



COVID19 Supply “Pain” News: A Condensed Update for American Shippers

These certainly are challenging times for all of us. During this unprecedented pandemic, we have compiled a condensed update of supply chain conditions. The below is the status of events effective **April 2, 2020**.

Quote of the Week:

“You never know how strong you are until being strong is the only choice you have.”

– Bob Marley

Financial Stimulus Amid Deep Business Fears

- US passes \$2 Trillion Coronavirus Aid, Relief, and Economic Security Act (CARES), the largest economic stimulus bill in modern history
- 30% of the stimulus, \$603.7 billion, will be directed towards individuals and families
- 25% of the stimulus, \$500 billion will be directed towards big businesses with approximately \$58 billion earmarked for the commercial and cargo airlines
- 19% of the stimulus, \$377 billion will be directed towards small businesses to provide loans of up to \$10 million for organizations that qualify
- Many smaller companies in the transportation sector have received payroll protection loans as part of CARES
- Labor department figures show the number of unemployment claims rose to 3.3 million last week, surpassing the previous record of 695,000 in October 1982
- The government enhanced unemployment benefits, including a four-month extension
- Credit insurance companies have been forced to raise their standards for coverage which leaves many businesses with less bad debt protection
- Many business leaders are expressing concern over broader financial liquidity as companies increasingly hold on to cash, which slows their payments
- The cash flow slump and much tighter financing conditions damage the creditworthiness of individuals and businesses

- Epidemics are typically excluded from business insurance policies which will increase corporate insolvencies
- Predictions indicate that the COVID-19 will have a larger effect on the world economy than the outbreak of the Severe Acute Respiratory Syndrome (SARS) which wiped out approximately \$40 billion of world equity markets

Pressure Mounting for U.S. Warehousing and Trucking

- Stay at home orders in several U.S. states has forced the closure of “non-essential” warehouses, provoking grave port congestion fears
- Amid growing unrest about workers’ exposure to COVID-19, some companies have initiated pre-shift temperature screening for their warehousing staff
- Retail closures have led to high inventory levels causing alarm as new shipments arrive from China; many warehouses have little or no space to store newly arriving products
- Demand for household goods; basic foods such as meat, eggs, and milk; and medical supplies/equipment is diverting truck capacity, shifting it from other commodities
- With non-essential retail stores temporarily closed, transport demands for these categories of goods is practically non-existent
- Major delays in loading time are occurring at “essential shipper” locations based on a considerable spike in demand for these commodities
- As truck drivers rush to deliver essential goods, US shippers are taking advantage of extended driver hours to speed replenishment
- Market uncertainty is putting strong upward pressure on U.S. trucking rates
- Rates are spiking in COVID-19 high risk areas due to decreased driver supply
- Amazon’s Fulfillment by Amazon (FBA) service will waive two weeks of storage fees for products stored in the U.S., U.K., Germany, France, Italy, Spain, Poland, the Czech Republic, and Canada

US Seaports, The Calm Before the Storm

- The Federal Maritime Commission has recently announced it is opening a dialogue with all relevant stakeholders to prevent cargo disruptions from crippling the U.S. supply chain
- Anticipating potential congestion at global ports as many cargo owners fail to pick up imports, select container lines are offering shippers options to mitigate demurrage fees by allowing them to store containers on their property
- Many steamship lines are offering “delay in transit” options to help shippers slow transits to better match arrivals with they hope will be better conditions at destination
- US ports will not be well-positioned to accept cargo destined for other ports should those ports experience a quarantine

- The ability for ports to prioritize critical medical goods depends heavily on the steady flow of non-essential cargo off of terminals; this is the single greatest current concern
- East Coast ports are already scouting for available land to boost temporary storage capacity on and off terminal property

Food and Beverage Supply Chains during Pandemic

- Meeting short-term demand remains effective as food and beverage supply chains are deemed essential and remain open for business though delays are expected
- Long-term demand could challenge supply chains depending on the duration of the crisis, especially as non-essential cargo bottlenecks potentially chokes US ports
- Most manufacturers and distributors have shifted office personnel to working from home and have restricted access to facilities
- The industry has largely increased wages and incentives for employees physically working in locations required to keep operations open so that grocery stores, restaurants, public services, hospitals, and care facilities supplied
- Many retailers and food manufacturers are working with more local suppliers to prepare for ingredient shortages in order to keep product moving
- Farmers are planning for a surge in demand as food manufacturers and retailers look for more local sourcing and shelf-stable plant-based milk products which saw a 323% increase in sales during late Feb – through early March
- Meat sales jumped 76.9% for the week ending March 15
- Approximately 40 million people (31% of households) have shopped for groceries on-line in the last month; a trend expected to continue after COVID-19 while not all brands are fully prepared to handle the increase in demand as consumers change buying habits

