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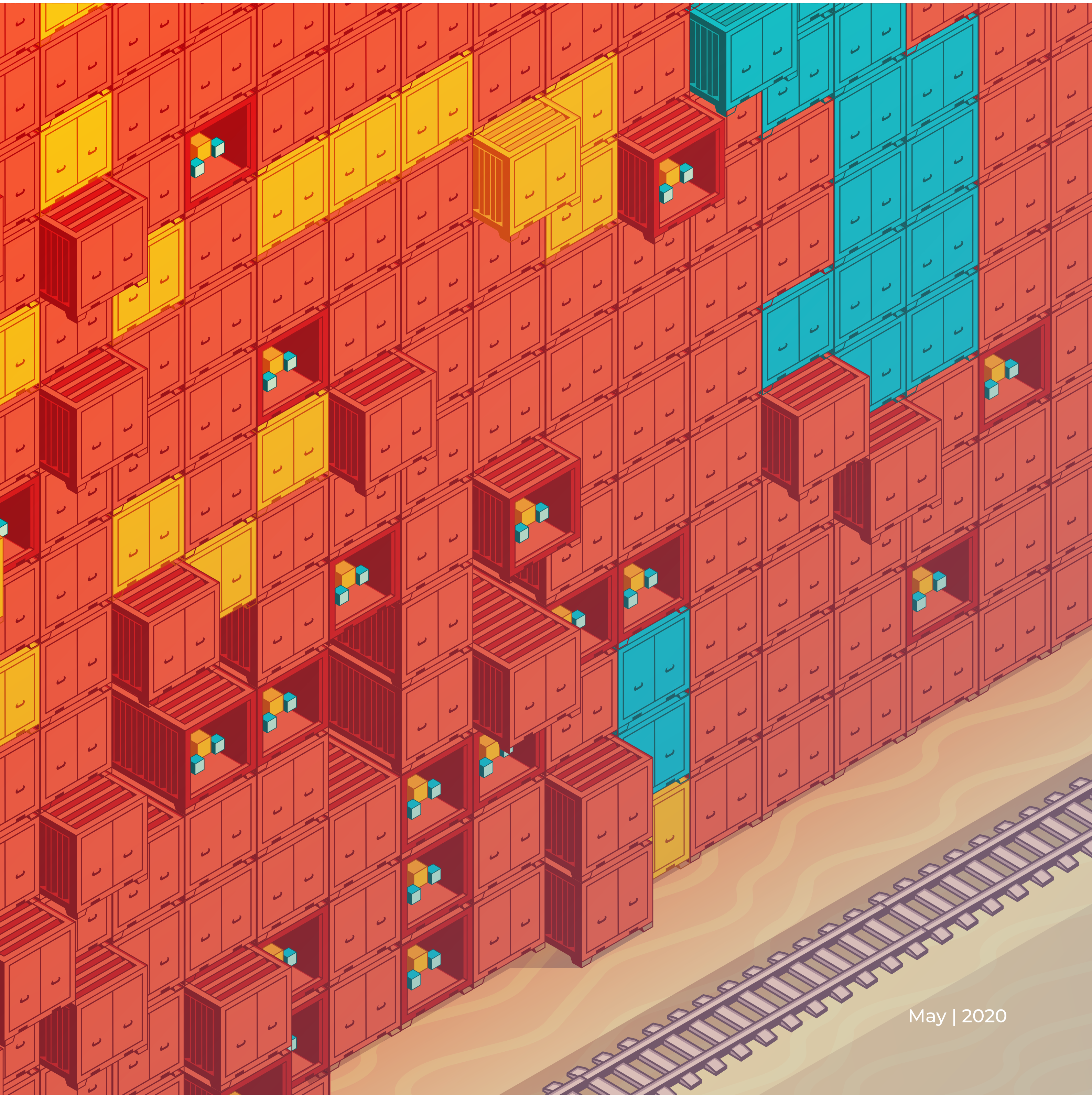
Information and analytical digest

REVIEW OF THE CURRENT STATE OF SEA AND AIR CARGO TRANSPORTATION MARKET: CRISIS RECOVERY SCENARIO



May | 2020

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Current state of sea cargo transportation market and development forecasts

The coronavirus outbreak exposed the fragility of global supply chains that move goods between countries. Due to the volatility of the logistic market, carriers are facing new risks and the need to promptly respond to changes in order to manage them. The global cargo transportation market is experiencing significant difficulties caused by abrupt decrease of the transport infrastructure throughput due to the coronavirus (COVID-19) pandemic.

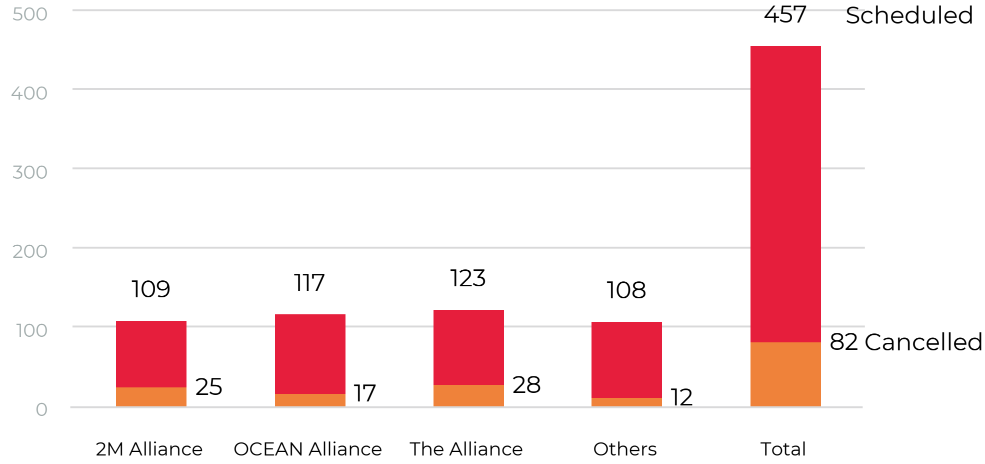
Blank sailing as the main trend in the sea cargo transportation market

