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MARKET UPDATE

JANUARY – FEBRUARY 2022

OUTLOOK & HEADLINES

- **MARKET:** Chinese New Year holiday impact on shipping exacerbated by 'zero-COVID' lockdowns in key manufacturing and transport hubs across the region.
- **MARKET:** Shift from 'just-in-time' to 'just-in-case' logistics looks set to stay.
- **MARKET:** Easing UK COVID restrictions could alleviate some of the labour shortage, but HGV drivers still like gold dust for foreseeable future.
- **OCEAN:** No sign of super-heated container market cooling down in 2022, as space and equipment continues to be in short supply.
- **AIR:** Cargo space supply shortage continues, despite December's Far East dip in demand. Air network capacity likely to be constrained due to safety protocols, episodic infection and national response to Omicron variant.
- **AIR:** Meanwhile, the IATA warns against any global governmental travel restriction knee-jerk in response to the Omicron COVID variant.

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OUTLOOK & HEADLINES (CONTINUED)

- **OCEAN:** Major carrier schedule reliability unlikely to recover any time soon.
- **AIR:** Upward pressure on prices inevitable in face of restricted space availability.
- **OCEAN:** Freight rates up 81% in 2021 and hit all-time high in first two weeks of 2022.
- **AIR:** No congestion reported at key export hubs in Europe.
- **OCEAN:** Port congestion in UK & Europe continues to slow supply chains.
- **AIR:** Deferred routings where airlines have passenger capacity remain an attractive option at a good rate level, if there is room for a longer transit time.
- **OCEAN:** Maersk lose largest line top spot to 2M partner MSC.

SUBJECT QUICKLINKS

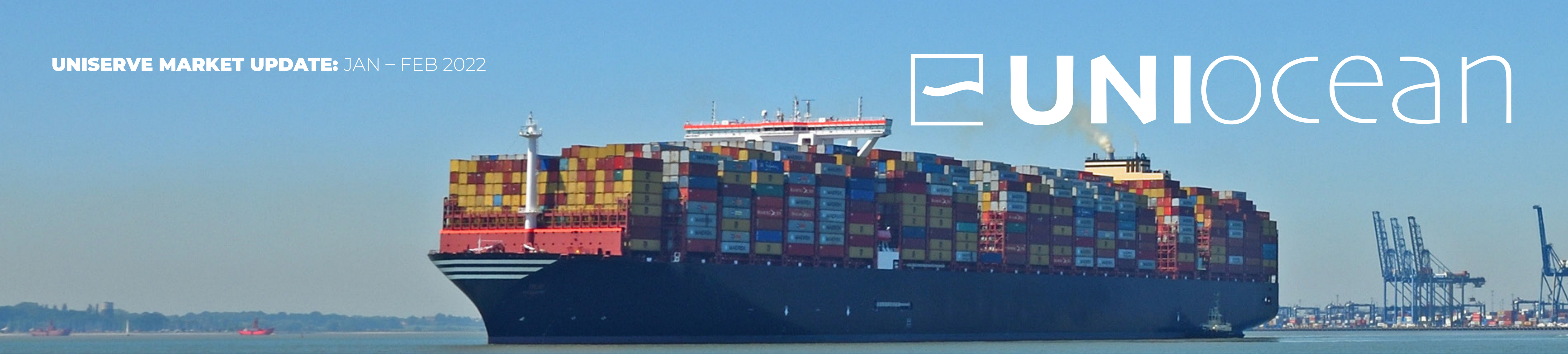
OCEAN FREIGHT

AIR FREIGHT

WAREHOUSE & DISTRIBUTION

EUROPEAN ROADFREIGHT

ENVIRONMENTAL COMPLIANCE



OCEAN FREIGHT MARKET OVERVIEW

As we approach the Chinese Year of the Tiger, market conditions remain challenging (but there is a little good news...)

