Voice of the Independent

MARCH 2022 | SERVING THE INDEPENDENT FREIGHT FORWARDING COMMUNITY | No.123

Screws tighten on box lines

Carriers face increased scrutiny from regulatory authorities over rates

MAERSK, CMA CGM and Hapag-Lloyd have been targeted by US Congress over potential "predatory practices".

A joint letter from two US congressional oversight panels, sent to the three carriers on March 2, has given them two weeks to turn over emails, documents, research, price changes and contracts since January 1 2020. They must also explain why their "recent East-West shipping rate increases have significantly exceeded increases in operating costs".

The panels noted that Maersk's operating costs increased by 21 per cent last year, but its average rates rose by 83 per cent. Full year profit was US$18 billion. CMA CGM's operating costs increased by 28 per cent, while revenues rose by almost 73 per cent, with full year profit of $18 billion. Hapag-Lloyd's transport expenses rose 17 per cent against an increase in freight rates of 80 per cent, with profit of $10.8bn.

"Affordable shipping rates are critical to ensuring that small- and medium-sized business owners can continue to make a living and provide goods and services to consumers at reasonable prices," wrote the panels. "We are deeply concerned that [the lines] may have engaged in predatory business practices during the pandemic, making scores of essential goods more expensive for consumers and small businesses."

Shipping lines are facing increased scrutiny from authorities all over the world – and which may see class action lawsuits against them. The letters follow a specific mention from US president Joe Biden in his state of the union address. "During the pandemic, about half a dozen or less foreign-owned companies raised prices by as much as 1,000 per cent and made record profits.

"Tonight, I'm announcing a crackdown on those companies overcharging American businesses and consumers."

> **Shipping lines are facing increased scrutiny from authorities all over the world**

Both the FMC and US regulators are now welcoming open or confidential comments by shippers, forwarders, shipping associations and forwarder associations regarding shipping line practices.

Dan March, CEO of WCAworld cautiously welcomed the move by the FMC and said a number of members had become increasingly concerned with not only cases of excessive pricing but also with other practices. "Detention and demurrage is an area where the fees are not transparent and there is no viable way to challenge or dispute the charges. There are cases where D&D is charged where the shipping line has made it impossible to return or pick up containers."

Other concerns include carriers not honouring existing service contracts and refusing to provide space to forwarders that is made available to direct shippers with similar volumes. In addition, there are reports of carriers forcing forwarders to use their land services thus gaining access to their clients – which could be deemed predatory business practice.

The US is also in the process of introducing the Ocean Shipping Reform Act, aimed at curbing some of the excesses seen in the past two years.

But shippers have also urged authorities to reconsider the antitrust immunity given to the lines, which according to one, do not "serve the public well".

Continued on page 3

VIRTUAL GATEWAY TO CHINA

SINO CONFERENCE™

Sino-International Freight Forwarders Virtual Conference

6 - 8 April 2022

OFFICIAL SPONSOR

Port de Barcelona

ORGANIZED JOINTLY BY

CIFA 中国国际货运代理协会

WCAworld

Expand your business with freight partners in China and from around the globe though one single platform. The conference is open to all independent freight forwarders, logistics vendors, and industry-related companies.

- **6 - 8 April 2022**
- **Virtual One-on-One meetings**
- **Online business networking**
- **Open to ALL**

www.sinoconference.com

CMA CGM allocates capacity to SMEs

CMA CGM, which has been accused of following in Maersk's footsteps by cutting capacity for smaller forwarders, but less transparently, has frozen spot rates and will offer dedicated capacity to smaller companies.

In its earnings call this month, in which it announced profits of some US$18bn, chief executive Rodolphe Saadé acknowledged that "persistent tensions on global logistics chains" had been "particularly challenging for SMEs".

He said: "We have decided to allocate dedicated capacity onboard our vessels to SMEs in the markets where tensions are highest (Europe, North America) at a negotiated rate, usually only available with much larger volume commitments."

The line also said it was extending its freeze on spot rate increases until 30 June.