According to experts, Europe's economy is presently undergoing a decline that is expected to continue for a while. So, IHS Markit economists are pessimistic about the situation, predicting that the US economic growth will not turn positive until late Q4 2020. In its April report, the International Monetary Fund (IMF) revised its assessment of global economy growth, now expecting a 3% decline in 2020, which is much worse than during the 2008–2009 financial crisis. Thus, all economic forecasts made over the last six months have changed from plus to minus.

Sea carriers have responded to the negative predictions by announcing their plans to reduce cargo volumes within several subsequent weeks, that will result in 20% of the trans-Pacific capacity being taken out of service, with 25 to 30% cumulative cancellations of sailings in Asia and Europe, according to Sea-Intelligence Maritime Consulting. Capacity withdrawals can result in loss of cargo turnover in the amount of 6.4 million TEU by the end of June. The largest number of cancelled sailings was registered in February 2020 in Asia, North Europe and Mediterranean, at the time of a spike of 105 cancellations in trans-Pacific shipments; the lowest number was reported in March (only 33 cancellations), 69% less than in the previous month. In May 2020, 82 out of 457 scheduled sailings for the period were cancelled (18%). The Alliance accounts for the highest number of cancelled sailings for the period (34%), followed by 2M (30%) and Ocean Alliance (21%).

Figure 1.

NUMBER OF CANCELLED AND SCHEDULED SAILINGS BY MAJOR CARRIERS, MAY 2020

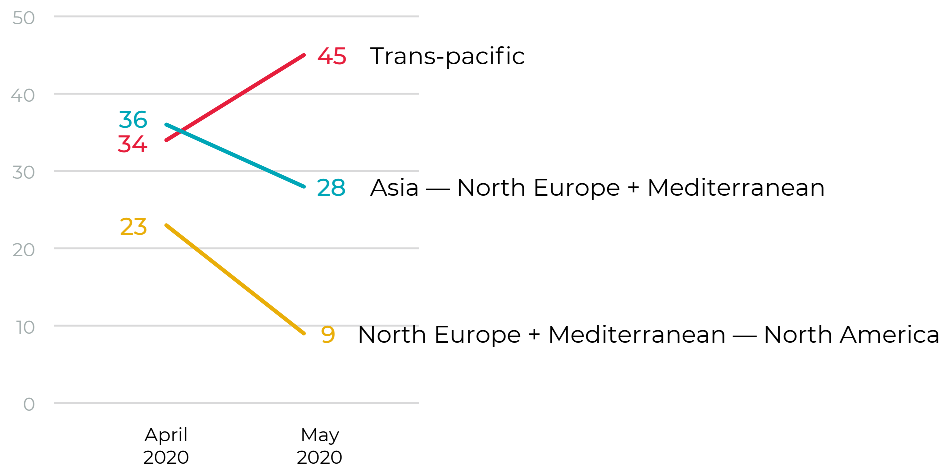


Source: Drewry Cancelled Sailings Tracker

Transit shipments are the most affected by the reduction of capacity, with 45 "blank" sailings, which represents 55% of the total scheduled sailings in May. The number of cancelled sailings in Asia — North Europe and Mediterranean amounted to 34% of the total, and Europe and Mediterranean — North America — to 11%. Overall, the number of cancellations in April and May has decreased by 12% versus the previous month, apart from the trans-Pacific trade, where an increase of 32% is registered. The carriers are expected to continue their practice of large-scale cancellations of sailings for several months, so shippers and forwarders should carefully monitor the situation before booking and extend their lead times in advance in case of operational delays.

Figure 2.

NUMBER OF CANCELLED SAILINGS BY MAJOR TRADE LANES



Source: Drewry Cancelled Sailings Tracker

According to the latest published report by Drewry titled Container Census & Leasing and Equipment Forecaster,[1] the leasing rates and major container category prices in Q1 2020 have grown versus Q4 2019. First of all, this is a result of improved optimism in regard to the international trade prospects. The US and China have signed the first phase of the new trade agreement and the Brexit transaction was finalized. Prices for containers of major Chinese producers have grown, along with the leasing rates of dry standard containers (20 ft, 40 ft) — by 15 to 20% versus Q4 2019. All these events veil the real intense volatility of the market. In the beginning of the year, the price of a 20 ft standard container amounted to $1750. By end of February 2020, the price went up to $2150, only to drop down to approximately $1900 in the end of March. The total volume of production of dry and refrigerated containers in Q1 2020 was one of the lowest among the previous similar periods: by 33% lower than in Q4 2019, and by 35% lower than in the same period of 2019. Yet, according to the assessments of Drewry experts, container prices and leasing rates in 2020 will be relatively stable.

