flooded out with bookings", said one carrier recently, "but we are doing our best to help our customers out by adding as much tonnage as we can get hold of and resituating as many containers back to Asia as possible".

> "we are doing our best to help our customers out by adding as much tonnage as we can get hold of"

Unsurprisingly, given the tight supply of both equipment and space on ships, freight rates remain at highly inflated levels and there seems little prospect that they will 'normalise' anytime soon.

But what will be the 'new normal' for freight rates?

The so-called slack period after the Chinese lunar new year will be anything but, and haulage shortages following the CNY will only ratchet up the pressure on supply, further adding to the misery for shippers.

Against this backdrop it would seem highly unlikely that short-term spot rates, which now account for over half of the cargo shipped on the major tradelanes, will ease back from their current inflated heights of up to five times higher than their mid-2020 levels.

Moreover, shippers that have been successful in starting new contract negotiations with their carriers are already paying a lot more than a year ago; those that cannot get an agreement will pay substantially more by default.

Having achieved what one carrier chief executive described as "the first time in 10 years that we are earning back our cost of capital" the liners clearly have a vested interest in keeping freight rates high.

And they will be kicked black and blue by their shareholders if they let slip the capacity discipline goose that has laid the golden eggs for them in 2020.

Nevertheless, analysts agree that as the Covid-19 vaccine is rolled out around the world and consumers are jabbed and protected against the virus, the travel and hospitality industries will re-emerge and consumers will redirect their spending from products to services.

Furthermore, there has to be a peak reached at some stage in the demand driven by the lockdown need to work from home (WFH) and work out at home: how many more flatscreen TVs, peleton bikes and ergonomic chairs will consumers need?

Notwithstanding the potential saturation in the west of WFH goods, many lower value products will no longer be economically viable after factoring in the higher freight costs.

Shippers from China to North Europe that were paying $2,000 a 40 ft a year ago, are now having to hand over to carriers $8,000 to $9,000 for the privilege of shipping a box to Antwerp and Rotterdam and up to a staggering $16,000 for UK ports.

The damage to some trade may already be irreparable, but the sooner carriers start charging a fair rate that will still provide for a healthy balance sheet, rather than the obscene profits currently being reported, the better for all stakeholders in the industry.

Project forwarders pursue rich pickings in wind

FORWARDERS in the project sector are looking forward to rich pickings in the wind energy field. Last year a tidal wave of wind components sent port records flying, and the new administration in Washington has set a course for more renewables to meet US energy needs.

Some 525,000 tons of wind energy components passed through the port of Duluth last year, comprehensively shattering the port's previous record of 306,000 tons set the year before. The cargo, brought in from eight countries on 30 vessels, added up to 154 complete wind turbines.

On the US West Coast, the port of Vancouver USA in Washington handled almost 3,000 wind energy components in 2020.

"We've had an incredible year with wind energy," commented Alex Strogen, the port's chief commercial officer. "Our wind volume surpassed all expectations."

The high volumes of wind energy shipments entering the US over the past two years have been attributed to the looming expiry of federal production tax credits. Without a doubt, shippers were anxious to beat the deadline, but several project forwarders have commented that the growth in wind energy shipments to the US would continue even in the absence of tax credits. They pointed to state governments and electricity providers that have expressed a desire to ramp up energy production from renewable sources.

If anything, the new US government is bent on accelerating the development of wind energy. Shortly after taking office, President Biden signed an executive order that aims to move the nation to 100 per cent clean electricity by 2035, which includes a push to double offshore wind generation by 2030.

> "We've had an incredible year with wind energy"

The first US offshore wind installation started producing electricity last year, turning out a relatively modest 12 MW. Forecasts range from 11 to 16 GW by 2030. Meanwhile, on land project developers are planning to add 12.2 GW of new wind capacity in the US this year, most of which will be installed in Texas and Oklahoma.

Project forwarders are turning their sights on the sector. "Wind is definitely on our radar," said a US-based executive of a large European logistics firm. Another US-based forwarder said that his outfit was increasing its presence in wind energy.

Besides the opportunities beckoning in the wind sector, many forwarders have additional reasons to shift their focus to renewables. The executive order for the US shift to renewable energy calls for an end to federal subsidies for fossil fuels and for a review of mining and drilling activities on public lands.

ALEX STROGEN
Port of Vancouver USA

"Big operators are looking more beyond fossil fuels," remarked Chris Palmer, director of projects at Crane Worldwide Logistics.

The attention from large logistics firms is viewed with misgivings. Their increasing incursions into the project cargo sector in recent years have been characterised by aggressive pricing.

New entrants are challenged by the growing size of wind energy components, though. The ports of Duluth and Vancouver set records not only in wind energy traffic last year but also in the size of the blades handled. One of the shipments through Vancouver brought in the longest blades to enter the West Coast to date – almost 250 feet long.

"We had to build a ramp up and over a loop track," recalled Strogen.

Obtaining permits for such large shipments that are moved over the roads has become more challenging, as local and regional authorities are showing increasing reluctance to allow this traffic in their areas, remarked Robert Sutton, executive vice-president innovation at BNSF Logistics.

When it comes to offshore wind units, the blades are going to be too long to be moved on rail, and trucking faces serious challenges, above all in permitting issues, Sutton said. For the most part, these will be produced close to ports to minimise overland transport, he added.

Ports are gunning for this business. In January the Port of Albany won the tender for a production site for offshore wind towers on its patch, which will generate a steady flow of materials and components for the production and of completed tower modules being shipped out to offshore wind parks.

"We were ecstatic about the decision," said Rich Hendrick, the port's general manager. "This was a major accomplishment."

Shipping line Crowley, the largest US flag operator, is also homing in on offshore wind. In January it unveiled a new division that focuses on wind energy and liquid natural gas.

525,000 tons of wind energy components passed through the port of Duluth last year

Extra capacity leads west coast congestion

EXTRA loaders deployed by transpacific carriers to meet booming import demand have overwhelmed the US gateways of Los Angeles and Long Beach.

The capacity of 27 ships berthed and those at anchorage at the ports stood at a massive 579,100 teu at the start of February.

Alphaliner calculated that the 41 ships at anchorage – some facing a wait of up to two weeks for a berth – equated to some 336,500 teu of idled capacity.

MSC has injected by far the largest amount of additional capacity on the transpacific trade, followed by Yang Ming and Hapag-Lloyd.

MSC has launched several new services between Asia and the US west coast ports outside its 2M alliance with Maersk, with ships of up to 15,000 teu.

Alphaliner said the main issue emanating from port congestion for carriers was the loss of revenue from ships at anchor.

"A typical VLCS [very large containership] taking 4,000 40ft containers with spot cargo between Shanghai and Los Angeles would generate revenue of $16m from the headhaul voyage alone," it said.

US consultant Jon Monroe said Asia to US shippers have seen lead times go from four-to-five weeks in 2019, to nine weeks-plus currently.

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