The decision will be welcomed by SMEs, who have found themselves frozen out of some lines' routes. The move could also be a response to the FMC, whose chair Daniel Maffei noted this month: "Unfortunately, the biggest increases are hitting the smaller and medium-sized shippers and farmers who do not have the shipping volumes that the nation's biggest retailers have – and thus, lack the bargaining power with the ocean carriers and terminal operators."

In a notably different move, Maersk set out to

defend its actions at the TPM conference in Long Beach this month. Vincent Clerc, chief executive of ocean and logistics, told delegates that the company did not want to make money from bottlenecks, but from providing value to customers, hence its move away from spot rates to longer-term contracts for big shippers.

Pointing out that Maersk had doubled its transpacific capacity, he said the line had decided on a "fair price approach", which meant moving away from demand-driven spot rates. Now, 75 per cent of its volumes are long-term, up from 50 per cent two years ago.

"From a financial position it goes without saying that it has a material effect on our profits, that decision has been an investment on our part into our customer relationships – we could charge higher rates but that wouldn't be fair."

And do customers then have to book more value-added services in order to secure space?

Yes, in short. He said: "The customers who are looking for an end-to-end service have a great affinity with us.

"And there's a tendency for us to give allocations to those customers."

Continued from page 1

Lines regulatory scrutiny

Importer Lori Fellmer, speaking at TPM in Long Beach this month, said: "We don't have visibility of the actual alliance agreements. The system needs some attention. Why do [the lines] have this, what's the purpose? It can't just be for vessel-sharing agreements, because they can have that without anti-trust immunity."

But Daniel Maffei, chair of the FMC, argued that without the alliances, there would be more consolidation, allowing carriers to fix rates.

It's not just the US which has focused regulatory scrutiny on the lines. Competition authorities from the US, UK, Australia, Canada and New Zealand have formed a group to "put firms on notice" over suspected "cartel conduct". The UK's Competition and Markets Authority (CMA) have urged people to share information on supply chain collusion via its "cartels hotline".

Forwarders expressed concern that European and Asian authorities were not involved in the move, especially given the nationalities of the major shipping lines. But European forwarder group Clecat has joined the fray, urging the European Commission to urgently investigate the "distorted" liner market.

Unlike the FMC, Clecat said the Consortia Block Exemption Regulation (CBER), which allows significant collaboration between lines, was at the centre of the distortions, while the Global Shippers' Forum said the exemptions had "poisoned the atmosphere".

Intense focus by regulatory authorities could lead to court cases. The US Justice Department's antitrust division and the FBI have announced an initiative to detect and prosecute companies that take advantage of supply chain disruptions "to collude with rivals in order to raise prices".

Law firms in Europe are also looking at the potential for class action lawsuits, but it is likely they will wait to see the outcome of any state probes first.

Airfreight cost hike as capacity plummets

AIRFREIGHT rates between Asia and Europe have soared following Russian's invasion of Ukraine, as the market faced a 22 per cent drop in capacity on some lanes.

While demand has been soft this year, airfreight costs are expected to rise substantially for shippers. Some forwarders have already reported up to a 40 per cent hike in rates on some routes. But it's not just rates that will hit the market. Globally, jet fuel prices rose 27.5 per cent in the week up to March 4, from a week earlier. The Americas and Europe have seen fuel price rises of 32 per cent in a week.

Cargolux, at the time of writing, was the only carrier to have implemented a war risk surcharge of US$0.20 or €0.18 per kg, but others are expected to follow. European carriers, banned from overflying Russia, are adding between 1.5 and 2.5 hours flight time to some parts of Asia, at considerable cost – and decreased payload. Others, such as Finnair, have abandoned some Asian routes, leaving severely diminished capacity between South Korea, Japan and east China to Europe.

Meanwhile Russian-owned AirBridgeCargo, which was operating 16 widebodies at the time of the ban, is no longer allowed to operate in Europe, further culling capacity. A source at the carrier said customers had been understanding, and offered to use ABC where possible. But given that it can only operate in Latin America, Asia and the Middle East, where it is currently hawking charter services, it is unlikely European customers will have much use for it.

The carrier is thought to have built up a war chest of cash in the past two years, giving it some breathing room.

Focus ON

At the click of a button...