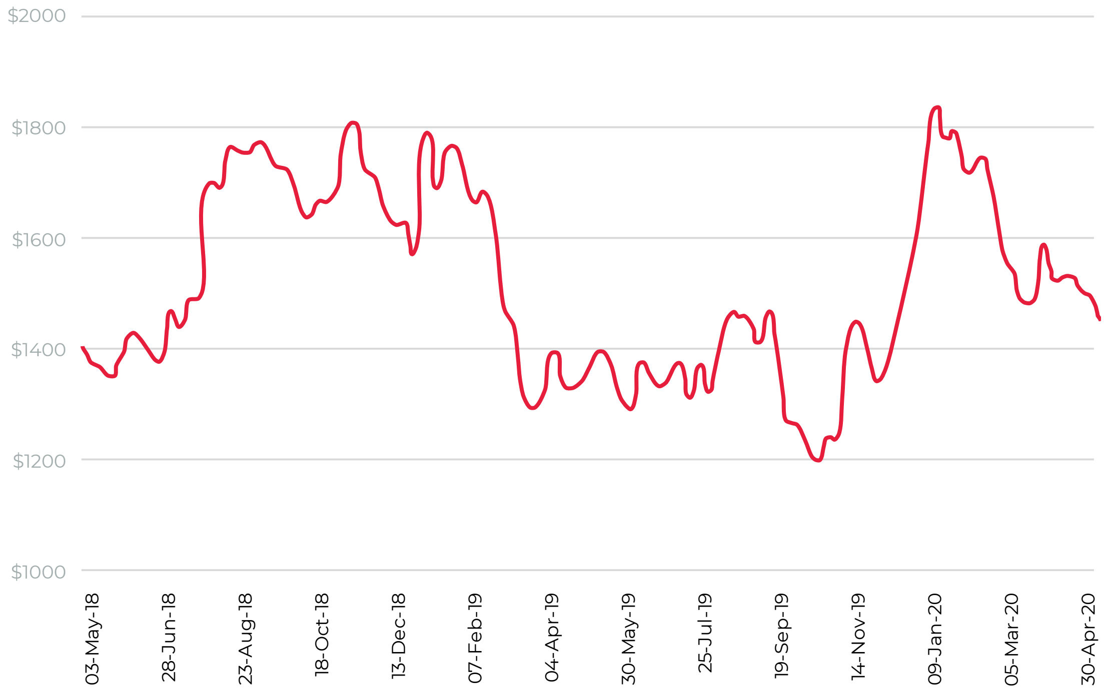
Unlike container prices, shipment rates have significantly decreased since the beginning of 2020. In the last week of April, the index decreased by 3.1% compared with the previous week and by 4.9% compared with the same period of 2019. Nevertheless, the average WCI Drewry index for year-to-date is $1610 per FEU, which is $229 (16.6%) higher than the five-year average of $1381 per FEU.[2] Spot rates from Shanghai to Genoa dropped by 14% during the last week of April to reach $1617 per FEU. Rates from Shanghai to Rotterdam dipped 1% to $1472 per FEU. Nevertheless, spot rates of Shanghai Containerized Freight Index (SCFI) amounted to $725 per FEU on April 17, which is 10% higher than for the same period last year. In fact, the spot rate dropped only by $79 in the last seven weeks, which is untypical for the current volatile trade dynamics. However, this tendency will not persist, as Drewry forecasts an increase of rates in the nearest few weeks.

1 Source: https://www.drewry.co.uk/maritime-research-products/container-census--leasing-and-equipment-forecaster-annual-subscription

2 Source: http://maritime-connector.com/maritime-economy/drewry-world-container-index-down-by-31/

Figure 3.

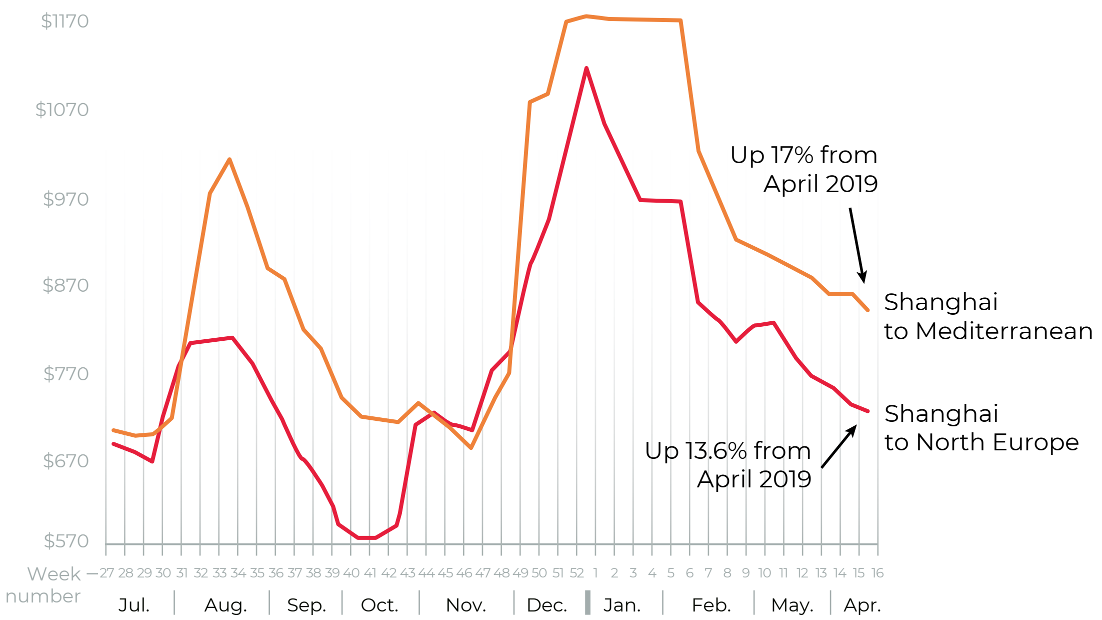
WORLD CONTAINER INDEX DYNAMICS, US DOLLAR PER FEU



Source: Drewry

Figure 4.

