Voice of the Independent

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Slow May may foretell a return to the 'bad old days'

The unhappy combo of extra summer capacity and weak demand

AIRFREIGHT seems to be the poster child for decline, with expectations the unhappy combo of extra summer capacity and weak demand will see it hit rock bottom in the next few months.

If this was not bad enough, there are multiple indicators – and industry voices – suggesting the trough it hits could stick around well into 2024, with one analyst noting while airfreight downturns may tend to last six months to a year, "this cycle looks as if it will be longer".

Global logistics director for financial advisory firm Stifel Bruce Chan said: "2023 airfreight rates continue to grind lower, and last month was no different.

"We saw May endure a double-whammy of soft demand and the continued resurgence of capacity – particularly from passenger flights, as both transatlantic and transpacific traffic returns for the summer season."

Admitting that demand was "trickier" to forecast than supply, Chan said that with the general trend of the year having been one of weakness, it seemed fair to suggest it may continue.

Evidencing this supposition, he noted that the weakness experienced had been worse than anticipated, with inventory restocking pushed out, particularly on the consumer side, as an impact of inflation and elevated energy and staples costs hitting discretionary spending.

> "2023 airfreight rates continue to grind lower, and last month was no different"

Adding to this, IATA noted that faster transit times and a "significant" shift to shorter delivery times within less than a year has only sustained the decrease in air cargo load factors.

Of course, these factors have similarly hit the container shipping lines, but unlike them air has been battered by the sudden resurgence of summer capacity, leaving cargo divisions and full-freighter operators nervous of their fortunes for the next year.

"Global container activity (import and export, system-wide) is down six per cent YTD versus the same period in 2022," noted Chan.

"Airfreight is faring even worse, with IATA reporting a 7.7 per cent drop in March FTKs YoY, and an 8.1 per cent decline vs March 2019. We believe most of the 'trade-back' from air to ocean after last year's bottlenecks has largely happened, but core air demand remains muted."

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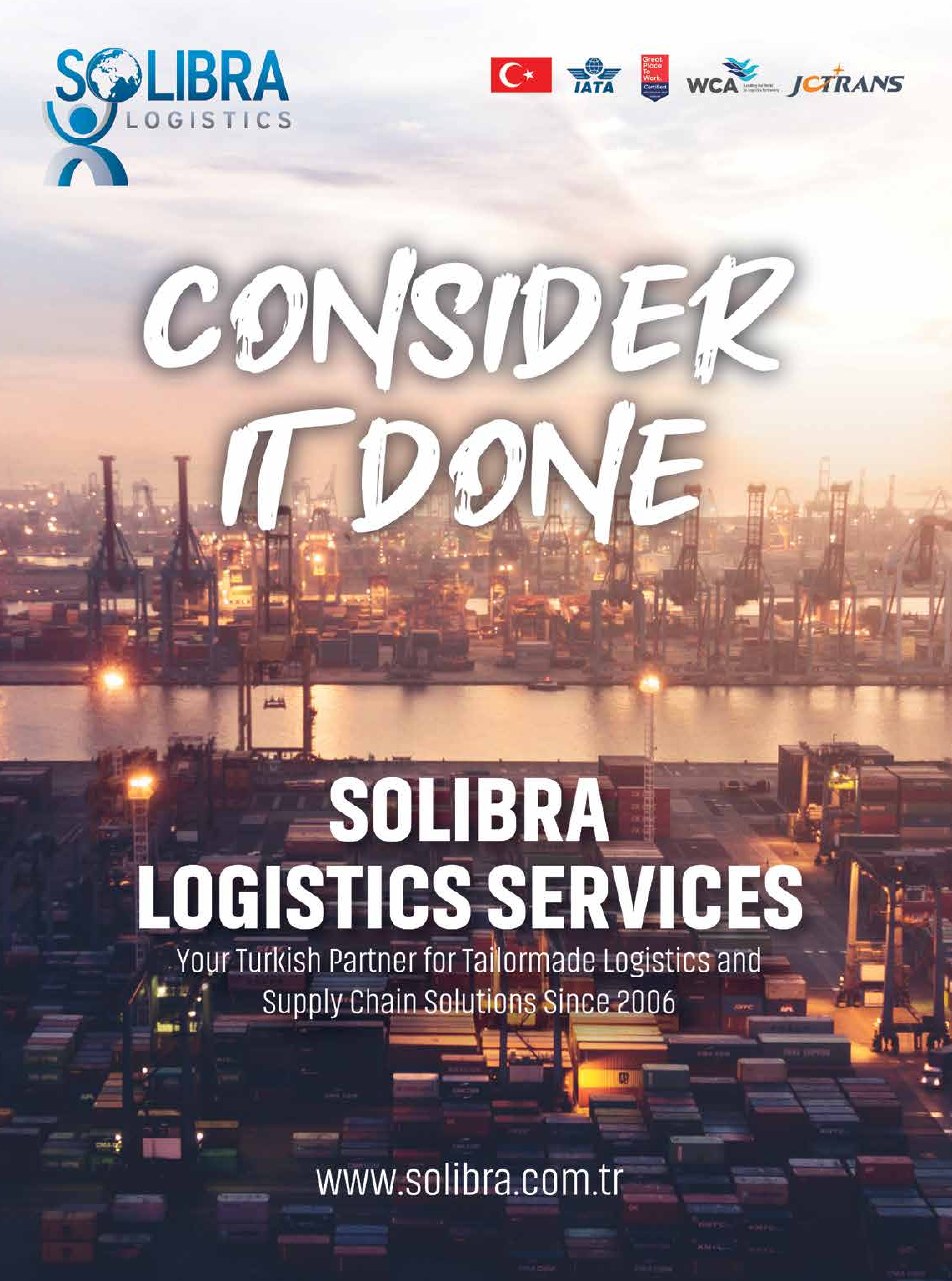
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Can the UK become 'a powerhouse' for SAF production?