LAST year e-commerce was a consistently surging sector, largely spurred by the continuing pandemic's forced closure of physical shopping, and a multitude of lockdowns and isolation rules. This year, however, coronavirus appears to be more under control in many countries. The latest variant has proved perhaps more transmissible but for the bulk of the population, its impact is waning as a combination of greater vaccine uptake and population immunity take hold. Quick Cargo Service's (QCS) chief executive, Stephan Haltmayer, tells Voice of the Independent (VOTI) that his firm is beginning to see a "slight" levelling off in activity.

STEPHAN HALTMAYER
Quick Cargo Service (QCS)

"In regards to our e-commerce business, we had a slight seasonal levelling off at the beginning of the year," says Haltmayer. "We think this has also to do with the corona crises improving and shops opening again. Up until the last quarter of last year, our e-commerce business was booming. This was also caused through Black Friday, Cyber Monday and the usual Christmas boom."

"Levelling off" and declining performances are not one and the same thing. Yes, there may have been signs of e-commerce regression in the middle of last year – June 2021 recorded the biggest one-month drop in e-commerce activity ever – as lockdown restrictions were lifted. This, however, was not a restoration of the high street. Rather, it was a temporary response to near 18 months of on-again, off-again global restrictions in movement by an increasingly impatient international population. A combination of those big summer dips and the levelling off of growth has brought some unexpected benefits, not least of which is the easing of pressure in finding storage capacity, at least in Europe. Last year, VOTI was told by a multitude of SME forwarders active in the e-commerce sector that they were struggling to source capacity as they looked to be able to meet demand in the present, and in the chance of further Covid-related restrictions.

> "In regards to our e-commerce business, we had a slight seasonal levelling off at the beginning of the year"

Haltmayer says: "We don't see a problem with the storage, most of the items are rolled over fast. In terms of warehouse staff, we work with human resource companies that can provide warehouse staff within short notice. We offer free transportation to our warehouse staff to come to work and we try to separate the warehouse teams to protect the works from corona infection. Just recently, we see a significant drop in infection rates. That helps for planning the works in our warehouse."

But this has not been a uniform benefit across the globe. In the US, space is still being charged at a premium. California-based GLC is still finding issues when it comes to sourcing space, with the US forwarder's chief executive Derek Scarbrough telling VOTI it is a "continued challenge... without question".

"The cost to have available space has never been more expensive. Bidding wars with multiple potential buyers for available buildings are now commonplace in the market. We secured our fourth Los Angeles location in Fontana with a 100,000sq ft building due to our relationship with Prologis more than anything else. We have not seen a reluctance or hesitation by our team to return to a live physical office/warehouse environment. Still, we have taken steps such as monthly minimum spend required for any customer with inventory on hand, to help offset the cost of long-term storage and inventory not turning."

Space may be proving an ongoing issue but that may in part be down to the ongoing growth in the company's activities. Where its European counterparts may have pointed to stalled growth, for GLC, Scarbrough says the dramatic levels of growth have not only sustained but actually increased.

"We have secured our fourth warehouse facility in Los Angeles, additional space in Miami is set for mid-April and we are already in negotiations for a fifth LA facility," he continues. "The root cause of the trend continues to be the demand for more e-commerce-focused distribution and fewer brick and mortar retail locations.

> "I think this will affect the market quite a bit and a lot of things will become more expensive"

"We have adapted by adding resources at all levels: additional space, additional team members, new departments, and moving into a customer experience team environment with multiple teams established to delineate accounts/responsibilities. The most significant area of adjustment, outside of overall space challenges and unprecedented cost per square foot levels, has been in drayage. Securing USA drayage providers has been the biggest struggle. There are simply more containers arriving than available drayage providers. Securing additional yard space, prepaying truckers, vendor appreciation focus to obtain service in the challenging environment, are all steps we have taken to reduce the challenges."

DEREK SCARBROUGH
GLC

Of course, there remain other areas of concern. Rates and space in transportation

eCommerce

MAXI EBERT
CCS-Express

remain volatile, and these are unlikely to stabilise, at least imminently given the war Russia has engaged with its neighbour and the united Western response in the face of this aggression. But managing director of Germany's CCS-Express, Maxi Ebert, says that he has yet to see a big impact from the conflict and western sanctions.