SHANGHAI CONTAINERIZED FREIGHT INDEX DYNAMICS, US DOLLAR PER FEU



Source: Shanghai Shipping Exchange

Carriers are trying to keep the shipping rates stable, but they cannot influence the reduction of port throughput which is evidenced by Drewry Container Port Throughput Index. The global Drewry Container Port Throughput Index has dropped by 20 points to 108 points in February 2020, by 15.6% yearonyear. It is the most significant decline within one month since the index launch in January 2012. The index value for Chinese ports has decreased by 45 points in one month. The throughput index in February 2020 for Asia in general (apart from China) amounted to 120.8 points, which is 5.9% lower than in January 2020, but 4.2% higher than in January 2019. The port throughput index in Europe has declined by 2.7% compared with the previous month and reached 116.5 points in February 2020. In April and May 2020, the decline in European ports throughput is expected to accelerate.

This trend can be confirmed by the already published data of some of the ports of Europe for Q1 2020. Throughput of the Port of Rotterdam in Q1 was 112.4 million tons, 9.3% lower than in Q1 2019.[3] Container throughput in tons in Q1 2020 was almost the same (−0.3% in tons, −4.7% in TEUs) as in the same period last year. There was a rise in deep-sea and feeder containers, while short sea fell off by 4.5% versus last year. The underlying causes were the weaker economy in Europe during the last six months and stagnating world trade due to trade conflicts. The impact of the pandemic crisis was apparent to only a limited extent in late March. Seagoing vessels take four to five weeks to complete the journey, which means that the effect of the pandemic on operations of the Port of Rotterdam will be felt in May 2020. The volume of containers from Asia was 2.8% lower than in Q1 2019. Presently such ports as Rotterdam, Antwerp and Hamburg start receiving vessels with containers which European retailers have ordered in the short period after the Chinese economy started gaining momentum but before the European ports were closed due to the pandemic.[4]

Turnover of the Chinese ports also tends to decline. COSCO SHIPPING Ports Ltd. published its container throughput statistics for March 2020, according to which the overall traffic amounted to 7.91 million TEU,[5] which is 4.6% lower than in the same month of 2019. Overall, for January — March the cargo turnover amounted to 22.43 million TEU, which is 5.7% less than in Q1 2019.

Thus, the indicators of the current state of the sea cargo transportation market provide evidence of its volatility, which is the reason for the consignors to look for the ways out of the crisis.

3 Source: https://en.portnews.ru/news/294589/

4 Source: https://www.ft.com/content/ef13051e-9a18-40cd-a24d-45ceeee0a519

5 Source: https://www.portseurope.com/cosco-shipping-ports-ltd-records-near-5-fall-in-container-traffic-in-march/

Demand and supply balance as the major principle of the carriers' crisis response

To strengthen their position, shipping companies respond to the decline in demand by collectively reducing their offer in order to maintain the level of shipping rates. Freight rates in Q1 2020 were 15 to 20% higher than in the first three months of 2019. Lloyd's List Intelligence reported 1 million TEU of idle boxship capacity at the end of March, and Alphaliner has suggested that figure could rise as high as 3 million TEU.[6] The reduction of cargo shipment offer and prevention of rates decline is a survival measure for the companies engaged in sea container transportation; however, this measure deprives them of the chance to reduce the costs which typically appears at the time of low demand.

On the longer European transit, goods ordered before the lockdown measures came into effect are now beginning to arrive at terminals, threatening congestion. Carriers are taking various steps, including offering to hold cargoes at transshipment hubs en-route, in order to prevent clogging up warehouses and distribution centers. For instance, the French company CMA CGM offers to unload the cargoes in intermediate hubs to the final destination, such as Piraeus in Greece and Algeciras in Spain, for ships heading to the North Europe. It is expected that some vessels will be used as floating warehouses.

Another crisis mitigation method many shipment companies have resorted to is to stop fitting ships with scrubbers. Scrubbers are air pollution control devices that are used to remove particles and gases from industrial exhaust flows. Fuel prices have collapsed. The "clean" fuel imposed by IMO 2020 is today changing hands on the open markets in Rotterdam and Singapore at lower prices than those of the "dirty" (more sulfurous) fuel which most companies were still using until a few months ago.[7] These changes have led to the growth of operating margins but without redressing low cargo volumes. While the current situation has turned out to be favorable for companies which have opted to buy very low sulfur fuel oil (VLSFO), it can be detrimental to those which decided to fit their ships with scrubbers. To prevent the consequences and as a crisis response measure, the companies are attempting to rescind their contracts in scheduled scrubber installations. So, for instance, shipping company Stolt-Nielsen announced that it would cancel scrubber installations where possible.[8] The company has identified $30 million of capital expenditure that can be cut if the installation contracts can be cancelled. Thus, the sea carriers are postponing the measures that would maintain their competitive ability in the conditions of the global economy decarbonization.

Carriers will keep looking for the ways to decrease their costs in other areas as well. In 2015, carriers re-routed traffic after the opening of the new Suez Canal, forcing the Canal Authority to cut rates by 65%.[9] During the pandemic the shipping companies will cooperate to act similarly. Now, some operators are again re-routing Asia — Europe services via the Cape of Good Hope to avoid Suez Canal charges, a course of action made viable by very low oil prices. However, the low prices will not persist for long as the countries of origin will limit production, subjecting carriers to new risks.