China: Contract Negotiations during COVID-19

- The collapse of the global oil market has reduced the cost of very low sulfur fuel (VLSF) by almost 60% since January, BAF typically represents 30-40% of the all-in cost of ocean freight paid by shippers
- Current steamship BAF calculations will lead to BAF reductions equal to approximately 10% of current total ocean freight by July 1 just as annual contract talks commence
- Many steamships are scrambling to re-define their BAF policies and calculations, much to the consternation and anger of shippers
- Most shippers are wholly uncertain how to calculate MQCs in the unprecedented consumer uncertainty the pandemic imposes
- Long-term depressed demand on the heels of the extended CNY could be financially crushing for an already battered steamship industry; bankruptcy fears abound
- The industry is greatly mixed about when to time annual negotiations, but most executives are struggling to make time now as they re-tool and re-think their end-to-end supply chains

- With the return of Chinese factories, vessels are currently quite full, and ocean freight prices are set to rise 6-7% in early April though the recovery is expected to be brief
- Many steamship executives are predicting unprecedented levels of blanking supply beginning in late April and continuing until global demand returns

Spotlight: Latin America

- Lockdowns are in place in several countries: Brazil, Colombia, Chile, Argentina, Bolivia, Ecuador, El Salvador and Peru
- To date, there are fewer manufacturing restrictions in Latin America than we have witnessed in Asia and Europe
- Customs, ports, and trucking operations continue to function somewhat efficiently though delays are increasing
- The blank sailing programs out of Asia have created tremendous congestion in Caribbean transshipment ports, and once the backlog is cleared the April blank sailings out of Asia will begin in earnest
- Brazil is struggling with equipment shortages for ocean cargo with bookings backlogged for three weeks
- Airfreight rates out of the region are very unstable though increases have been smaller than for Asia and Europe
- Panama Canal is working 24/7 due to COVID-19, and they implemented emergency measures to avoid exposure between canal personnel and vessel crews
- Transshipment ports are working with restrictions to avoid boarding vessels, but port productivity has not yet been greatly affected

CBP Works to Prioritize Essential Cargo

- CBP and local port authorities are designing logistical solutions, including access to chassis and adequate port labor, to ensure quick turnarounds for containers that hold essential products
- Importers or their agents are encouraged to provide advance notification to CBP when expecting shipments of pandemic relief materials including pharmaceutical products and personal protective equipment
- CBP will prioritize processing shipments CBP has placed on hold
- FDA and CBP have been assisting with additional information on the Emergency Use Authorization
- CBP has also created a toll-free number (1-866-295-7624) to contact the Centers of Excellence and Expertise because most personnel are teleworking

Update: Global Airfreight Crisis

- Air cargo capacity continues to get tighter as governments import medical supplies in mass quantities for front line workers
- Mass cancellations of passenger flights have removed approx. 60% of the air cargo capacity from the market due to global travel bans
- Several airlines have converted passenger planes into charter options to increase cargo capacity and try to capture lost revenue
- Airfreight rates continue to hit historic highs and are up 70% from Shanghai to North America and up 49% from Shanghai to Europe
- Space remains tight putting pressure on lead times and back logs which is expected to continue for the next 4-6 weeks and impacts both import and export shipments
- Air carriers have implemented steep booking cancellation penalties and international surcharges in many cases
- The Civil Aviation Administration of China (CAAC) has restricted all airlines to one passenger flight per week for any international route
- The International Air Transport Association (IATA) continues to estimate a \$250-300 billion loss for the airline industry in 2020

The leadership and staff of Shapiro understand the personal and business anxiety each of you is experiencing. We want nothing but safety today and a return to normalcy tomorrow for you and your families. Please reach out to us if you have any questions—or if we can assist you in any way.