"It is too early still," Ebert tells VOTI. "We saw some requests from Russian agents over the last week, which we couldn't help with. I think this will affect the market quite a bit and a lot of things will become more expensive, eg fuel and gas. Meaning that the impact on the e-commerce market will be that people have less money to spend, so people will have less money to spend on online shopping."

But where some forwarders have yet to feel the pinch, others are noticing it more immediately. Most of the major container lines have cancelled their services to Russia, and in many cases Ukraine, over staff safety fears. And tit-for-tat airspace bans have seen hours added on to flight times. Particular sectors, along with particular regions of the world, are likely to feel the pains of this more acutely. Nonetheless, there has been wide support across the industry. And, as the pandemic has proved, forwarders are adept and proving adaptive to the situation in hand, and the WCA remains there to assist them. For members of its e-commerce network, the news that Ken Yokeum has taken the lead has proved welcome.

> "Of course, the pandemic was a game changer in many ways, also the e-commerce market was growing as people couldn't go to shops anymore"

"Most of our shipments are regular where we have blocked space agreements," says Haltmayer. "For individual destinations we still request ad-hoc rates and space which can be difficult at short notice. Most of the time we are able to find the right solution for our customers."

There is of course, the "B word" that needs to be taken into consideration. "Brexit". Ebert says the UK's departure from the EU continues to have a profound impact on the country's capacity to trade. Customs clearance requirements on every shipment between the UK and the EU have increased costs and lead times, and have seen a raft of UK companies looking to fulfilment centres in the EU as a means of getting around the enhanced requirements, splitting their stock, and effectively, their business processes.

"Other companies with higher volumes were looking at solutions to build daily line hauls between the UK and the EU with consolidated clearances," Ebert tells VOTI. "Meaning they took the higher cost for the transportation and clearance but based on their higher volume they could keep on shipping from the UK. Another big issue is returns, as obviously another customs clearance is required. It is also varying between some online sellers offering DDP, while others only offer DAP shipping, which puts the cost on the receivers.

"I'm not sure if this automatically makes EU e-commerce businesses winners, but it definitely makes it harder and more expensive for UK sellers to keep their numbers in sales, as I think a lot of EU buyers are no longer buying due to import duties and taxes, or are not even able to buy anymore as simply shipping to the EU is no longer offered by UK sellers. In my eyes it is a good opportunity for EU fulfilment companies like we are to increase business and gain more UK customers."

CCS has seen changes in its own business practices as a result, with partnerships formed with marketplaces like Amazon and Zalando. Ebert says this was the result of seeing a big demand in UK companies selling their goods through these online marketplaces.

"Being an established and experience customs broker for indirect representation, we know what it takes in order to offer such kinds of importation, which is positive for us, and we could see an increase in business internally," he continues. "Of course, the pandemic was a game changer in many ways, also the e-commerce market was growing as people couldn't go to shops anymore. This I think is slowly changing again, with the restrictions getting less and less. I still think that a lot of people will keep this behaviour though."

Ken Yokeum takes on WCA eCommerce

KEN Yokeum has taken over as WCA eCommerce's managing director. Yokeum brings more than 30 years' experience in the logistics sector to the role and, having served as vice president for Asia Pacific of WCAworld, is well known to many of the members.

Speaking to VOTI, Yokeum says that his experience has helped him develop a broad range of skills that have come not only from the logistics sector, but from technology, business development, sales and marketing.

"I am very excited about joining WCA eCommerce," says Yokeum. "I am certainly looking forward to developing the network further with a clear ambition to drive sustainable and industry-leading growth that benefits members."

While Yokeum has only now spoken of the appointment, he has been busy within the role since June, and has been involved in streamlining the business structure with a focus on simplifying the membership process. This, he says, involved reducing it to one category that allowed for all certified providers actively engaged in the e-commerce supply chain. This requires all applicants to demonstrate they are qualified in eCommerce and are actively involved in the business. As part of the endeavour, the recruiting process and website have been developed consistent with the new structure.