SUSTAINABLE aviation fuel (SAF) may finally have turned a corner as governments intervene to ensure that demand, in the face of mounting environmental pressures, is met.

A series of US tax incentives are due to take effect as the country eyes meeting 100 percent of its domestic SAF demand by 2050. In Europe, binding targets have been set to accelerate investment, while the UK is closing in on a mandate for 10 percent SAF in jet fuel by 2030.

Research undertaken by SkyNRG suggests this blending of mandates and production goals will lead to 12.8 million tonnes of SAF globally by 2030, hitting 120 million tonnes by 2050.

However, there is expectation that an increase in voluntary demand in SAF could absorb capacity in excess of the mandates, with the research suggesting Europe alone will need to develop 150 SAF refineries by 2050 at an estimated cost of some €250 billion.

Presently, 60 percent of the announced European capacity is dependent on Neste Rotterdam and Shell Pernis in the Netherlands.

Seemingly, European demand could lead to the UK becoming something of a powerhouse in this sector, with it planning to have five new sites up and running by 2025.

The researchers said: "We expect the UK will become an important market for advanced biofuels, which are not specifically mandated in the EU, while some member states may introduce e-SAF targets/incentives prior to 2030 to kickstart supply."

Recent reports had suggested that there simply was not capacity to meet the level of SAF output to keep the world's global aircraft fleet flying.

But the US Inflation Reduction Act, combined with other incentives such as tax credits, will push the country towards producing sufficient amounts – with some 8.5 million tonnes in commercial operation by 2030, an increase of 3.7 million tonnes on last year's outlook.

The researchers said the increase was "primarily because we adopted a different approach around hydroprocessed esters and fatty acids (HEFA) feedstock constraints up to 2030".

Forwarders have welcomed the news as they have found themselves facing increasing pressures from their partners and customers along the supply chains to improve their environmental standards.

But for airlines, there is a sense of a relief their heads may be off the block, with many having expressed concern over their future existence, with AF-KLM Cargo particularly focused.

Executive vice president Adriaan Den Heijer said: "We have to make some tough decisions on investing billions into SAF in the next years. As an industry, are we willing to embrace it? We have good talks with customers."

SAF, of course, is not the only technology to invest in – but it's the only game in town right now, he said. "There is lots of willingness to make it work and pay for it. Forwarders need to talk to shippers too.

"We deal with procurement guys, but this is a strategic decision, and investment will help drive targets."

Alert over upcoming new US cargo screening rules

FORWARDERS are being urged by the US Transportation Security Administration (TSA) to advise customers of new screening rules coming into force from 31 October.

Under the changes, cargo that cannot be screened via normal methods will only be permitted to travel by air if shippers have enrolled in one of three TSA-authorised cargo security programmes.

Executive director of the US Airforwarders Association Brandon Fried advised: "Join one of the programmes, use sea freight instead of air freight, or don't ship cargo at all."

TSA executive director air cargo John Beckius urged shippers and their freight partners not to wait, recommending the Certified Cargo Screening Facilities (CCSF) programme as the preferred option. He warned those who left it too late would see their oversize items stranded.

"There is a process, and it will not happen overnight, but CCSF has been designed for this challenge on the passenger side and it's perfect for this too," said Beckius.

"We are happy to talk to shippers, but the TSA doesn't know who the shippers are – you do, so we are asking for your help. We want to get the word out; we don't want bottlenecks," he added in a direct appeal to forwarders.

While Beckius acknowledged that the TSA has gained some notoriety for "kicking the can down the road", he stressed that it was sticking to its 31 October deadline.

Noting the AfA was hosting a meeting in Chicago in June on the changes, Fried said the AfA was open to coming to other cities to support forwarders, adding: "This should be a tripartite effort – shippers, forwarders and the TSA."

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Concern for the market longer term

Summer's resurgence of lower-deck space has proved notably pronounced on transatlantic lanes, in what Chan described as "generally robust passenger activity".

As such, he said it would take time for capacity to moderate, even after the summer surge waned, but, he noted that there remained some bright spots: yields, for example, are still higher than pre-Covid.

According to TAC Index, spot rates are up across the board: westbound transatlantic by 10 per cent, Asia-Europe by 30 per cent and eastbound transpacific to the US by 35 per cent.

Baltic Exchange's Peter Stallion also said airlines could see a boost from weak oil demand, adding that "the weakened outlook on oil also links back to fear of a deal to extend the US debt ceiling derailing, putting the dampeners on demand.

BRUCE CHAN
Stifel

"This has a negative impact on fuel demand, with the IATA average jet fuel price marker down 36.3 per cent since last year, with the major impacts in the Americas.

"While this might end up being positive for airline profitability, it also removes the value of fuel surcharges in airfreight rates and the onus to price-in any bullish potential for fuel into the airfreight capacity market.

"On top of this, those looking to hedge fuel may find better relative opportunity as the market pulls back, and helping to remove any bullish impact increases in fuel prices might have."

Nonetheless, Stallion stressed that there were some "alarming" market signals, which caused him concern for the longer term.

"[Mismatch of supply and demand] drives the bear case airfreight will (eventually) regress to 2019 levels, based on diminished requirement – a bad outlook well beyond its price, with the commercial focus shifting back to passengers, as it was in the 'bad old days'," he added.

"With the new focus on airfreight revenues cultivated in the past three years, we hope this regression in attitudes isn't realised."