6 Source: https://lloydslist.maritimeintelligence.informa.com/LL1131924/Weekly-briefing-Container-shipping-cuts-capacity-while-downward-pressure-hits-tanker-rates

7 Source: https://market-insights.upply.com/en/how-container-shipping-companies-face-the-coronavirus-crisis

8 Source: https://en.portnews.ru/news/295036/

9 Source: https://www.itf-oecd.org/sites/default/files/global-container-shipping-covid-19.pdf

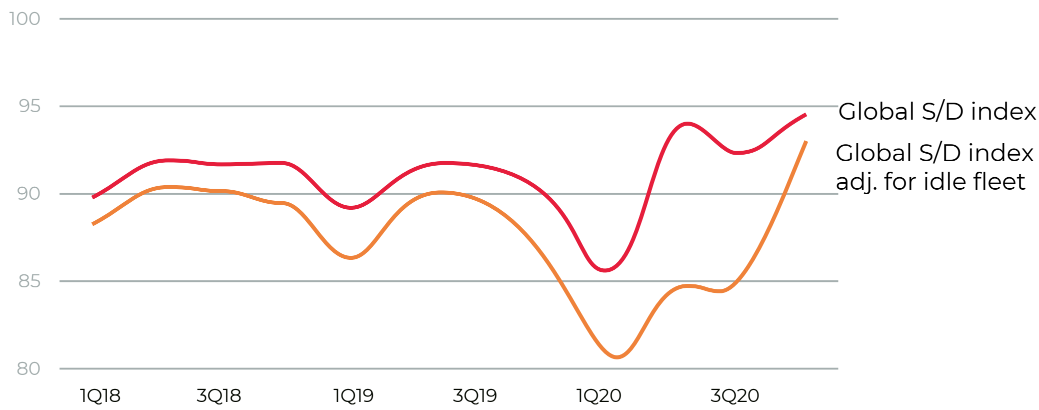
It is also notable that many transportation companies, including sea and air carriers, move to railway as an alternative means to deliver the cargo, since the railroad transport infrastructure is more available and less volatile during the period of the pandemic restrictive measures. So, A.P. Moller — Maersk has launched its first weekly rail service from Xi'an, China, to Izmit, Turkey, in the end of April 2020.[10]

Demand and supply index to reach historical low in 2020

In its Container Forecaster[11] report, Drewry outlines three potential scenarios and their consequences for the container transportation market. The main difference between the three scenarios is the time it will take for the economy to recover. The basic scenario assumes that global economy recovery will not be achieved within minimum six months. Respectively, sea carriers will be tested for the ability to regulate throughput. The task is to determine which capacity is required to satisfy the declined demand, and to prepare to satisfy the growing demand when the market will finally recover.

Figure 5.

GLOBAL DEMAND AND SUPPLY INDEX FORECASTS



Source: Drewry Maritime Research; Container Forecaster 1Q20 report

In the basic scenario which assumes the decline of demand during the first nine months of 2020 and recovery after the Q4 2020, suggests that carriers should be more active on the supply side. This notwithstanding, Drewry global demand and supply index will reach historical low this year — only 85.8 (yearly average).

Overall, the situation in the sea container shipment market will be the same as during the global financial crisis of 2008–2009, the only difference being that the transportation market was in a relatively weaker state in the beginning of the crisis caused by the pandemic. In 2008 the industry was in balance of the global supply and demand equal to 100.1, which made it easier to reduce the supply.

10 Source: https://www.globalrailwayreview.com/news/100211/maersk-launch-rail-service-china-turkey/
11 Source: https://www.drewry.co.uk/maritime-research-products/container-forecaster-annual-subscription

Presently the percent ratio of unclaimed to total fleet units is at the level of 2009, which will directly reflect on the container terminal operation. Boxships are the main customers of container ports and terminals. Cancellation of service will cascade to the entire container transportation system and reduce the quantity of feeder services. Carriers will transfer some of the large vessels now unclaimed in the usual trade lanes to other lanes in order to optimize their use. The growth of cancelled sailings deprives the ports of a significant volume of container cargoes. Thus, blank sailing will most likely result in optimization of terminal networks and improve the negotiating ability of operators in regard to terminals. This will continue due to the increase in terminal service debt, similar to the situation during the latest economic crisis. It is already occurring in some places: in Hamburg (Germany) terminal charges are usually paid after 60 days, but liners have now reportedly asked for 90 days.[12]

12 Source: https://www.itf-oecd.org/sites/default/files/global-container-shipping-covid-19.pdf

CURRENT STATE OF AIR CARGO TRANSPORTATION MARKET AND DEVELOPMENT FORECASTS

Current state of air cargo transportation market and development forecasts

The sea container transportation market looks less volatile in comparison with the air cargo transportation market. The global recession in passenger air transportation led to a spike in demand in cargo transportation, specifically in urgent shipment of personal protective equipment and medications which air carriers cannot fully meet at the moment, since nearly 50% of global air cargo volume is carried in the bellies of passenger airplanes.