"WCA eCommerce is a very professional group that provides excellent business opportunities between potential partner members," continues Yokeum. "There were a few membership categories in the past, but some do not fully reflect the proficiency of our network in the present world. So, we have to sharpen our strategy to meet the changing needs of today's customers. We must ensure that all our members have the capability, efficiency, and are well-equipped to compete in the market. We have reached out to many members and helped take their business to the next level."

KEN YOKEUM
WCA eCommerce

Perhaps the next pressing task of Yokeum's reign will be organising the 2023 annual conference due to take place next February in Singapore. Yokeum says: "We expect a huge success after an enforced gap of over two years. More information about the event will be available soon."

Spotlight ON

John Stubbings

From Russia – without love

WAR in Ukraine has resulted in significant sanctions for the Russian state. Multiple container lines announced within the first week - some sooner than others - the cancellation of all their services into Russia or Ukraine, with exceptions for food, humanitarian goods and medical supplies. Woodland Group's John Stubbings tells Voice of the Independent (VOTI) that he has seen businesses from multiple industries suspend services. As this issue went to press, it appeared that Coke, McDonalds and Pepsi had buckled under a growing backlash over their failure to ditch services into Russia sooner.

> "Some of the businesses are citing global supply chain issues"

"Some of the businesses are citing global supply chain issues," says Stubbings, "or the attempt to avoid further issues in their global markets as among the reasons for their decision to pull their products and services from [Russia]."

Among those businesses, Airbus and Boeing have pulled both their aircraft and parts' sales and support from the country. While the likes of Apple, Microsoft and Samsung have also done the same, Apple has taken it a step further to limit features like its ApplePay service. Furthermore, luxury goods and apparel brands have "temporarily suspended" services, while a swathe of automotive manufacturers have done the same. But, as Stubbings notes, the impact is not limited to Russia. Indeed, many of the shipping lines have halted new bookings to Russia and Ukraine, so as to help mitigate congestion in European hubs.

"The situation is having a big impact on production lines too, with automotive firms such as Volkswagen and BMW slowing production across their European manufacturing hubs due to a delay in crucial parts which would have originated in either Ukraine or Russia," continues Stubbings. "The two countries are important sources of many metals used in the car-building process, with parts such as catalytic converters being made of palladium and platinum, just two of the metals heavily sourced in the region. Further to catalytic converters, the manufacture of semiconductors also uses palladium, in addition to xenon and neon."

As a result automotive manufacturers are likely to feel the heat sooner than most, particularly given an expected announcement by Putin that he will suspend the export of palladium from Russia – the country accounts for some 25 per cent of the world's supply. But in the immediate future, concern will be on limiting the hit to supply chains. The decision by shipping lines came as the UK government became the first to ban all Russian-owned, affiliated, chartered or flagged vessels from its ports – although only four Russian ships, three of which were fuel related, were heading to the UK when the ban was enforced.

> "The port bans have caused vessels to deviate from their course or anchor whilst awaiting further information"

Stubbings adds that the UK has now stated that "Russian-owned cargo will be free to move if it is aboard a non-Russian vessel." This, however, has been tested, with dockworkers at a UK refinery forcing a load of Russian oil to find somewhere else to dock, after they refused to unload the cargo.

"The rule [on Russian vessels into UK ports] further extends to vessels in ownership of other nations where the next or last destination is within the Russian Federation, except for those carrying humanitarian aid," continues Stubbings. "The port bans have caused vessels to deviate from their course or anchor whilst awaiting further information.

Woodland Group

"Following this, the European Parliament is looking to enforce similar measures across the continent, with major European ports such as Hamburg and Rotterdam already beginning to refuse containers originating in or destined for Russia. This relates to all cargo, therefore containers being transhipped to or from Russia are unable to be moved – the sanctions relate to both loading and unloading of containers, meaning that any Russian cargo already on vessels will not be able to be unloaded and will remain on the vessel, and any cargo sat at the terminal will remain at port until further notice."