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Spotlight ON

Adam Komorowski

'People first' remains the mantra at EAS

managing director
EAS International

"WE and every one of our clients were relieved when Covid restrictions began to loosen, costs started to decrease and cargo space availability began to normalise; no one expected the outbreak of a conflict," managing director of EAS International Adam Komorowski tells Voice of the Independent (VOTI).

This is Komorowski's second time talking with VOTI since Russia's invasion of Ukraine in February 2022. Last May, he told us the impact of invasion had been "turbulent" and was causing "ruptures" across global supply chains. Twelve months on, where do things stand?

"During the pandemic, supply chains of every company underwent extreme tests," he says. "Some did not withstand this trial, others were modified to adapt to the new, challenging reality. Companies had to deal with limited availability from sourcing locations, followed by extended transit times and significant increases in costs.

"The war in our region has drastically hindered recovery from the Covid crisis – we've returned to times of increased transportation costs, exacerbated by the fuel crisis, rising electricity prices and congestion in Polish seaports, due to the blockade of Ukrainian ports. Not to mention the geopolitical repercussions, such as blocked trade routes or the closure of air routes over Ukrainian territory."

"During the pandemic, supply chains of every company underwent extreme tests"

If war has impeded the logistics sector's recovery from the pandemic, Komorowski says the pandemic, to some extent, immunised the sector from the worst effects of the war, describing Covid-19 as something of a "logistics vaccine" for the present chaos reaping its way across Eastern European supply chains. This "vaccine" effectively meant that logistics operators that had been paying attention and, learning from the pandemic, had an inbuilt muscle memory response, allowing for what he describes as the "rapid absorption of negative phenomena" in the supply chain.

"The shock of war was compensated by our ability to swiftly switch to alternative regions that serve as new sourcing locations for our clients being a crisis response pattern that we had already been familiarised with and was reactivated by the war," says Komorowski.

Alternative suppliers may be one thing, but the conflict has made its mark on the geography of Europe, both on land, at sea and in the skies, and it was the latter that presented some of the starkest issues for operators in the days immediately after the invasion. Speaking last May, Komorowski noted that the closure of skies above both Russia and Ukraine resulted in the rerouting of flights between China and Europe.

Unsurprisingly, he noted that this had a "huge impact" on transit times and costs, which were already at something of a premium as aircraft were being requisitioned to deal with the vast humanitarian emergency unfolding, the war having begun with missile attacks across Ukraine's major cities, Kiev included.

"On the first day of the invasion, Ukraine's airspace was closed," says Komorowksi. "And today Russian and Ukrainian airspace remains closed, which poses a greater challenge for airlines than for forwarders, as current airfreight rates are driven by decreasing volumes and significant demand-supply fluctuations. Currently, a large number of shipments destined for the Ukrainian market are being processed through Polish airports and then delivered by road to Ukraine. This scheme partially applies to maritime transport as well."

"The conflict is ongoing, which means that the associated problems persist"

Prior to the invasion, Europe was contending with an ever-worsening truck driver shortage. And while not unique to Europe, the shortage gripping the globe, the IRU was predicting that 2022 would see the continent's supply of drivers fall by 40 per cent. Today, the shortage is estimated at 380,000, accounting for approximately 10 per cent of demand, and expected to again rise this year to a shortfall equating to 14 per cent of demand. The onset of war certainly has not helped this, Komorowski notes, explaining that the invasion led to the sudden loss of tens of thousands of professional drivers who "exchanged the steering wheel for weapons". This loss, he continues, has had a pronounced impact on the availability and efficiency of both FTL and LTL transport, while also having had an indirect influence on the delivery and collection of containers at European ports.

"The shortage of drivers increases cost pressure, and furthermore, most Western companies – cargo providers, lessors, and insurers – refuse to allow vehicles to cross the border with Ukraine due to the high risk of property loss," he says.

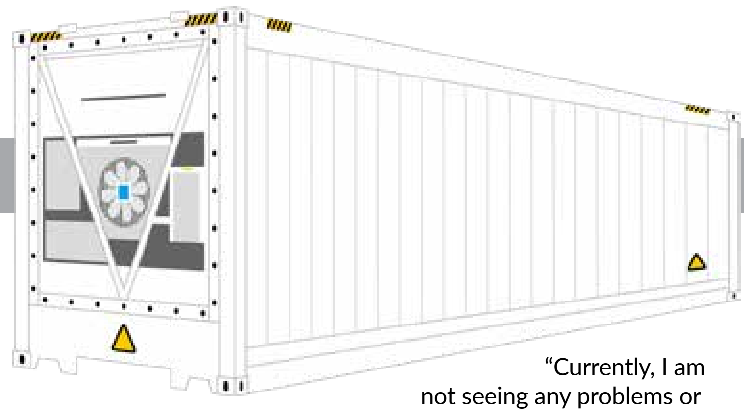
Prior to the war, Russia was Poland's second-largest market for exports, with more than $7.5 billion worth of goods being shipped there every year. Similarly, Poland imported around $8 billion and seemed particularly reliant on Russian energy sources. And yet, given EAS's location, namely Poland, Komorowski appears relatively unphased by the sanctioning of not one but two of Poland's bigger markets – Russia and Belarus – alongside the effective suspension of business opportunities into Ukraine.

"The outbreak of the war served as an accelerator for market strategy changes for companies operating in the transportation sector, as well as for others," he says. "The conflict is ongoing, which means that the associated problems persist and are multiplied by the general economic slowdown resulting from the increase in commodity prices and fixed costs. All of this leads to intensified competition in the market, as observed by every forwarder, whether they sell air or sea freight, where rates have dropped to pre-Covid levels."

Typical business may have been hit but as a socially conscious company, EAS has not been short of work, with Komorowski noting he and the team have been "actively involved from the beginning" in providing assistance to refugees coming to Poland. Additionally, being in the transportation industry, he says, means EAS had resources to support foundations and other NGOs in organising the transport of essential supplies to Ukraine for the civilian population.