KEY TOPICS

CHINESE NEW YEAR

- Chinese New Year celebrations and the accompanying public holiday will run between January 31st and February 6th this year. As normal, the occasion, with its widespread closure of businesses and mass migration of the population, is placing and will continue to place additional strain on supply chains. Customers should be prepared for longer transits and increased delays in ocean / air transits.
- In January, the normal pinch-points of the pre-Chinese New Year shipping season were further exacerbated by large-scale COVID lockdowns imposed by the Chinese authorities in many cities in its industrial heartland. This included some on the coast such as Ningbo and Shenzhen. Our teams at origin have worked tirelessly to mitigate as much risk as possible.
- We anticipate a strong demand post-CNY also, as carriers endeavour to use their extensive roll-pools to ensure full ship allocations whilst factory output recovers after the holidays.
- Demand for boxships has pushed vessel demolitions to record lows. The red-hot demand and surging charter rates make even the oldest tonnage desirable. Fewer than 20 ageing container vessels were sent to demolition yards last year.
- Roughly half of the trade lanes monitored by Sea-Intelligence have seen ships improving their schedule reliability during 2021. However, all 14 major shipping lines receded in reliability this year, according to the analyst firm.

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OCEAN FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

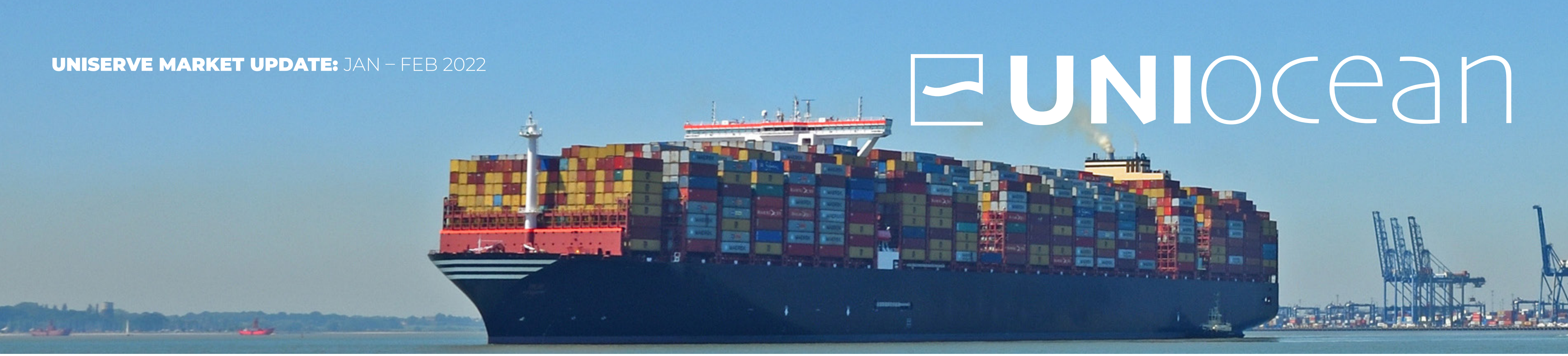
KEY TOPICS

CARRIER NEWS

- January saw the launch of **Ellerman City Liners,** reviving a much-celebrated name in British commercial shipping. The new line, under the ownership of UniOcean, will provide much-needed vessel capacity on the key China-UK trade lane. Its GB Express service runs between Shanghai/-Ningbo/Shenzhen and Tilbury.
- French carrier **CMA-CGM** has ordered ten ice-class container new builds, which are expected to be delivered from September 2024.
- **MSC** has overtaken its 2M partner **Maersk** as the world's largest container shipping company (by capacity). According to Alphaliner, the fleet of the Geneva-based line can now carry 4,284,728 TEU – 1,888 TEU more than its Danish competitor. Maersk boss Soren Skou dismissed the significance of the number one position. In an interview at the close of 2021, Mr Skou commented: "It does not mean anything. The important thing for us is to grow with our clients by enticing existing customers to buy logistics services from Maersk rather than its rivals with an expanded offering in land transport."
- **Maersk, CMA, Cosco and HMM**'s earnings have reported a surge, despite handling fewer containers. Large container shipping lines are raking in money like never before, but the volumes of containers have barely changed since last year. Bottlenecks and delays keep volumes in check, although predictions are that this year's financials will be "wild" as well.

FAR EAST

- The 18 Asia – North Europe loops operated by the three mega alliances have skipped a total of 383 port calls in North Europe over the past five months due to severe port congestion, new data from Alphaliner shows. The figure represents nearly a quarter of all scheduled calls in the period. The addition of 77 inducement calls has only partly compensated for these massive port omissions.
- The South Korean state is reportedly prepared to divest container line HMM after having rescued the company from bankruptcy in 2016. South Korea's central administration is understood to have confirmed a plan to privatise the carrier in 2022.
- We have seen some COVID lockdowns in China ahead of Chinese New Year. Ships looking to avoid COVID- →



OCEAN FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

KEY TOPICS

induced delays in China are making a beeline for Shanghai, causing growing congestion at the world's biggest container port. Carriers are making the switch to avoid delays at nearby Ningbo, which suspended some trucking services near that port after an outbreak.

