MARKET UPDATE

MARCH 2022

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WAR IN UKRAINE OVERVIEW

- Customers should be aware that cargo routing from, through or over Russia will face disruptions and restrictions across all modes of transport. This includes closures or embargoes of major shipping ports including Odessa in Ukraine, air freight overflying Russian territory and even Far East rail services transiting Russia (such as the Trans-Siberian Express).
- Oil prices spiked to over $140 per barrel this month before returning to around $110 (still extraordinarily high). This is already impacting domestic and European fuel costs for all forms of transport and warehousing (including shipping BAF costs, haulage fuel surcharges, warehousing utility bills). This will inevitably impact on the overall customer supply chain costs.
- The UK and US have moved to ban the import of Russian oil, while the EU has imposed greater sanctions on Russian energy companies rather than an outright embargo. Russia has threatened to retaliate by cutting off gas supplies. Such a move would have a major impact on European economies as well as supply chain costs.

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WAR IN UKRAINE OVERVIEW

- Warehousing space in the UK is coming under greater pressure than ever due to 'panic planning' and potential stockpiling in the nation's already overstocked warehouses. Any such stockpiling activity is likely to drive up rates.
- A mutual aircraft ban between Russia and a number of countries – including the UK – is resulting in higher prices and journey times. Of particular concern are export rates to China. These have doubled in recent days, mainly due to reduced capacity, as airlines struggle to avoid restricted airspace due to the conflict.
- The list of sanctions against Russia continues to grow, including the UK Government's recent imposition of a total ban on all ships with a connection to Russia docking anywhere in the country.
- Several of the world's largest shipping lines and logistics companies, including Maersk, MSC and CMA CGM, have suspended bookings to and from Russia (as has Uniserve). Companies have also begun to withdraw services to and from neighbouring Belarus – a country that has been widely condemned for their part in assisting the invasion of Ukraine.

OUTLOOK & HEADLINES

- **MARKET:** The Chinese port city of Shenzhen has gone into full lockdown in response to a large COVID-19 outbreak in neighbouring Hong Kong. Immediate impact on supply chains is mixed, with operations at Da Chan Bay terminals and Shenzhen's airfreight operations continuing, while warehousing and land transport are facing major disruptions.
- **MARKET:** Space, equipment, schedule reliability and high freight rates remain challenges in early 2022.
- **MARKET:** Severe congestion at ports, backlogs of cargo awaiting departure at origin, and high floating market rates all point to the fact that any return to pre-COVID conditions is not yet here.
- **OCEAN:** Shippers and carriers are starting to see a return to normalcy in container availability after the shortages that helped to fuel supply chain disruption last year.
- **AIR:** The air freight market is still largely driven by supply issues. February volumes ex the Far East are down in the commercial sector, which are purely reflective of the post-CNY downturn, and a slightly sluggish return to work in China.

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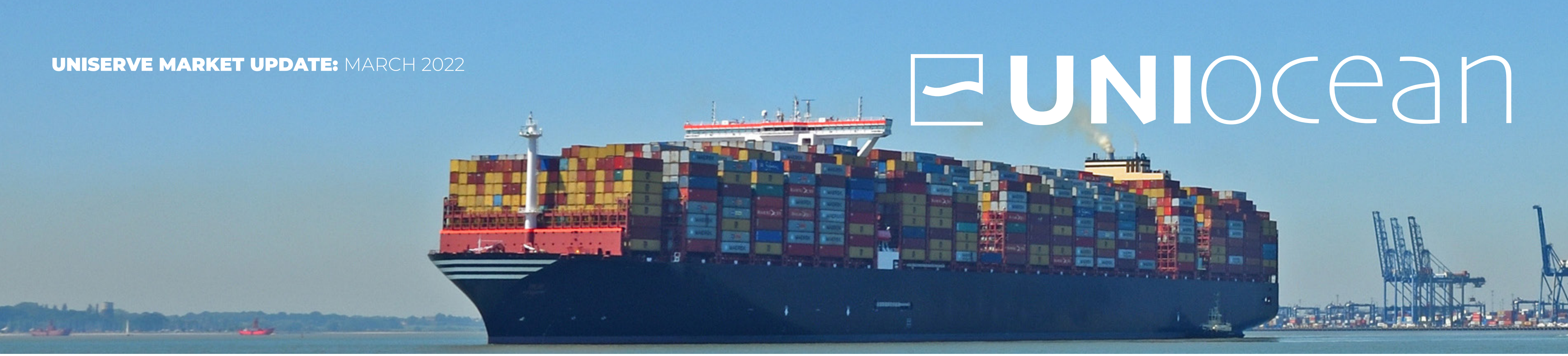
OUTLOOK & HEADLINES (CONTINUED)