"This population were deprived of access to food and medicine in the early weeks of the conflict," he adds. "With the war ongoing, we remain focused on providing aid. As a family-owned company, EAS firmly stands by the principle of 'People First'."

Focus ON



A cooler and smoother p

SCHEDULE instability, missing containers, and out-of-whack rates: last year had it all for those shipping perishables. This whirlpool of calamity was in part the ongoing repercussions of the pandemic on global supply chains, but Russia's decision to invade Ukraine certainly failed to do anything other than worsen the problems; pharma and government relations director for Brazil-based AGL Cargo, Jackson Campos, telling Voice of the Independent (VOTI) that several containers destined for Russia and Ukraine found themselves stuck in Rotterdam.

This year though, with rates having dropped substantially, are things looking any better? In short, yes would appear to be the answer.

JACKSON CAMPOS
AGL Cargo

"Currently, I am not seeing any problems or any lack of capacity in the same way we saw last year," Campos tells VOTI. "And, if I were to glimpse into the rest of the year, I am generally predicting things to remain as they have been so far, that is, a calm and stable 2023 with no expectations of problems from either an air or sea perspective."

> "Currently, I am not seeing any problems or any lack of capacity in the same way we saw last year"

If the situation has improved, one has to ask have any lessons been learned? Drewry's reefer analyst Philip Gray does not say, but as far as ports are concerned, he tells VOTI: "The main point is 'retain your workforce'. Port work is highly specialised and needs serious training, so don't dismiss your workforce so easily, getting them back is a long process."

Gray, though, concurs with Campos on the general health of the market, telling VOTI that from his perspective, schedule instability had seemingly resolved itself and this was leading to rates trending downwards, "although each trade has its own peculiarities", he adds while also noting that the problem of reefer equipment being unavailable also "in general" appeared to be no longer an issue. Similarly, Campos says that he and the team have had "no problem" sourcing cold boxes, with equipment available "in all the places we have been requesting it".

However, Maltacourt's head of perishables, David Devine, says there are always pockets of problems as far as equipment availability is concerned.

"Whilst reefer equipment has improved from the UK, the issue will always be availability at certain times of the year," Devine tells VOTI. "Perishable products from the UK are very seasonable, so equipment can still be an issue at peak times. Our perishables team at Maltacourt will continue to liaise with exporters and shipping lines to manage equipment availability for our clients."

Campos' overall sunny disposition when asked about the prospects for the remainder of the year seems largely reflective of the expectations voiced by several WCA members that VOTI spoke with. Translog Overseas' Justo Marmol tells VOTI "these things are being solved". Like Marmol and our man in Brazil Campos, Hamburg-headquartered Teconja appears to be approaching the rest of 2023 in the belief that the problems of 2022 have been, if not stamped out entirely, then certainly reduced to the point where business can flow with greater ease.

"The issues faced by perishables forwarders over the course of 2022 have been widely solved," Teconja's sales manager for ocean freight, Marcel Pachali, tells VOTI. "We have seen schedules become more reliable, the congestion in ports reducing, road transport capacities are back to normal (speaking for North Europe) and freight rates are at a very low level right now, for certain trades these are even lower than before the pandemic; and we expect this to last throughout 2023."

Part of this confidence is likely grounded in the shellacking ocean carriers have taken in the opening months of the year. And, with the exception of Zim, these carriers have remained if not pessimistic then certainly muted on the year ahead. Maersk recorded a drop of $5 billion compared with 2022 and while Hapag-Lloyd may have been happiest of the bunch – given what is best described as a robust performance in its largest market, Latin America – it nonetheless seems certain that the year will be one where it breaks even, seeing "no sign" of the demand recovery it would have expected by now if it was to forecast any semblance of growth.

Rather than salivating over the difficulties faced by a sector that many SME forwarders felt took advantage of them in recent years, shippers and forwarders appear to be prepping, having gotten wise to the tendency of the ocean liners to turn on and off the faucet of availability to suit their own needs, if what Campos says is anything to go by.

> "The issue will always be availability at certain times of the year"

"Yes, customers are definitely getting smarter," he notes. "They are looking to switch up modes so that they have options in the future. For pharma shipments, a qualification period is mandatory, but customers are trying to resolve this now so that they are ready for any unforeseen circumstances. But for perishables – where last year we had shipping connections still down that had been lost during the pandemic – almost everything we had prior to Covid is back online."

Looking specifically at Brazil, Campos and the team faced a difficult few years as far as cold chain services were concerned. Up until 2020, the country was seen as a major rising force. Reports suggested Brazil's $1.6 billion-valued cold chain industry would double in value to nearly $3.3 billion by 2026. But the hurdle for realising this, as far as Campos was concerned, was firstly a lack, or varied quality of, internal transport infrastructure and a government that appeared markedly more concerned with the pharma limb of this industry. Evidencing this, Campos points towards regulatory changes geared to improving pharma shipping.

Active in that sphere, Campos does not seem critical of the work done – even if he would like more attention paid towards perishables: "Yes, the health surveillance is starting to inspect the shipments and importers so that it can be sure all regulation is being followed. Pharma and healthcare sectors are familiar with this regulation, and they get used to that fast."

But this theme of regulation certainly seems to carry around the industry. Devine gives a distinctly domestic view when he notes that the main issue facing the seafood industry in Scotland is the proposed "Highly Protected Marine Areas" (HPMA). If successful, HPMA legislation will see the Scottish government designate at least 10 per cent of Scotland's seas as Highly Protected Marine Areas.

"HPMAs are areas of the sea that are placed under strict protection to support ecosystem recovery and protect against climate change," says Devine. "The consultation has now been completed and is under review by the Scottish Government. If passed, this will affect all methods of fishing in the selected areas."