INDIAN SUB-CONTINENT

- Equipment shortages in the region have seen cases wherein the carriers are not able to provide 40' containers and are asking the customers to use 20' only, which is not the preference in the textile industry. Equipment also remains a challenge at smaller Indian ports in the South and South-East, as well as inland container depots (ICDs).
- Carriers are encouraging shippers' use of their own origin carriage services to mitigate equipment shortages. While equipment has normalised at key ports such as Nhava Sheva and Mundra, our recommendation remains to load via wet port instead of using ICDs to avoid delays and access fees.
- It is estimated that carrier capacity in the region is down 30–35% – despite all the new ships brought into the trade – because of the port congestion. This reduction in capacity is due to ships moving slower than before because of the idle time when they arrive at their destination.

US, EUROPE & OCEANIA

- On the **Trans-Pacific trade**, the Port of Los Angeles continues to be plagued by significant delays and accumulating container and vessel congestion. This is reflected in record figures for 2021, that show that volumes came to 10.7 million TEU, an increase of 13%.
- On **UK / EU Exports**, the worst-hit markets are the US and AUS / NZ trades. At the time of going to press, demand is so strong that vessels are currently full until the end of February at the earliest. The other big challenge is getting goods shipped as booked, when many carriers are inclined to pursue a 'cut-and run' policy instead of taking all booked export loads.
- No fewer than five of the world's largest container shipping lines are refusing to accept empty container returns at both Felixstowe and Southampton. This has a knock-on effect on container yard space and trailer / truck availability, and further hits productivity. Furthermore, a congestion surcharge is in place by many ocean carriers for United Kingdom ports.

AIR FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

COVID-19 continues to cast a long shadow over air cargo supply chains

KEY TOPICS

- **Impact of Zero-Covid strategy across SE Asia:** Fresh COVID-19 outbreaks across the region continue to blight the supply chain. All countries in the Far East and South-East Asia continue to pursue their 'zero Covid-19' strategies, so we must expect ongoing disruptions.
- China has again has embarked a strict lockdown and mass-testing strategies in a number of strategically strong supply chain locations, including Northern, Central and Eastern China.
- In Hong Kong, we have seen the temporary halt of cargo freighter operations now that the HK Government has further tightened the quarantine requirements for pilots and air crew.
- We are predicting that post-Chinese New Year, February will show a steady return in demand. As always, our goal remains 100% committed to offering our clients fluid, multiple solutions and options when looking towards the air freight mode of transport.

FAR EAST FOCUS

- Hong Kong's largest independent air cargo handler Hactl has opened its new ground and cargo handling command centre, dubbed the Integrated Hactl Control Centre or iHCC. Manned 24 hours, seven days a week, all year round, the command centre will centralise operations control, systems control and maintenance control of the entire SuperTerminal 1 facility.
- Still in Hong Kong, Cathay Pacific will face questions and possible legal action as part of a Government investigation into the latest COVID-19 outbreak. The airline is being investigated after a recent

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AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW (CONTINUED)

KEY TOPICS

outbreak of the Omicron variant was traced back to Cathay Pacific air crew, who were alleged to have breached quarantine rules.

- Congestion on the ground is driving up air cargo rates and clogging up air cargo supply chains. Meanwhile, there are also reports of ULD-pallet shortages as containers get tied up in the system.
- At a groundbreaking ceremony on 4th January, Shanghai Pudong Airport recently launched the fourth phase of its expansion project with a planned cargo area at the eastern side. This phase will cover six parts, including a terminal area, flight zone, transport facilities, municipal engineering support facilities, a new eastern cargo area and auxiliary facilities.

INDIAN SUB-CONTINENT

- Demand for space is increasing as we are heading into the ISC region's traditional peak from January – April. This time period is the last quarter of India’s financial calendar, where we see demand rise as manufacturers look to close their books strongly to end the year.
- Some forwarders have started bringing SEA/AIR cargo from Bangladesh via Sri-Lanka and this might influence the demand for airline space in February 2022 again.