- **OCEAN:** The booming container market and lack of capacity is likely to keep upward pressure on charter rates according to the analysts at Alphaliner.
- **AIR:** The imbalance of market demand and supply continues as airfreight is being used to overcome supply chain delays and disruptions
- **OCEAN:** The box carrier acquisition spree to acquire more vessels by either purchasing or long-term charter has measurably increased the operational costs.
- **AIR:** Challenging market conditions across the Indian Sub-continent are likely to see elevated rates continue until the early weeks of quarter three 2022.

SUBJECT QUICKLINKS

OCEAN FREIGHT | AIR FREIGHT | WAREHOUSE & DISTRIBUTION | EUROPEAN ROADFREIGHT | ENVIRONMENTAL COMPLIANCE



OCEAN FREIGHT MARKET OVERVIEW

Space, equipment, schedule reliability and high freight rates remain challenges in early 2022

KEY TOPICS

- We are seeing an easing in the overall equipment situation, where we expect that container supply will better keep pace with demand in 2022 due to increased new container production volumes.
- We have seen a slow down post-CNY, and it looks like demand will take a good few weeks to pick up, leading us into the end of March. Challenges exist around carrier blank sailings, but with our multi-carrier strategy in full swing, we are normally able to work around this.
- We continue to predict strong export demand from Asia for the rest of the year particularly into the US and Europe. In order to mitigate the risk of liner equipment shortages as much as we possibly can, our International Sea Freight Division, UniOcean Lines has brought over 24,000 branded new containers (high cubes and 20ft GPs) into service from China to Europe and the UK. We also have introduced a limited supply of brand new 45ft super cube containers, available between now and June 2022. This helps us support all existing carrier contracts. Whilst some close the door on the 3PL community, we continue to push ahead with our continued multi-carrier strategy, seeing new carriers stand shoulder to shoulder with our long-term carrier partners. As always, our focus remains on securing coverage, equipment and reliable capacity solutions, be that liner, charter, and our own equipment. For time-sensitive goods that need to be moved quickly, our air freight service is another transport alternative that may be able to assist you.

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OCEAN FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