In practice, what this means is that some 830 Russian-affiliated monthly vessel calls at UK and EU ports will find themselves scrapped from timetables. Globally, the list of vessels owned or operated by Russian entities tops 6,400. And the issue is, of course, more pressing closer to the epicentre of the crisis, with ports across the Black Sea closed, forcing vessels to either reroute or return to origin. Stubbings says that pressure has been put on cargo capacity for airfreight too, with flights being rerouted or cancelled.

"A mutual ban for flights between Russia and the rest of Europe has been imposed," he continues. "Beyond the impact on direct flights, the restrictions in Russian and Ukrainian airspace have caused diversions in flights between Asia and Europe, with flight times between London and New Delhi increasing by eight per cent compared to the same route prior to the conflict. The lengthening of flight times will in turn create a domino effect within the supply chain, with backlogs and storage challenges becoming key concerns."

There are regions of the world that are also likely to feel the pinch quicker than others. Ukraine is seen by many as the globe's bread basket, with 50 per cent of global sunflower seed oil, 16 per cent of global corn exports and 12 per cent of wheat exports produced by the country.

"And, with 50 per cent of the cereal needs for North Africa and the Middle East met by Russia and Ukraine, concerns around the significant impact on agricultural supply chains have intensified," adds Stubbings. "Then there's retailers. Furniture giant Ikea is pausing exports and imports in and out of Russia and Belarus, including the sourcing of materials, due to supply chain issues and to protect its extended ecosystems, including staff members on the ground locally. The impact will be significant with the IKEA group alone having more than 15,000 workers affected in the region."

Insights IN

Seafreight – comment by Mike Wackett

No more 'California Dreaming' for BCOs

The phrase "when the going gets tough, the tough get going" has never been more appropriate in the supply chain than today.

Notwithstanding the complex working restrictions caused by the pandemic lockdowns, BCO sourcing managers have been obliged to fast-track their education in a range of new skills and disciplines that were not part of their original job descriptions, just to keep their company's product flowing.

BCO managers have seen their workloads increase exponentially over the past two years as the supply and demand balance has pivoted from shipper to carrier supremacy.

The traditional transpacific pre-contract signing get-together conference in Long Beach, California, saw several thousand supply chain stakeholders assemble in the early March sunshine; the numbers boosted by the attendance of big company teams.

Indeed, many BCO sourcing managers and procurement officers attending TPM22, following its two-year Covid hiatus, strolled around the vast conference venue attending numerous panel discussions and networking functions with members of their C-suites in tow.

BCO managers have seen their workloads increase exponentially over the past two years

The executives were obviously keen to understand what was really going on in the dysfunctional world of container shipping, and not least, managers wanted their C-suite colleagues to appreciate how difficult the procurement function had become.

No longer is it a case of carriers tendering for BCO business and offering sweeteners to get their annual contracts across the line; the roles have been reversed and it's shippers that are now desperately trying to secure guaranteed space and gain some idea of what they will be charged for the privilege.

Anecdotal tales swirled around the networking events of long-serving in-house BCO procurement officers getting fired because retailers could not keep their inventories healthy, with big gaps emerging in their hitherto 'just-in-time' business model.

Indeed, the finger of blame pointed directly, and easily, at the incompetence of those unfortunate managers – until his or her successors, thrust into the nigh-impossible role of navigating the supply chain, hit the same wall of radio silence from carriers.

But for those that were able to tough it out and overcome the challenges, such as Mary McNelly, senior director, global logistics and supply chain design, at the iconic casual footware brand Crocs, it has been character building.

Explaining to a packed agenda session, debating the secret of controlling import supply chains, Ms McNelly's tips on surviving the crisis were intently listened to by her disciples, with every word scribbled down and their smart phones for once ignored for the entire presentation.

Ms McNelly described the challenges of overcoming the trials and tribulations of the past 18 months as "career-defining".

"The punches just kept coming," she said, referring to her raft of daily problems dealing with blank sailings, rolled cargo and serious port and landside congestion, all cumulating into a toxic mix of expensive product delays.

In fact, the rather boring and uneventful, if less stressful, tender process with one or two carriers, is a thing of the past.

The process has been replaced with securing a percentage of volume to be allocated with carriers on long-term contracts, along with the protection of assigning some volume through a number of vetted NVOCCs.