US, EUROPE & OCEANIA

- US export demand will remain at high levels until the last weeks of January. Larger shipments from major outbound gateways can take two to four days from booking to uplift into the EU, LATAM, or Asia.
- Europe got back to work after New Year, and we are seeing a flourish of activity ahead of the Chinese New Year. Capacity is stable, with some small introductions of capacity via LHR, but no significant changes in the market.
- Qantas will convert two of its Airbus A330-200 passenger aircraft into freighters to support the significant shift towards consumers shopping online. The aircraft will be converted by EFW, a joint venture between Airbus and ST Engineering. Conversion work will include removing seats, replacing the existing cabin door with a larger door and the installation of a cargo handling system.

WAREHOUSING & DISTRIBUTION UPDATE

Transport volumes continue to remain high and there's no sign of any easing in the foreseeable future, with requests for haulage resources constantly flowing through to our bookings desk.

KEY TOPICS

- **Logistics Labour Shortages:** The driver shortage continues with the Road Haulage Association still estimating a shortfall of 100,000 staff. With an aging workforce, the pool of UK drivers continues to shrink. The UK Government has invested £34.5m in 'skills bootcamps' to tackle the ongoing shortage of HGV drivers. With the cost of driver training averaging around £4,000 per person, the funding will help companies to train around 11,000 new drivers and attract a new generation of workers to the sector.
- Skills shortages in the logistics sector are not only limited to HGV drivers, but affect all parts of the supply chain. In October, Logistics UK claimed that "13% of traders are reporting severe warehouse staff shortages"; in November the Cold Chain Federation noted "10% to 20% shortage rates" among its members.
- Many logistics firms are reporting a difficulty retaining skilled staff due high demand in an incredibly saturated market. With the labour crisis continuing to affect Britain's recovery from the pandemic, the Government has loosened immigration rules with the creation of temporary visa schemes allowing the logistics sector to bring in seasonal workers from overseas.
- **Warehousing Demand:** With demand for warehousing space at an all-time high, utilising current space has become top →

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WAREHOUSING & DISTRIBUTION UPDATE (CONTINUED)

KEY TOPICS

priority in a bid to keep pace with e-commerce demands. 68% of UK consumers now utilise online retail as the most convenient way to shop. The Office for National Statistics said last month that UK online retail sales increased to 30.1% of all sales in November, surging from 21.6% against the same month in 2019, before the pandemic struck.

- Recent reports show that only 18.1 million sq ft of space remains in the UK despite the building of 11.1 million sq ft built in 2021 and almost 75% of this space is let or under offer, according to research by investment management company Colliers.
- Utilisation of automation and AI will help improve order fulfilment and mitigate the ongoing costs associated with running a warehouse amid current supply chain challenges.
- **Peak Season:** With the pandemic continuing to cause disruption to supply chains and consumer demands shift to online fulfilment, 2022 sees a focus on inventory management. Retailers are moving away from traditional supply chain models and looking towards dark and grey stores.
- Peak season has also seen a shift during the pandemic years, with consumers starting their Christmas shopping earlier in the year amid shortages in the supply chain. Peak shopping has drifted towards November which in turn means warehousing and logistics demands will start to see increasing pressures across the whole of the last quarter. With warehousing capacity already stretched, customers will need to collaborate with their logistics partners to ensure a smooth peak season for 2022.
- **UK Logistics Predictions:** E-commerce will continue to increase during 2022, as consumers drive forwards new behaviours which began during the pandemic. Increased volume will continue to stretch the limited warehousing capacity within the UK, along with final mile delivery service capabilities.
- Labour shortages for both drivers and logistics staff will continue with firms needing to focus on staff retention and new ways to attract a new generation into the sector.
- In addition to the skills shortage, more focus will be required on planning and productivity to ensure that business can meet consumer demand as we move through 2022.

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EUROPEAN FREIGHT TRANSPORT MARKET UPDATE

New year begins with entirely predictable difficulties as businesses battle through new regulations

KEY TOPICS

- **GVMS:** At the tail-end of last year, we began issuing pre-advice on the new conditions being introduced to import customs clearance in the UK. One of those changes was the Goods Vehicle Movement Service (GVMS) system, which crashed on its first day of use, causing disruption throughout the supply chain. Moreover, many importers struggled to conform with the GVMS requirements – having not fully prepared for the new system and as a result inputting incorrect data. Long queues formed in Calais due to the fresh red tape, which has led to accounts of unstocked shelves within the new year.
- **REX:** Further to the GVMS difficulties, the necessity for a Registered Exporter Number (REX) has also highlighted a lack of understanding from suppliers when considering exporting guidelines. It has led to importers being subject to duty charges due to documentation not including a REX number, or in exceptional cases where consignors have not even submitted a REX application.