Air cargo rates from China to Europe reaching historical high

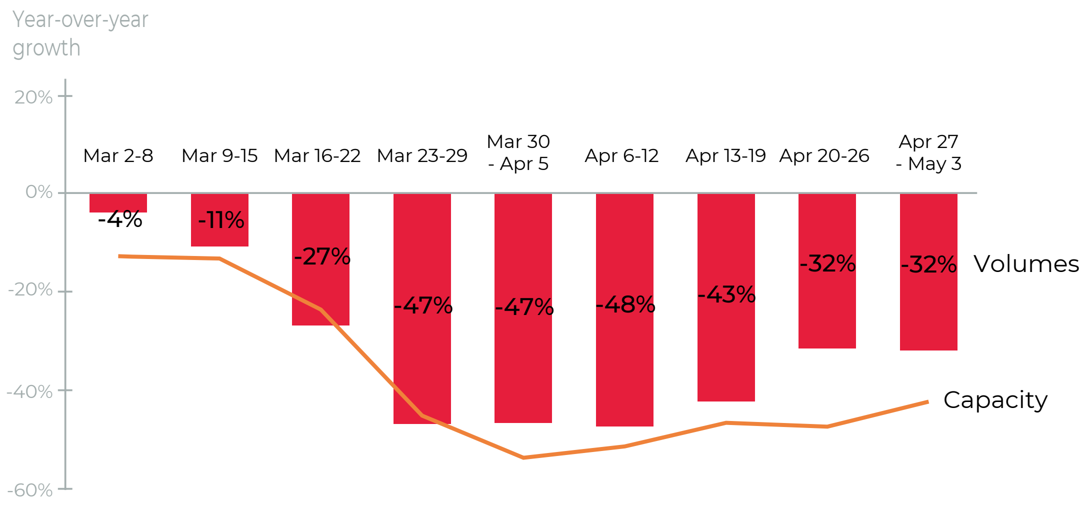
Airlines, according to the International Air Transport Association (IATA), transport over 52 million metric tons of goods a year, representing more than 35% of global trade by value but less than 1% of world trade by volume. That is equivalent to $6.8 trillion worth of goods annually. The COVID-19 pandemic resulted in nearly complete halt of civil aviation industry. IATA estimates that the airlines worldwide could lose $252 billion in revenue this year,[13] threatening even the survival of the industry. Presently, according to estimations, the global throughput of international passenger transportation is 70% lower than in 2019.

Air cargo transportation volume is also suffering recession. According to Clive Data Services, air cargo carriage volume fell rapidly in March 2020, but in the second half of April a small growth was registered. April volume of global cargo transportation decreased by 39% versus April 2019, whereas the throughput has declined by 45%. A drop of transportation volume in March amounted to 23% versus March 2019.

13 Source: https://www.stattimes.com/news/cargo-checks-in-as-the-new-passenger-air-cargo/

Figure 6.

AIR CARGO TRANSPORTATION VOLUME AND CAPACITY DYNAMICS IN MARCH AND APRIL 2020, % OF PREVIOUS YEAR



Source: CLIVE Data Services

Currently the demand in air transportation drastically exceeds supply. Urgent demand in medical equipment and other necessary medical goods to combat COVID-19 caused a sharp increase in the cost of cargo charters: presently the rates vary from $800,000 to $1,5 million, depending on the route. The usual cost of cargo Boeing 747 or 777 freight from Hong Kong to Europe amounts to approximately $300,000.[14] Air cargo transportation rate from Shanghai to Europe in January — March 2020 has almost doubled, amounting to $5.15 per kg in the end of March. Overall, in January and February the rate was stable, a spike registered only from March 2020, when countries introduced air transportation bans on such destinations as Asia — Europe, Asia — North America and Europe — US, which actually cut the capacity by half. TAC Index data shows that by end of April 2020, average air transportation rates from Shanghai to Europe increased up to $10.45 per kg, which is a record of the recent years. Meanwhile, statistics from Seabury Consulting show that capacity has been added to the market over the last few weeks. Capacity from Asia Pacific to Europe is now 20% down on a year ago, compared with 30% at the end of March 2020.[15] During the first week of May 2020, average indicators of air carriage cost from Shanghai to Europe declined by 4.5% to the previous week down to $9.98 per kg.[16]

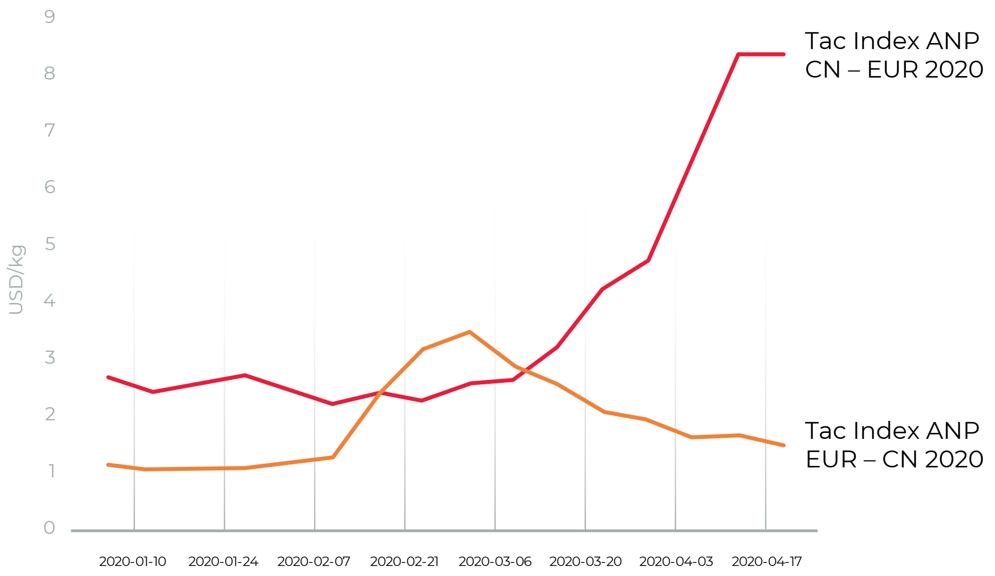
14 Source: https://theloadstar.com/air-cargo-volumes-looking-less-bad-as-the-market-has-probably-bottomed/

15 Source: https://www.aircargonews.net/business/airfreight-rates/air-cargo-capacity-continues-to-climb-but-so-do-rates/

16 Source: https://www.aircargonews.net/airlines/asia-europe-airfreight-rate-growth-shows-signs-of-slowing/

Figure 7.