And in extreme cases the procurement manager could even find themselves negotiating charter party terms with shipbrokers to lease ships.

MIKE WACKETT
Sea Freight Consultant, FICS

The going has certainly got much tougher for BCOs in the 'new normal' post-pandemic supply chain world.

Shippers urge ILWU and PMA to begin talks immediately

AS if the market hadn't had enough supply chain disruptions in the past two years, another one is looming large and fast – and worrying US importers who are threatening to boycott US west coast ports.

In advance of the start of dockworker negotiations, retail bodies are calling on the International Longshore and Warehouse Union (ILWU) and Pacific Maritime Association (PMA), as well as appealing to the White House, to begin talks as soon as possible.

The current labour contract between the ILWU, which represents nearly 14,000 port workers in California, Oregon and Washington State, and the PMA, on behalf of shipping lines and terminal operators at 29 west coast ports, is due to expire at the end of June. Talks traditionally begin in May for the 1 July deadline.

The negotiations are awaited with apprehension. Several recent rounds turned acrimonious, with painful repercussions for beneficial cargo owners. In 2015, during the previous negotiations, federal mediators had to step in to end four months of work slowdowns that brought gridlock.

Now, National Retail Federation president & CEO Matthew Shay has written to ILWU president William Adams and PMA chairman & CEO James McKenna urging them to begin contract negotiations as soon as possible.

He told them: "As many expect supply chain disruptions to continue through 2022, contract negotiations should not lead to additional pressures.

"We know key issues for both parties need to be worked out during this contract negotiation and believe the parties should sit down now and not wait to begin negotiations. Both parties should attempt to reach a contract well before expiration for the benefit of the national economy and to provide the needed certainty to all the stakeholders in the supply chain that rely on the US west coast ports."

"The uncertainty is already affecting operations on the ground"

And shippers have threatened to reconsider their use of west coast ports.

"Without a clear commitment to keep negotiating, cargo shifts to other gateways would likely happen, even if a disruption never occurs, simply due to the need to mitigate the risk of disruption," said Shay.

The Retail Leaders Industry Association wrote: "The uncertainty is already affecting operations on the ground. Importers and exporters, wary of further disruption are already adjusting freight strategies to avoid or mitigate potential impacts to keep goods moving, as they have throughout the pandemic. These adjustments are influencing volumes and market share, with the contract expiration just months away."

Ukraine invasions triggers outsize lift crunch for project cargo

SINCE the end of February, Toronto's Pearson airport has hosted an involuntary guest that stands out on the tarmac – an Antonov 124 freighter. The plane, owned by Russian operator Volga-Dnepr, had brought in a consignment of PPE and Covid test kits, but was unable to leave because the government in Ottawa had closed Canadian airspace to Russian carriers and it impounded the aircraft.

Likewise, Russian aircraft operators cannot fly in the skies over the US, the UK and the European Union. This leaves a huge dent in available freighter capacity, and the impact is most dramatic in the outsize charter segment, which is dominated by the Antonov 124 and the Ilyushin 76.

Until Friday, 4 March, Mexico, which had not imposed such a ban, seemed to offer a loophole for US and Canadian shippers looking to move outsize cargo like large oil equipment. Forwarder Fracht USA was doing a lot of quotes out of Monterrey for Volga-Dnepr's Antonovs, reported Chris Schumacher, vice president airfreight.

Like the Volga-Dnepr Antonovs and Il-76s, AirBridge Cargo's 747 fleet was also busy doing charter work, but all those activities stopped altogether after 4 March.

The situation leaves forwarders and shippers that are looking for charters in a bind. A number of Russian operators have fielded their freighters more or less exclusively for charter work, but no carrier outside Russia is doing that, observed Russi Batliwala, chairman of charter broker Chapman Freeborn.

"Russian aircraft are the charter market," he said. "This will have a severe impact on the charter market."

At the top end of the outsize market, the picture is bleakest, as the only AN-225, which had a payload capability of 250 tonnes, was severely damaged in the Russian bombardment of the airport outside Kyiv. According to some reports, it was destroyed beyond repair, while other sources estimate it would take years to make the plane airworthy again.