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EUROPEAN FREIGHT TRANSPORT MARKET UPDATE (CONTINUED)

KEY TOPICS

- **GRIs:** New year difficulties haven't been limited to wrestling with red-tape. The season of General Rate Increases (GRIs) is upon then market, as tariffs spiral across modes. Such increases were to be expected when considering cost hikes as a result of fuel inflation and driver shortages. Data from the Transport Exchange Group suggests that the price-per-mile average in December 2021 was at the highest point since their records began. The International Road Transport Union (IRU) has also noted that diesel prices have seen significant yearly increases. Germany in particular saw an increase of 38.5% between Q3 2020 and Q3 2021.
- **Capacity constraints:** We have seen further capacity issues affecting the European logistics market, as providers deal with the backlog from the festive demand. This was heightened at the end of last year due to the scramble for UK qualified HGV drivers, resulting in congestion at ports across Europe. Further countries found parallel issues, with the IRU also estimating that Spain's driver shortage increased by 3.2% between 2020 and 2021.
- With the worst of the Omicron variant being behind us hopefully behind us, the recent scrapping of 'Plan B' restrictions in England, and the Netherlands also beginning to ease COVID-19 measures, the driver scarcity should hopefully become less of a strain upon the supply chain and the economy.

Hope remains that driver scarcity could improve marginally as the impact of the Omicron variant appears to be gradually ebbing away and COVID restrictions are eased across part of Europe.

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COMPLY DIRECT OVERVIEW

Looking at Greenwashing and the Plastic Packaging Tax

KEY TOPICS

HMRC release highly anticipated update on the UK Plastic Packaging Tax

On 16 December 2021, HMRC released an anticipated update on the upcoming UK plastic packaging tax, due to be implemented on 1 April 2022.

The Plastic Packaging Tax is a measure put in place by HMRC as part of the UK's resources and waste strategy to encourage the usage of recycled material in plastic packaging in the UK.

From 1 April 2022, plastic packaging components manufactured in and imported into the UK will be liable for a specific material tax where it does not meet a minimum recycled content of 30% by weight.

This recent update is considered to provide a great deal of clarity around the tax, including details of packaging in and out of scope, providing long-awaited answers to businesses.

Access HMRC's recent update here, which goes into detail on the following topics of interest:

- Plastic packaging designed for use in the supply chain
- Plastic packaging designed as single use consumer packaging
- Plastic packaging where the primary function is for storage
- Plastic packaging that is an integral part of the goods
- Plastic packaging to be reused primarily for presentation

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COMPLY DIRECT OVERVIEW (CONTINUED)

KEY TOPICS

- Transport Packaging

If you have any queries about the plastic packaging tax and/or need support in managing your tax liability, contact Comply Direct's Policy Team on 01756 794 951 or email marketing@complydirect.com

What is Greenwashing and why is it so important to be aware of?

Greenwashing is the concept of making a product seem as though it has less of a negative environmental impact than it actually does.

Greenwashing has become increasingly common over the last few years and has led to increasing confusion in the eye of the consumer, as well as reducing the competitive value of products that have minimised environmental impact as a key focus.

Greenwashing is not usually done out of malice, but due to a lack of understanding or confusion on the behalf of businesses regarding what claims they should (or should not) be making on the environmental performance of their products. The risk here is that as consumers become more aware / interested in the environmental attributes of the products they purchase; any misleading messages can cause significant damage to customer trust.

Greenwash and environmental claims are of particular interest at present as the CMA (Competitions and Market Authority) have recently completed a review of environmental claims on products and services in the UK. As part of this review, the CMA has warned businesses that they have until the end of 2022 to bring their marketing and environmental claims in line with the UK's Green Claims Code.

CMA has published an updated "Green Claims Code" which defines checks that should be made on any environmental claim about a product. This is supported by a 13-point checklist which is outlined in the short Greenwashing summary video linked here.

If you have any queries regarding environmental claims on products or services, please get in touch with Comply Direct for more info and advice by emailing marketing@complydirect.com

新年快乐

HAPPY CHINESE NEW YEAR 2022

YEAR OF THE TIGER

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