When Campos spoke to VOTI 12 months ago, he said the changing regulatory landscape over the preceding year or so had coincided with customers starting to look for active packages for air cargo and online 24/7 temperature monitoring. Responding to

DAVID DEVINE
Maltacourt

Perishables

erishables market

PHILIP GRAY
Drewry

this, AGL Cargo became a hub for an active package solution supplied by CSafe Global, and also partnered with a datalogger brand providing online monitoring. Others had also begun to consider air as an alternative in the, at that moment, out-of-kilter shipping world – particularly as it witnessed whole shipments being wasted and shippers contemplating selling at a loss in the short-term so as to avoid the potential of losing business in the long-term.

Of this, Gray says: "If anything, the events of the last few years did put shippers at the point of demanding higher prices for their products, as overall there have been price erosions. If we look at bananas, finally prices went up after many years of decline, so the process did help re-adjust prices to cater for increased costs."

But what about air, has the chaos-induced consideration of a modal shift to air materialised? This seems to be something of a mixed bag. For Pachali, there certainly had been an increase in perishables moving by air over the course of 2022, but with schedule reliability "back on track" and rates having come down, he believes the trend is now one of reverting back to sea freight. Devine, however, seems to think there may be something to the claims of a trend towards air, regardless of where rates are on the ocean side, noting there are more options now for air freight markets, especially as far as East Asia is concerned.

"As China continues to re-open for business, more airlines have recently resumed direct services from the UK," he continues. "The freight rates have become more competitive and attractive for the exporters. This will see an increase in volume on live product being shipped in 2023 by air. Scotland has long-standing issues with cold storage facilities at our airports, at present only Glasgow airport has a suitable cold storage facility. With seafood exports being such an important sector to the Scottish economy, we feel this must be addressed, and are working with local airports to improve cold store options."

His concerns over air freight infrastructure are shared by Marmol, who believes that next year will be something of a crunch point for air freighted perishables.

"In terms of air freight, the main issue for 2024 could be a lack of investment (by terminals and governments) and a failure to build new temperature-controlled warehouses at terminals," he continues. "There are important airports in the world that do not have these temperature-controlled warehouses, or if they do have them, they only have one (the most common is +2 to +8 degrees), but they do not have frozen temperature-controlled warehouse or those for +15 to +25 degrees shipments."

As far as Marmol's concerned there are some other worrying signs when it comes to government intervention in the sector. He points to what he sees as a rising number of "anti-globalisation policies" coming alongside a worsening mood between some countries that will only add complexity and therefore difficulties for shipping goods, and for those moving perishables these additional hurdles are made more pronounced by the products' time-sensitive natures.

"These policies and moods will only make it more difficult to move goods by increasing the document requirements related to the import or export of any kind of perishable cargo," says Marmol. "I would expect to see this mood manifested through countries, some at least, putting more barriers up for foreign products. I look at this and think all it will do is make the import of perishable, time-sensitive, cargo much more difficult. In many countries this is the result less of hostility between nations, but more a

rising trend within the population to consume local, or national, produce."

Increased difficulties notwithstanding, Marmol is keen to advocate Translog's qualifications as far as ensuring the least delay to movement of goods. Having commenced operations at the turn of the century, the company serves as both forwarder and customs broker, with a division purely focused on the movement of foodstuffs (perishable and non-perishable). And from his perspective, if the world becomes harder to move around, having a partner with such skillsets will become ever-more pivotal for successful operations.

"Being a customs broker when we are freight forwarder is a big advantage for any food supplier or importer," he says. "Having the two combined ensures a much smoother flow of goods – both import and export – through an efficient, effective approach to business. And this efficiency and speed comes from the fact that we know the procedures along the whole chain very, very well and how to both save time and reduce costs (like detention and demurrage charges) for any food importer."

> "In terms of air freight, the main issue for 2024 could be a lack of investment"

Gray says that he too has seen some changes in the way goods are moved, noting some "modal adjustment… on some very specific trades". This has included shippers moving melons from Brazil to Europe, or European shippers sending French fries to the US having placed some volumes on specialised reefers, and it seems these avenues are being kept open for the remainder of 2023 "at least". This would suggest that even if shippers, and forwarders seem largely calm about the short-term, there are expectations that it will change in the longer term, and Pachali seems to be of this school of thought. He expects to see changes over the course of 2024. Not least of which is a belief that ocean carriers, in response to the present weaknesses, will seek to reduce the hit they face by cutting capacity "strongly". This, he says, will be the carriers' attempt to "challenge the dropping market and to fight the low rates", but it will not be all he expects of them, suspecting a particular kick in the teeth for the perishables community.

"As a consequence of low utilisation and the poor financial results reported by the shipping lines (results supposed to continue in 2023), I think we will see them stop ordering new reefer equipment," Pachali adds.

Marmol also expresses concern of another element of shipping line behaviour, namely their seeming willingness to try and bypass the rest of the logistics community to "take control" of the entire perishables supply chain by going directly to food cargo importers or exporters. He, however, concludes by noting that forwarders like Translog have built up strong buying power that allows them to acquire reefer containers and compete when it comes to rates.

"This buying power allows us to offer customers very convenient rates," he says.

Land-grab in Mexico threatens near-shoring prospects

LOPEZ OBRADOR
Mexican President

MEXICO'S bid to be an alternative to China could be under threat following its government's seizure of land, 120 kilometres of tracks operated by rail freight company Ferrosur.

President Lopez Obrador ordered the seizures to build commuter stations and lines to service Felipe Angeles International Airport (AIFA), set to become the freighter hub for the Mexican capital after the government announced a ban on freighters at Benito Juarez International.