The situation is not much better when it comes to AN-124 freighters. Ukraine-based Antonov Airlines, the owner of the AN-225, has seven AN-124s in its fleet. Two of those are stuck in Ukraine; the rest were outside the country when the Russian invasion began. They are currently flying humanitarian missions and are not available for regular charter business.

"If you have a helicopter that you want transported, forget it," said Batliwala.

"At this point there is no available Antonov-124," confirmed Schumacher.

Like Fracht, Calgary-based charter broker Aerodyne Cargo Services had also had some talks with clients about trucking their outsize cargo to Mexico to find lift to other parts of the world. "We're seeing a lot of activity with oil and gas shipments to Singapore, Bangkok, Jakarta and some other places," said managing director Ron Buschman.

RUSSI BATLIWALA
Chapman Freeborn

One of his clients was considering taking a large piece of cargo apart so it could fit into two 747 freighters, he reported.

Rates for 747 charters are going through the roof, assuming that a forwarder can get hold of an aircraft, remarked Schumacher.

"Customers are looking at their penalty clauses. Spending $2 million on a 747 charter would be cheaper for them," he reflected.

> "This will have a severe impact on the charter market"

The withdrawal of AirBridge Cargo from the market is leaving a massive hole in capacity that is bound to drive up pricing. The Russian airline has a total fleet of 17 747 freighters (13 747-8s and four 747-400s), plus one 777-200F, and one on order.

According to Dorothea von Boxberg, CEO of Lufthansa Cargo, the loss of the AirBridge capacity, combined with a payload reduction of about 10 per cent for European carriers due to having to fly longer routes around Russia, translates into a loss of about 10 per cent of the capacity between Asia and Europe.

The charter market was already tight before the Russian invasion of Ukraine, as capacity was insufficient to meet demand from Asia to Europe and North America, pushing a growing number of forwarders to sign up dedicated freighter flights on a regular basis. Atlas Air has already signed contracts for its last 747-8 freighters well before they are due for delivery to the company this year.

Meanwhile, there is still a lot of Covid-related traffic to be flown all over the world. The AN-124 that is stranded in Toronto marked the abrupt end of a string of charters that had carried PPE and test kits to Canada almost every other day, said Buschman.

With no signs of demand for airfreight abating and the limited capacity having shrunk even more, pricing is expected to rise further.

"I expect prices will go up," said Batliwala.

He did not see a serious spike in charter rates immediately following the Russian invasion, which he attributed mostly to seasonally lower demand. "If this had happened in October, November, all hell would have broken loose," he said.

He expects the capacity problems that have sprung from the situation in Ukraine to cast a long shadow. "This will have an impact on how we do business going forward," he predicted.

These longer-term repercussions have only begun to sink in, he reckoned. "The world is still stunned, the industry is still stunned. The focus is now on the humanitarian effort," he said.

Cyber attacks fears unfounded

FORWARDER fears that supply chains will be hit by targeted cyber attacks are likely unfounded, according to a cyber security expert.

Following the invasion of Ukraine, many forwarders expressed concerns that supply chains would be hit. One said: "If I were an egotistical, paranoid, oligarch-like mad dictator, I would target, digitally or physically, global trade – ie, shipping."

However, Christina Stevenson, director of governance, risk & compliance at CyberCX, said logistics was more likely to be affected by the fall out of any cyber warfare, than seen as a target.

"In terms of the main targets, energy, finance and operational technology are the big three… and, obviously, NATO operations in Ukraine. I think the most likely way in which European businesses will be affected is in terms of the collateral damage.

"A recklessly used cyberweapon could cause that collateral damage to organisations – I think that's what we need to be more aware of. We may not see an increase in direct attacks; rather an increase in the fallout from state-to-state threats."

Voice of the Independent
Contacts
Production & Design: Mandy Warren
mwarren@worldlogisticsmedia.com
Editorial Team: Editor
editorial@worldlogisticsmedia.com
UK Office
Talon House, 6 Blackthorne Road,
Colnbrook, Berks, SL3 0AL, UK
Phone: +44 7736 034153