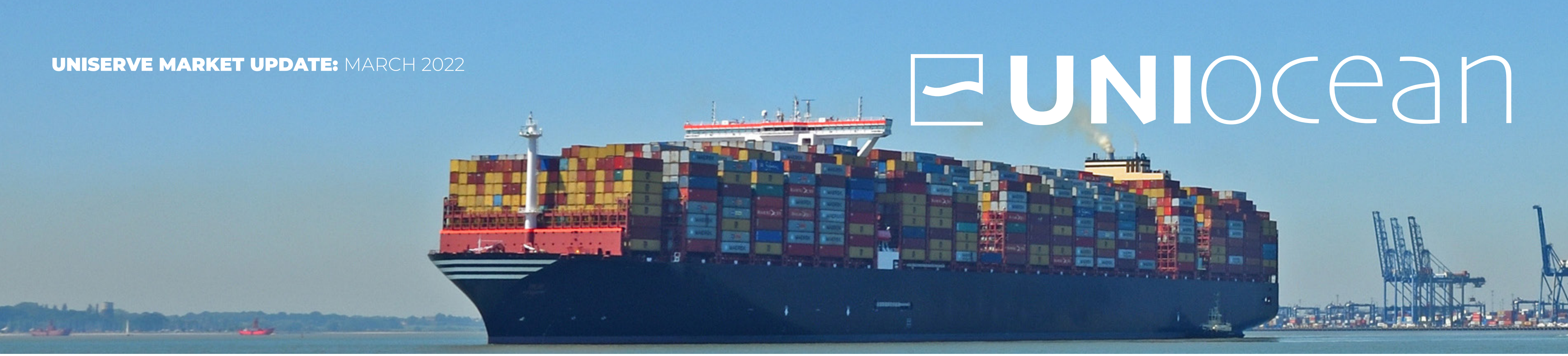
KEY TOPICS

CARRIER NEWS

- **Maersk** expects a new billion-dollar profit with underlying EBITDA of roughly USD 24bn in 2022, following a record-high profit for 2021. Meanwhile, the carrier's chief executive Søren Skou has promised that the high proportion of delayed containerships will be brought down this year.
- South Korea's **HMM** has joined the group of container carriers that finished 2021 with record results. However, the shipping line expects significantly higher bunker prices in 2022.
- **THE Alliance** — the container alliance between Hapag-Lloyd, HMM, Yang Ming and ONE — has announced that it is changing its service network for 2022. Contact your UniOcean representative for further information.
- The European Commission denies allegations of carrier cartelisation and unfair competitive advantages put forth by EU freight forwarders. There are no signs so far of anti-competitive practices or illegal alliances.

FAR EAST & SOUTH EAST ASIA

- The number of vessels on the route from Asia to the US west coast looks set to soar significantly in the coming months and will thereby put further pressure on supply chains.
- The Shenzhen lockdown came as a result of Hong Kong reporting 32,000 COVID cases - while only 60 cases were reported in Shenzhen itself. However, China's zero COVID-19 policy means Shenzhen's 17.5 million residents will now have to undergo three rounds of testing.
- Operations at Da Chan Bay Terminals remain normal so far as there have been special arrangements made for frontline staff. However, Yantian Free Trade Zone will be closed from 14th – 20th March. No official restrictions to Yantian Port have been advised and vessels loaded and departing this week will depart as planned.
- Warehouses in Shenzhen are also closed, including Yantian, Shekou and Da Chan Bay and there is currently no consolidation or LCL available. Many major factories in the area are understood to have closed.
- Shanghai has placed some new restrictions on its residents following on from last week's



OCEAN FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

KEY TOPICS

lockdown of the industrial centre of Changchun within the north-eastern province of Jilin.

- Truck drivers entering Shenzhen are required to hold negative COVID-19 test results within 24 hours and are also required to test again upon arrival at the port. The city's ports are setting quotas as to how many vehicles can enter daily and operate based on a reservation system.

INDIAN SUB-CONTINENT

- Peak season continues to set in as demand exceeds supply, space is restricted, and bookings are tight ex ISC.
- The Indian government's ambitious roadmap for its major public ports is under way, as cargo volumes rebound after crashing at the height of COVID-19 lockdowns. Maritime India Vision 2030 comprises 963 projects across 12 ports, at an estimated total cost of $8.9bn, and essentially involves the addition of terminal capacity, equipment upgrades, mechanisation, connectivity improvements and digital solutions.
- Vessels are getting skipped in Pakistan without any prior notice and containers are stuck at Karachi seaport for two to three weeks with no fixed sailing schedule. This situation is creating enormous backlogs at Karachi ports with extended transit times.
- Pakistan has launched a new rail freight service to connect the ports in the city of Karachi with industrial hubs in farther regions of the country. The first rail freight containers began the journey after the inauguration at the Hutchison Ports Pakistan, also called South Asia Pakistan Terminal (SAPT). The train will take up to four days to reach its destination in Lahore.