Felipe Angeles International Airport (AIFA) is set to become the freighter hub for the Mexican capital

While not opposed to the move to AIFA, the logistics sector has questioned the manner in which it was handled, with these latest governments seizures only like to fuel further concern.

Airline sources in particular have been vocal in their opposition to the government-mandated move to AIFA, with the cargo boss of one carrier telling Voice of the Independent that while they were "observing the situation", they had reservations.

"We don't usually like mandates that force businesses to do certain things, and while it may end up beneficial, it sets worrying precedents that could prove troublesome," they added.

The site of the Mexican military showing up in the state of Veracruz to take over Ferrosur's facilities have only added to the sense of foreboding, but the government sought to legitimise the move by decreeing the track a public utility.

"It sets worrying precedents that could prove troublesome"

Ultimately it is understood, the track will form part of a line connecting the Gulf of Mexico with the Pacific with the overall aim of boosting coast-to-coast freight and passenger traffic.

Seemingly, part of the problem lies with the fact that the business community felt convinced by Obrador's election campaign that while he was intent on revolutionising the country's infrastructure it would not involve any such confiscations.

With an apparent volte face, the Global Business Council has made clear there are growing concerns over legal certainties, which it says are vital for Mexico's near-shoring future.

But, with increasing hostilities and recent stand-offs between China and the US in the seas around Taiwan, Mexico may feel it is in a stronger position than it is perhaps given credit for, especially with exports having hit a new record in March.

Added to this, it also reported a 5.7 per cent bounce in imports from the US, indicating near-shoring is well under way and infrastructure may supersede investor confidence concerns.

Don't bank on electric trucks to hit green targets

EUROPE may be banking on electrification for its green agenda, but road hauliers are being warned against "putting all their eggs" in the one basket.

The European Parliament has issued demands that 45 per cent of the bloc's road haulage must be running on renewables by 2030, but the head of a major multinational road freight division has said they are not confident electrification alone will be capable of meeting the deadline.

"We have a lot of international long-haul movements, which means we can see where the challenge is when it comes to sustainability," said the haulage operator.

"The tech remains limited; electrification is nice for short distance – great for connecting domestic routings – but it's the vehicles themselves that are lacking when it comes to long-haul routings, because electric vehicles cannot yet cover the distances."

SME hauliers, which make up 70 per cent of capacity, have expressed similar concerns over electricity's viability.

One told Voice of the Independent (VOTI) that European policies appeared to recognise that governments needed to not only ensure adequate infrastructure for electric fleets to operate, but that they needed to act in concert with all member states.

"What I do not believe they have taken into consideration is that truckers operate on more than trunk roads," said one haulier.

"I use lots of the smaller roads around Europe and, despite the noise coming from the European Parliament, I am seeing no signs that the infrastructure will be in place to support electric trucks not running on the main trunk roads."

One alternative to electrification is "renewable diesel", made from organic matter and waste materials and considered as a way to retrofit existing fleets.

Tests on the viability of this fuel for longer journeys, alongside the impact it has on existing vehicles, have been conducted by some of the larger multinational forwarders and while early signs were promising, it was not yet in a state for SMEs to consider using.

However, if viable, renewable diesel would amount to an 80-per cent reduction in greenhouse gas emissions when compared to traditional fuels.

Doubts about the aircraft as ABC gets back on the runway

AIRBRIDGECARGO (ABC) is hoping its new IL-96-400T will capture some of the rising volumes between China, India and south-east Asia as the aircraft preps for take-off this month.

Having begun operations in 2009, it seems the Russian carrier is hanging a lot on the aircraft, which boasts an 88,000-kilogram payload, but there have been doubts expressed about its efficiency with one former staff member describing it as poor.

"Handmade, no brains used, neither human or AI, and even the people who made it don't believe in it, but maybe the technicians can do their magic," said the former staffer.

One aircraft expert noted that the aircraft had been sat around, "not moving for a long time", but scepticism over the aircraft's capability aside, ABC have very definitely identified what seems to be a burgeoning market.

China-Russia volumes have doubled since the war began, while its traffic from Turkey shot up 123 percent, and Indian volumes surged by 250 percent.

Air China Cargo has just started operations between Shanghai and Moscow, now one of 10 Chinese airlines on the route, but one logistics operator said the lack of Russian operators left ABC an interesting proposition, although they acknowledged payments could be challenging.

"For many years of working with agents, we have built strong business relationships and had certain credit limits and the possibility of deferred payments," they said.

"Now, many agents now require full prepayment even before departure. Moreover, after the introduction of restrictions in banking operations, we were forced to switch to another currency for settlements, and also faced a reduction in limits by an average of three times.

"These changes have become especially noticeable in those countries with which non-scheduled flights are carried out and where the national currency is unpopular."

Some traffic lost to the east returns, but some has 'gone west'

US west coast ports are seeing some of the cargo flows they lost to the east amid lockdowns and worries of congestion return, as fears of further disruption begin to dissipate.

Even so, Descartes Datamyne's latest statistics suggest some of the volumes lost have made the east and Gulf coast ports they fled to their new homes, with west coast ports processing 40 per cent of all US containers in the first quarter compared with 45 per cent in Q1 2019.

But with the broader picture one of "freight going back to the west", forwarders and port operators have expressed enthusiasm over what they believe to be an ongoing trend.

Port of Los Angeles' executive director Gene Seroka said container volume went up by 28 per cent from February to March, while March to April saw another 10 per cent climb, and he said he expected the trend to continue.

Similarly, nearby Port of Oakland recorded a second consecutive month of growth in April, clocking volumes of 174,482 teu compared with March's 170,268.

Commenting on the performance, maritime director Bryan Brandes said: "Given the increase we've seen in business, we're optimistic about a stronger second half. We also anticipate increasing the number of ocean carrier services offered at the port in the coming months."