DYNAMICS OF AIR CARGO TRANSPORTATION BETWEEN CHINA AND EUROPE, JANUARY—APRIL 2020, US DOLLARS PER KG



Source: TAC Index

Another notable feature is disbalance of rates in China — Europe and Europe — China flights. China to Europe cargo transportation rates exceed the reverse direction rates by more than five times, as from the side of Europe there is a significant demand in personal protective equipment which drives air carriage prices up. Since airlines carry less cargo in reverse direction — from Europe to China — they still have to charge for carriage in both directions. Due to the growing demand in personal protective equipment, passenger transportation restrictions and production capacity recovery, Chinese airports stay overloaded. So, for instance, entry to Shanghai terminal facilities can take 36 to 40 hours.[17] Trucks are not allowed to unload outbound cargo until 48 hours prior to scheduled flight departure.

High air transportation rates can seem contradictory to the background of aviation fuel prices drop, yet this factor is not key in the price dynamics. As of the last reporting date data (8 May 2020), aviation kerosene[18] prices fell down to 69.2% versus the same period of 2019, but grew versus the previous month by 2.1%. In the meantime, in European and CIS countries the average price amounted to $25.51 per barrel, which is by $0.66 per barrel lower than the global average. The average price in Asia and Oceania was registered at an even lower level ($22.03 per barrel). Nevertheless, the prices have grown versus the previous week: in Europe and CIS — by 34.6%, in Asia and Oceania — by 12.4%.

17 Source: https://www.aircargonews.net/business/airfreight-rates/air-cargo-capacity-continues-to-climb-but-so-do-rates/

18 The Index data show average global price paid at the oil processing plant for aviation fuel for jet engines as of the reporting date.

Table 1.

LEVEL AND DYNAMICS OF AVIATION FUEL PRICES

	US dollar/barrel	Index value, 2000 = 100	Change week on week	Change month on month	Change year on year
Jet Fuel Price	26.17	71.55	31.5%	2.1%	−69.2%
Asia and Oceania	22.03	62.95	12.4%	−10.6%	−73.3%
Europe and CIS	25.51	68.72	34.6%	−4.5%	−69.9%
Middle East and Africa	17.68	52.80	78.6%	−18.3%	−78.3%
North America	30.00	79.76	36.1%	16.4%	−65.4%
Latin and Central America	31.45	87.11	25.5%	8.5%	−64.4%

Source: IATA, Jet Fuel Price Monitor

Airlines redistribute their assets

At the present stage, air cargo carriers apparently compete with passenger airlines which reoriented to cargo transportation. Such competition, in the usual conditions, would drive a decline in carriage rates, however they remain high due to such key factors as spiking demand in personal protective equipment and limited throughput of air infrastructure.

Passenger aircraft have a definite potential in this area. So, Airbus and Boeing wide-bodied aircraft have a significant capacity. For instance, Boeing 777 passenger airplane presently used by major airlines to carry cargo, can accommodate approximately 30 tons of goods in its belly (luggage compartment). Nevertheless, the aircraft can carry up to 60 tons of payload in case the operator uses the cabin space to transport cargoes.[19] China Eastern, Korean Air, American Airlines, Lufthansa, United, Delta, Cathay Pacific, Emirates, Qatar Airways, Air India, Air Canada, Virgin Atlantic, Air New Zealand and Etihad — these major airlines have been among the first to start cargo transportation in this way. Recently China Eastern sent two of its wide-body passenger aircraft (A330 and B777) with cargo in the cabin and belly to deliver medications to Prague (Czechia). Austrian Airlines and Lufthansa perform flights between China and Europe using their B777 and A330 to carry several hundred tons of medical goods. Lufthansa in cooperation with Austrian Airlines plans to add 51 weekly cargo flights from Germany (Frankfurt and Munich) and Austria (Vienna) to Asia (Shanghai, Beijing, Penang, Xiamen).[20]

Apart from redistribution of assets and introduction of additional charges, companies have to reduce their expenses, primarily by cutting their staff. So, Norwegian Air announced a temporary layoff of up to 50% of its staff, meaning 7300 workers. Boeing will eliminate 10% of its workforce through voluntary layoffs, natural turnover and involuntary layoffs. Scandinavian Airlines will also temporarily lay off 10,000 employees (90% staff).[21] British Airways have dismissed more than 30,000 crew members and ground personnel.

19 Source: https://www.stattimes.com/news/cargo-checks-in-as-the-new-passenger-air-cargo/

20 Source: https://www.aircargonews.net/airlines/lufthansa-strips-out-seats-to-create-extra-cargo-space/

21 Source: https://www.forbes.com/sites/lisettevoytko/2020/05/06/coronavirus-layoffs-uber-cuts-3700-workers-amid-pandemic/#17c192116c47

Presently air carriers are also facing a problem of lacking open countries and available airports that can serve as a transit point between departure and destination points in long-haul flights. In this situation, carriers are forced to use non-optimal routes which leads to increased expenses and growth of cargo charter rates.[22] Other growing expenses of airlines are related to increased compensations to crew members for long trips and purchase of personal protective equipment, disinfection of aircraft etc. Many airlines responded to the growth of demand by transferring commercial departments to 24/7 operation in order to respond to orders more quickly, while technical departments work with increased intensity to reduce aircraft downtime.