SUEZ

- In order to increase security and capacity in the Suez Canal, the canal authority plans to enlarge the southern part of the canal, resulting in two waterways. The expansion follows the accident with Ever Given in 2021.
- Although queues have shortened in recent weeks, container ships remain heavily delayed the world over.

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AIR FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

Zero tolerance COVID stance in Far East continues to impact airfreight markets

KEY TOPICS

FAR EAST & SOUTH EAST ASIA

- Fresh COVID-19 outbreaks across China are threatening further disruptions to international commerce. In their continued bid to align with the China mainland, Hong Kong's Governing LegCo have rolled out their strictest Covid-19 measures to date. We are seeing a temporary halt of cargo freighter operations now that the HK Government has further tightened the quarantine requirements for pilots and air crew. This has resulted in a further squeeze on capacity, which currently we continue to manage through our available fixed allocations. Some suppliers are reporting issues moving product across the border in to Hong Kong and in those cases we are offering solutions to uplift cargo directly from Shenzhen and Guangzhou.
- Whilst countries in the west have adopted a 'live with it' strategy, most countries in the Far East and South-East Asia continue to pursue their 'zero Covid-19' stances. We must expect ongoing disruptions if that approach is adopted in reaction to every positive case.
- Things are looking better in Vietnam, with a mass-reopening in February, and a return to business as usual. International passenger flights are also resuming from 15th March.
- 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. We continue to manage multiples, craft new carrier partnerships, and our multi-carrier →

AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW (CONTINUED)

The push for innovation and sustainability continues to thrive within the airfreight sector – with equipment and fuel coming under the microscope

strategy sees new offers pairing up with our long-term solutions.

- Aviation services group John Menzies has rebuffed a takeover bid from Agility subsidiary National Aviation Services (NAS) Holding. Menzies, which provides airfreight wholesale through Air Menzies International and ground handling through Menzies Aviation, said that after careful consideration it had rejected the offer of £5.10 per share.
- Ground handler Swissport reported a successful business year in 2021 thanks primarily to its cargo unit. The company processed 5.1m tonnes of cargo at more than 100 of its air cargo facilities last year, which is an all-time high.
- Envirotainer has launched the RAP version of its Releye temperature-controlled container, with Swiss WorldCargo one of the first airlines to approve its usage.
- Singapore is starting a pilot on the use of sustainable aviation fuel as the Civil Aviation Authority of Singapore (CAAS), Singapore Airlines, and investment firm Temasek selected ExxonMobil as supplier. Under the pilot, SIA will purchase blended SAF from ExxonMobil, comprising 1.25 million litres of neat SAF or sustainable fuels that are unmixed or undiluted.
- Malaysia's AirAsia X (AAX) has secured full belly space utilisation for one third of its widebody A330-300 fleet as it strives to boost its air →

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AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW (CONTINUED)

cargo revenue.

- Korean Air's acquisition of Asiana Airlines will not reduce cargo competition, the Competition and Consumer Commission of Singapore (CCCS) has concluded. The CCCS has given Korean Air unconditional approval for its takeover of Asiana Airlines on February 8, ruling that the acquisition will not infringe Singapore's 2004 Competition Act.
- Hong Kong International Airport (HKIA) handled 391,000 tonnes of cargo in January, a 4.7% decline on the same month in 2021 (410,000 tonnes) as transshipment traffic fell. Airport Authority Hong Kong (AAHK) said that freighter flight movements at the world's largest international cargo hub saw year-on-year growth of 14.1% to 7,165 from the 6,278 in January last year. AAHK said that cargo throughput declined due to flight reductions amid the worldwide emergence of the Omicron variant of COVID-19.
- Singapore Airlines (SIA) has finalised a purchase agreement with Airbus for seven A350F freighter aircraft. The carrier signed a Letter of Intent (LOI) with Airbus in December to purchase seven of the recently launched A350F freighter aircraft, with options to order another five aircraft.
- Quarantine measures imposed on Hong Kong-based aircrew saw Cathay Pacific suffer a 31.8% fall in January's cargo volumes to 74,242 tonnes compared with the same month in 2021.