Household and consumer product shipper Colgate-Palmolive is among the big names to have returned to the west, having shifted 25 per cent to the east coast in the wake of the pandemic.

With rates dropping and signals from government and the press that the protracted contract negotiations between workers and terminal operators may be nearing some breakthrough, the concerns that this continue to keep shippers at bay appear also to be residing.

As to the volumes lost forever to the east and Gulf coast ports, a precise figure appears hard to pin down but there is near unanimity that of the volumes that fled not all are coming back.

GENE SEROKA
Port of Los Angeles

Nursery retailer Million Dollar Baby is expected to leave around 10 per cent of its volumes to the east, having established distribution centres in New Jersey and Georgia to be closer to the consumer.

Insights IN

Seafreight – comment by Mike Wackett

Ocean carriers should stick to what they're good at – or be stumped

MIKE WACKETT FICS
Sea Freight Consultant

"STICK to what you know best", I was told as a budding young cricketer, by a coach, when I said I wanted to change from fast-medium seam bowling to becoming a leg spinner.

He was proved right of course, as virtually every ball of my first game as a spin bowler was despatched to the four corners of the ground!

If I had stuck to my guns I would have got better at spin, been more accurate, but the transition would have been very expensive for me and the team.

Fast-forward many years and I was running a feeder line shipping company, relaying deepsea lines' cargo from hub to spoke ports.

Every now and again the ocean carrier customers would look at the volume of boxes we were carrying, and of course calculate the budget for using a commercial feeder operator, and decide that they could do the job cheaper by themselves.

Invariably, the overall cost of operating an own feeder service proved to be more expensive for the line; the carrier had not factored-in delays at ports, weeks when volumes were low, or the myriad extra costs that have to be absorbed by a feeder line.

And running an own feeder also required a level of expertise and staff dedication that the corporate carrier client could not easily manage.

After all, who wanted to turn out in the middle of the night to talk to a grumpy feeder ship captain that had spent the last 24 hours fighting through a force eight in the Irish Sea, only to be told that the loading plan and rotation had been changed?

Often the line would come back cap in hand with an excuse that its strategy had changed on the deployment of own feeders, but the truth was likely to have been that they did not understand the cut and thrust life of the shortsea feeder market.

Unlike deepsea liner trades, where operational decisions are often made by committee somewhere on another continent, or in the case of an alliance on more than one continent, shortsea operations demand an immediate response at the sharp end.

Forwarding is the ultimate 'people' business, where CEOs are not afraid to get their hands dirty

Moreover, the shortsea commercial response also needs to be prompt; not with an answer sometime next week by which time the business could be fixed elsewhere.

A parallel can be drawn with the current trend for cash-rich liner companies to diversify into other sectors, such as freight forwarding, air freight, software and even publishing.

For example, in a similar way to the shortsea feeder market, traditional freight forwarding is a hands-on business that requires immediate responses and plenty of 'ducking and diving' to survive and thrive.

And, importantly, forwarding is the ultimate 'people' business, where CEOs are not afraid to get their hands dirty – mostly because they have worked their way up through the ranks from dock-running, lodging customs paperwork and undertaking warehouse duties as juniors.

Nevertheless, the different disciplines required for liner shipping are exacting and require a perhaps more methodical approach, and would not therefore suit many in the freight forwarding industry.

The two sectors, liner and forwarding, do not mix well in the same environment, and that has been proved time after time with underperforming liner company in-house forwarding divisions.

It remains to be seen whether ocean carriers bolting-on forwarding acquisitions to their organisations will succeed in the long-term.

If carrier managements can give the newly acquired forwarding companies time and autonomy, then they may just have a chance.

But then again the transition may be expensive!

Grim outlook for ocean trades as rates collapse

DEMAND'S downward trajectory shows no sign of abating, with an absence of uptick in Chinese export orders dashing hopes for a traditional peak season.

Xeneta's latest XSI report showed rates down 42 percent year on year as May marked the ninth consecutive month of decline in rates. And with long-term rates having fallen 27.5 percent last month alone, chief executive Patrik Berglund said the only appropriate term was "collapse".

"This is the largest drop we've ever experienced on the XSI, which charts real-time global rates developments, and it paints a bleak picture of the state of the industry," he said.

PATRIK BERGLUND
Xeneta

"The main driver is that May marks an end to 12-month contracts in the US, as new agreements come into force. These reflect the reality of today's subdued markets, so are priced much, much lower than their predecessors. The impact on the wider industry is there for all to see."

Among those to have taken a first-quarter battering is Zim, which found itself reporting a loss of $58 million, having bagged some $1.7 billion in the same period last year.

Despite recording this worse-than-expected loss, chief financial officer Xavier Destriau seemed optimistic, noting that the losses could be put down to the destocking cycle in the US, but this would come to an end at "some point", eyeing a third quarter rebound.

"Given Q3 is transpacific, on which we operate, trade's peak season we expect the cycle to reset in time for that traditional third-quarter peak," Destriau told Voice of the Independent.

> "These reflect the reality of today's subdued markets, so are priced much, much lower than their predecessors"

Broker Jeffries however described Zim's forecasting a full-year EBIT of $100 to $500 million as "surprising", given analysts projected it to record a $95 million loss, adding Zim's forecast was based on a hypothetical US restocking rather than signs of a demand rebound.

Zim's unbridled optimism aside, its results continued a theme of painting a bleak picture for box lines in 2023, with CMA CGM also unveiling a 64 percent drop in pre-tax earnings.

CMA CGM echoed a sentiment shared by Hapag-Lloyd that the three months to April may prove the best of the year, as together with HMM, Maersk and Yang-Ming, they said they saw "no sign" of demand recovery.