Aviation industry to undergo U-shaped recovery

The crisis caused by corona infection pandemic can fully transform the global air transportation industry. Air transportation demand dynamics influences the volume of transported goods since nearly 50% of the total cargo transportation takes place in the belly of passenger aircraft. According to IATA, it is expected that the annual demand in passenger transportation will decline by 48% versus 2019.[23] The global air transportation industry is about to lose $252 billionin 2020. Transport Intelligence (Ti) experts presented the best-case and worst-case scenarios. In the best-case scenario, the air cargo market is expected to contract by 2.8% in 2020 and in the worst-case scenario — by 7.7%.[24] Such forecasts are driven by the two major factors:

- The global economy is moving towards recession. The economic shock from COVID-19 crisis is expected to be most felt in Q2 2020, when GDP will decline, as forecasted, by 6% (for comparison, at the lowest point of the global financial crisis of 2008–2009 the GDP fell by 2%). The demand in air transportation is closely related to GDP growth. The impact of lowered economic activity in Q2 will lead to a decline in demand in passenger transportation by 8% in Q3.
- Travel restrictions will aggravate the influence of global recession on the air transportation market. Growth of domestic flights is expected as early as in Q3, whereas international transportation will take longer to recover.

The scale of the crisis makes V-shaped recovery of the air transportation market highly unlikely. In the opinion of IATA experts, the recovery will be U-shaped with higher activity in the domestic transportation sector. Airlines may lose up to $61 billion cash reserves only in Q2, which puts under threat 25 million workplaces. Without urgent financial help many airlines may perish.

22 Source: https://www.aircargonews.net/airlines/freighter-operator/antonov-airlines-coping-with-a-crisis/

23 Source: https://www.iata.org/en/pressroom/pr/2020-04-14-01/

24 Source: https://www.aircargonews.net/business/forwarders-air-divisions-predicted-to-be-hit-hardest-by-covid-19/

Some financial stability is driven by high air carriage rates supported by the demand in personal protective equipment. Experts believe that the demand in personal protective equipment will start to go down since May 2020 as the rate of coronavirus infections slow and countries start building up stocks. But until then, they expect heavy demand from around the world will continue to elevate rate levels amid fierce competition for limited air freight capacity.[25] According to ICIS consulting company, the demand in jet fuel will decline by 70% in 2020 against the background of the pandemic, and it is expected that similar reductions will reflect on the results of Q2,[26] which may stimulate a decrease in fuel prices.

Any forecast of the transportation industry development is based on the assumption that climatic risks will be mitigated. UBS Investment Bank forecasts that global air travel growth for the decade between 2018 and 2028 could shrink 10% compared to expectations prior to the coronavirus outbreak, due in large part to a global acceleration in the shift from planes to high-speed rail.[27] That shift is driven by improved high-speed train availability and further growing concerns around climate impacts. The shift will be felt most dramatically in Europe, where air transportation market growth could drop to around 0.1% annually, which is a far cry from the expected 4.1% growth rate. Such a reduction in demand would require the retirement of roughly 2000 planes across the next 10 years.

25 Source: https://www.joc.com/air-cargo/lack-options-has-low-value-air-cargo-moving-high-value-rates_20200507.html

26 Source:https://www.google.com/search?q=ICIS&rlz=1C1GCEB_enRU870RU870&oq=ICIS&aqs=chrome..69i57j0l5j69i60l2.348j0j7&sourceid=chrome&ie=UTF-8

27 Source: https://www.greenbiz.com/article/covid-19-could-accelerate-global-shift-planes-trains

CONCLUSION

Conclusion

Cargo transportation industry is facing difficulties caused by the COVID-19 pandemic. Over 90% of the total worth of trade between Europe and China is performed by the sea and air transport, however presently the cargo transportation volumes in these sectors are declining. In the sea transportation market, it resulted in cutting 20% trans-Pacific capacity to prevent further decline of carriage rates. In May, a total of 25 to 30% sailings in Asia and Europe will be cancelled. Apart from blank sailing, carriers optimize their operation costs through changing delivery routes, by offering consignors to opt for other delivery terminals or intentionally extending lead times; termination of scrubber installation contracts; using delayed payment for terminal services. The sea transportation industry has an inherent feature of time lag in response to external factors, as the lead times are longer compared with the other modes of transport. Thus, Europe is presently receiving cargoes ordered by European consignees before enactment of the quarantine restrictions. It is possible that the industry will feel the entire impact of the crisis shortly.

Contrary to sea cargo transportation, the aviation industry has mostly suffered from governmental traveling bans. More than a half of the global volume of air cargoes travel in the passenger aircraft, and closing of borders led to the loss of half of the cargo transportation capacity. This caused a disbalance between demand and supply in the market, and the air transportation rates, specifically from China to Europe, have spiked. Carriers started adapting to the existing market conditions: airlines have redistributed their asset in favor of more economic types of aircraft and started carrying cargoes in passenger cabins. Owing to this solution airlines were able to meet some of the demand in urgent transportation of personal protective equipment and medications, which helped only slightly reduce the cargo transportation rates in May. Nevertheless, carriers are still facing such problems as the lack of funds, irrational choice of delivery routes due to the overloaded and inaccessible airports, increased aircraft loading time etc.

Many transport operators are presently opting in favor of multimodal shipments using railroad transport, firstly, as a more reliable mode of cargo transportation between the major consumption centers (Europe and China) in the conditions of the pandemic and, secondly, in view of the large-scale plans to develop this type of transport in the scope of greenhouse gas emission reduction. Possibly the consignors need to take this into account in further planning of their cargo forwarding. Besides, diversification of modes of transport is a key tool for mitigation of risks emerging in the present volatile state of the global economy.

Overall, according to the global cargo transportation market development forecasts, the crisis will impact the market players worldwide, even in the countries where the incidence of the disease was relatively low. Companies should focus their crisis recovery policies on balancing supply and demand and preparing to all scenarios of demand dynamics. Besides, an important decisive factor of further development of the transportation industry is governmental policy in its financial support, since large-scale bankruptcy of minor companies can drive yet another wave of recession and slow down the global economic recovery.