INDIAN SUB-CONTINENT

- Charter Flights continue to be in high demand in the short-term and long-term, with a record

COVID measures continue to squeeze air cargo throughput in some of the industry's major freight hubs across the region.

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AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW (CONTINUED)

number of forward bookings even into 2023.

- Demand will remain strong across every sector and, as the year has already proven, COVID-19 will continue to play a major role in whether or not capacity will return.
- Deferred routings are still providing viable air options where already tight lead times can accommodate it. We also see cheaper options on the market to secondary hubs where airlines have regular passenger flights.
- The appointment of Ilker Ayci, who is a Turkish national, as the chief executive officer as the CEO and MD of Air India seems to have hit a roadblock – with Ayci not yet receiving required government approval.
- The Indian carrier Spice Xpress has seen revenue growth of 17%. It now plans to increase freighter capacity. Spice Xpress carried 39,000T of cargo in Q3 while its network spans over 67 domestic and 105 international destinations.
- GMR Hyderabad Air Cargo (GHAC), which saw 35% growth in its domestic cargo volumes in 2021, is further strengthening its air cargo its infrastructure to emerge as the largest air cargo hub for south and central India.
- Airfreight volumes from Bangladesh to various destinations fell significantly in the interlude between winter and summer trading seasons. The summer season goods are now being transported by sea, thus the pressure for air shipment of goods is now losing steam.
- While the Pakistani air freight market has been quite stable in February 2022, British Airways is suspending its flights for the time being which could create a spike in rates due to high demand. Currently space for cargo is tight but manageable, with 4 - 5 days transit times.
- Expected Sea/Air movements from Bangladesh did not materialise either as anticipated, barring a few shipments which did not make much of a difference to shift the balance. Transit to UK and EU are between 4-5 days and US/Canada with 7-9 days or more depending on connections.

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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

TRANSPORT

- With the barrage of storms hitting the UK, drivers continued to battle on with their journeys and ensure that no interruption was seen in essential goods and services. Widespread disruption has been seen across many parts of the UK after storms Dudley, Eunice and Franklin devastated parts of the UK, seeing the closure of ports and bridges along with many roads.
- The Road Haulage Association (RHA) has praised the nation's lorry drivers for their courage in continuing to complete deliveries of essential goods during the recent storms across the UK.
- Truck drivers faced extremely hazardous driving conditions from storms Dudley, Eunice and Franklin, which caused major disruption across the transport network.
- RHA Technical Director, Paul Allera, said: "I am passing on my gratitude to all those drivers out there who deserve it for battling through the storms: truck, bus, coach and emergency services."Without trucks and their drivers you get nothing. Thanks to all who have battled through the storms to ensure we get what we need."
- In other news, as of February 14th, new government legislation has come →

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WAREHOUSING & DISTRIBUTION UPDATE (CONTINUED)

KEY TOPICS

into effect that allows for the introduction of truck design features intended to reduce their carbon footprint. Aerodynamic features and elongated cabs on the vehicles can now be introduced in order to reduce fuel consumption and emissions.