General manager of network collaboration at FourKites Glenn Koepke said he expected volumes to pick up in the third and fourth quarters, but they would remain lower than 2022.

One carrier contact told VOTI that those suggesting "green shoots" were emerging had been "premature", adding that given the raft of weak results and absent demand, they had moved on to hoping for a late season peak.

The contact noted: "Eventually inventories will need replacing for the holiday season as nobody wants last year's products."

But without the visibility of a forthcoming peak season boost, east-west container spot rates have again come under pressure, with one China-based forwarder offering rates of $1,000 per 40 foot from Ningbo or Qingdao to Rotterdam, valid until 10 June.

A shipper also said a "major carrier" had reset its 'special' FAK rates to $850 per 40 foot from Yantian, Nansha and Xiamen to a range of North European ports.

This offered rate, effective from 1 June and valid to 14 June, compares a late-May reading of Xeneta's XSI Asia-North Europe component, which edged down slightly for an average of $1,370 per 40ft.

Anticipating re-shoring from China, FourKites said it was also expecting the introduction of new dynamics into the industry as shippers look to South-east Asia, India and Latin America.

Adding its take, Alphaliner said: "On the cargo front, the news remains grim, with continued depressed rates and volumes on many key routes. Carriers are, one after another, announcing fast-deteriorating financials for the first few months of the year.

"With at least two seeing the return of red figures, financial prospects for the rest of the year remain highly uncertain for most carriers."

Houston speculates to accumulate more container traffic

DISRUPTIONS on the US West Coast established the port of Houston as an up and coming gateway for container flows, notably from Asia. Now rail carriers are setting up intermodal services from the port that should help solidify Houston's new role and anchor traffic that shifted to evade problems at Pacific gateways.

On 1 June, Union Pacific (UP) started an intermodal service from the port's Barbours Cut terminal to move import containers to five points in the western US – Denver, Salt Lake City, El Paso, Los Angeles and Oakland.

So far the Class I rail carrier has moved intermodal traffic from the Houston area out of a yard some 30 miles from the port, which meant that import containers first had to be trucked from the terminal to its rail yard.

"The new on-dock terminal service provides additional routing options to key metropolitan markets, while helping customers enhance their efficiency," stated Kari Kirchhoefer, senior vice-president of premium, marketing and sales.

UP announced the new offering in May, two weeks after rival BNSF had unveiled an intermodal service out of Houston that was set to kick off on 2 June. This runs twice a week to Dallas and once a week to Denver, following trials on the routes and an upgrade of BNSF's rail yard at Dallas.

KARI KIRCHHOEFER
Union Pacific

Both railways are looking to ocean carriers to market intermodal service through Houston to the interior, but so far none of the container lines have launched such offerings.

Houston has also attracted a large provider of temperature-controlled warehousing. FreezPak intends to build a 282,000 sq ft facility in Baytown, which is located 14 miles from the port. The $102 million facility will have direct rail access to the port. It is scheduled to be ready by mid-2024.

UP used to run a weekly intermodal service out of Barbours Cut terminal to Dallas in the past, but this was dumped in a cull of less profitable routes back in 2019.

> "The new on-dock terminal service provides additional routing options to key metropolitan markets"

Since then the port's container throughput has shown strong growth. It expanded from 2.5 million TEU handled in 2019 to 3 million last year. Container volume surged 22 per cent in 2022.

The rapid growth was chiefly fuelled by diversions of imports that traditionally flowed through West Coast gateways, as beneficial cargo owners were worried about congestion at those ports and potential disruption from the contract negotiations between labour unions and the lines and terminal operators. The contract expired last July, but negotiations have still not come to a conclusion.

Other factors behind the shift to East and Gulf Coast ports were persistent problems on the rail carriers, especially from the West Coast to the Midwest, and increased oil drilling in the Gulf of Mexico, which led to a rise of imports through Houston.

The port struggled under the onslaught of traffic last autumn. Average dwell times more or less doubled, both for incoming and outbound boxes. Containers were offloaded from ships without significant delays, but equipment shortages, terminal delays and rail delays all hampered the flow of boxes off port land. A lack of chassis was the biggest problem, one forwarder reported.

By October, Houston topped the list of US container ports experiencing problems on the monthly US Port/Rail Ramp Freight Index published by ITS Logistics. Ironically, the index showed normal operations at the West Coast gateways that month.

The port authority is taking steps to ease flows and boost capacity.

"Infrastructure investments remain a priority at Port Houston, along with the expansion of the Houston Ship Channel, which is already improving vessel transit times," commented executive director Roger Guenther. "As the fastest-growing and now the fifth-largest container port in the US, we must remain proactive and well-equipped to meet the needs of our customers."

The port has worked to add 20 acres of container yard space at Barbours Cut Terminal and it ordered 29 electric cranes, which are due to start arriving by the fourth quarter of this year.

In recent months throughput at the West Coast gateways has recovered some lost ground, while Houston and East Coast ports have seen weaker traffic growth. Encouraged by smooth flows at Los Angeles and Long Beach, cargo owners have begun to shift imports back to the West Coast. Another factor was the sharp decline in rates on the direct transpacific route, which has expanded the cost differential with routes through the likes of Houston, Savannah or New York/New Jersey.

Moreover, low water levels in the Panama Canal have led to draught restrictions. These are expected to remain in place, if not worsen, until late July. Container lines have responded to the situation with weight limits and surcharges between $300 and $500 per container.

On the other hand, operations stopped at several West Coast terminals on Friday, 2 June, as a result of port workers not showing up for work, a move to pressure employers in their contract dispute. As long as this issue is not settled, Houston and other US ports stand to benefit from cargo owners' concerns about a possible escalation in the dispute.

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