- The announcement means that haulage operators can opt for vehicles that reduce fuel consumption by 7-15% and longer cabs which will accommodate better sleeping quarters for drivers in sleeper cabs. This, alongside improved driving visions, are steps

WAREHOUSING

- A 2021 report issued by UKWA's shows warehousing has grown over 30% in the last six years and forecasts all point to this growth being set to continue. However, in a worrying contrast, the British Property Federation (BPF) have issued a report stating demand for logistics space across England has been underestimated in planning policy for a decade, and future demand is likely to be at least 29% higher than recent levels.
- With e-commerce and the new q-commerce (quick commerce) with fresh food deliveries in less than an hour, the demand for space continues to grow.
- In a recent warehouse visit, Minister for Employment Mims Davies praised the warehousing and logistics sector for the vital work they undertook during the global pandemic and the great services they continue to provide. A stark contrast when compared to a recent survey across the sector which listed labour and skills shortages as a key concern for 2022. With a shortage of general operatives, there is there is also a need to drive recruitment for managers and directors working in transport and storage with nearly half due to retire by 2027, creating a growing need for leadership at all levels.
- Science Minister George Freeman from the Department for Business, Energy and Industrial Strategy (BEIS) recently made some remarkable predictions for the growth of robotics and automation and the benefits that they can deliver in removing repetitive tasks and increase safety for workers.
- They forecast that the density of robots in warehousing will increase more than 100-fold from 2020 to 2035. Warehouses are now increasingly seen as fast-moving, high-tech, automated environments.


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EUROPEAN FREIGHT TRANSPORT MARKET UPDATE

KEY TOPICS

EU Mobility Package

- February saw the introduction of a new raft of measures for the EU Mobility Package, introducing increasingly stringent driving regulations on logistics service providers within Europe.
- These new rules include a regulated four-day cooling-off period for cabotage, as well as the return of trucks to their country of registration every eight weeks. Together with this, the package has improved the working conditions for drivers, with companies now being required to pay the minimum wage of the country within which they are working.
- Many are predicting this to have adverse effects on freight costs, as the EU commission has already anticipated projected increased vehicle journeys of around 2%. Capacity shortages, increased driver wages and further fuel surcharges will result from the new provisions. This package is forecasted to particularly affect Eastern European providers the most, as 99.8% of trips in excess of 8 weeks are undertaken by hauliers in these areas - whilst the hauliers also rely upon low driver wage bills. The introduction of the guidelines is a result of the EU trying to do away with so called 'logistical letterbox' companies. These businesses base themselves in more favourable financial jurisdictions compared with those from which they actually operate.
- This is not going to help the capacity deficits or equipment shortages, which continues to be a challenge for logistic providers in 2022. Costs for regular routes are soaring while the balance between supply and demand tips further toward the former, meaning price rises and longer wait times are expecting to continue.

Our New Irish Service

- We are pleased to announce the success of our new partnership with JMC who, as of January this year, are working alongside our UniEurope team to provide an industry-leading service between the UK and Ireland for our clients.

While improving the working conditions for drivers, the new EU Mobility Package could push up freight costs

COMPLY DIRECT OVERVIEW

Investors to target company directors who fail to address climate change

A UK investment fund has stated it will work to get company directors removed from firms, should they fail to make good environmental pledges.

It is becoming clear that businesses could be the driving force of avoiding catastrophic climate change, with prospects of the world looking completely different should companies take action. However, to achieve this, the pressure is now being applied to company directors, with clear personal consequences.

Big investment funds are starting to force the hand of bosses to change how they operate their company, with consequences for board directors should they fail. Aviva Investors seek to remove board directors of firms who take part in deforestation and wants directors' pay to be linked to the achievement of sustainability, while BlackRock, the world's largest fund, has told the firms it invests in to step up on sustainability or face the consequences.

Despite this approach being audacious, investors have expressed it makes good business sense as we are now beginning to see a shift and development in consumer expectations, only optimising companies who address climate change and work to make a difference.

We have seen this approach have a positive influence; 280 firms changed their practices last year after receiving pressure from Aviva Investors, identifying that targeting the decision makers of the company (directors) makes for faster action being taken. These actions include providing more detailed explanations of how environmental goals are to be met and better efforts to ensure they are achieved, eliminating the publication of vague targets to prevent being held accountable.

Should you wish to speak to Comply Direct's sustainability team to understand how you can start to address your company's environmental impacts, contact carbon@complydirect.com

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