Kintetsu World Express, Canada Inc.

Weekly Market Update

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Latest News

The Port of Vancouver hit a grim milestone this week as the number of ships waiting for a berth reached 60 despite the resumption of rail service. It happened Tuesday night, and included nine container, 17 grain and 16 coal vessels. The number had dipped to 57 as of late Wednesday. The Vancouver Fraser Port Authority, in an operations update Wednesday, reported that "anchorage demand continues to exceed capacity" as Canada's largest port continues to battle the impacts of the flooding and landslides that hit British Columbia in mid-November, cutting off CN (NYSE:CNI) and Canadian Pacific (NYSE:CP) rail service. While CN and CP have since reopened their rail lines serving the port — between Kamloops and Vancouver — they still aren't operating at full capacity. And the volume of containers has picked up, particularly since CN began moving trains between Kamloops and Vancouver over the weekend. The volume of containers leaving Vancouver via rail has increased by nearly 250% in the past week, according to FreightWaves SONAR platform, but remained about 40% lower than before flooding and landslides cut off CN and Canadian CP service to the port more than three weeks ago.

Air Freight

Omicron set to restrict cargo capacity and keep rates high. The Omicron variant is set to keep air cargo capacity tight and as a result air cargo rates will remain at an elevated level. In the latest Baltic Exchange market update, investment bank Stifel senior analyst Bruce Chan said that the new variant will restrict network capacity due to safety protocols, episodic infection and national response. He added: "This and other new variants are likely going to delay a return to pre-pandemic international business travel (or international travel in general), which means that the complete return of belly capacity on those core lanes will also get pushed out." Chan said that there was also at least some risk that belly capacity may never fully recover if there is a permanent switch to hybrid in-person/virtual business. "With renewed lockdowns in some countries and geographies, and with continued and not unreasonable public concern about viral spread, we believe the eventual transition of discretionary dollar spend away from goods and back to services may be elongated as well," he said. "These factors should support persistently elevated airfreight rates, in our view, and any shippers that were looking for relief in the seasonal first quarter freight lull may not find it – at least to the extent that they expect." Last week, IATA's director general Willie Walsh also warned that a knee-jerk reaction to the Omicron variant from governments could have an impact on cargo capacity if restrictions dampen passenger demand.

Air Canada Cargo ready to relaunch freighter operations. Airline has this week taken delivery of the first of eight Boeing 767-300ER freighters as it prepares to relaunch its own dedicated all-cargo operations. Air Canada Cargo has this week taken delivery of the first of eight Boeing 767-300ER freighters as it prepares to relaunch its own dedicated all-cargo operations. Its first converted Boeing 767-300ER freighter was due to touch down in Canada earlier this week, "marking the start of a new chapter for Air Canada Cargo", the carrier said. Janet Wallace, senior director for cargo transformation at Air Canada, confirmed that the freighters will fly primarily out of Toronto Pearson International Airport, and will operate on routes linking Toronto to Miami, Quito, Lima, Mexico City and Guadalajara – "the first time Air Canada Cargo will serve this destination". Additional destinations to be served in early 2022 include Halifax, St. John's, Madrid and Frankfurt, as more freighters enter service. Air Canada originally announced the new routes in June and said it was "in the process of fully converting several of its Boeing 767 aircraft into dedicated freighters in order to fully participate in global cargo commercial opportunities". That process has involved converting certain of its Boeing 767s that have been retired from its passenger fleet into fully dedicated freighters. Air Canada Cargo said it planned to have two freighters in service by the end of 2021, with more to join the fleet in 2022. Jason Berry, vice president for cargo at Air Canada, said: "These freighters will provide long-term stability and growth for our cargo customers, in particular the freight forwarding community who require reliable air freight capacity year-round. They will allow us to continue building on the success of our cargo-only flights and are an important part of our future growth. I am excited to have these aircraft enter service, a milestone for Air Canada Cargo that also opens up a world of opportunities for us and our customers." The airline said the addition of dedicated freighter aircraft to Air Canada's fleet "will allow Air Canada Cargo to provide consistent capacity on key air cargo routes, which will facilitate the movement of goods globally. With these freighters, Air Canada Cargo will enhance its capabilities to transport goods such as automotive and aerospace parts, oil and gas equipment, pharmaceuticals, perishables, as well as handling the growing demand for fast, reliable shipment of e-commerce goods."

Scramble for capacity as China's airfreight PPE boom returns mid-peak. The boom in personal protective equipment (PPE) exports from China has returned, bringing "tremendous" increases in airfreight rates. As The Loadstar reported yesterday, rates from China to North America have risen higher than during Q2 20, when Covid outbreaks in Europe led to frantic efforts to source PPE. Now, with some major European economies again under lockdown and others threatening to follow suit, PPE shipments are again filling freighters ex-China –amid an already "super" peak season. One forwarder in Shanghai told The Loadstar: "There is massive amounts of cargo for the antigen rapid test kits. It started in Germany and gradually spread everywhere in the EU. I've also heard there are huge test-kit orders for the UK coming next week." He said rates had increased tremendously this week, prices soaring "day by day". For example, shipments from Shanghai PVG to Europe are between $14-$15.5 per kg, and to the US east coast from $18-$20 per kg. "There's also severe airport congestion throughout the EU," he added. "Everyone is looking around for capacity, but there is little chance to move anything through commercial flights, which means there are many charters coming up. But it's more than difficult to get available aircraft, even narrow body passenger freighters, which are the most expensive charters. "We are expecting an even worse situation over the next few weeks."

Cargo handling delays clog airfreight volumes in November. Dive Brief: Delays at airport cargo handling operations are preventing the efficient movement of freight, another constraint in the global supply chain at a time when shippers rely more on air transport. Air cargo volumes in November fell 1.2% from October, according to Clive Data Services, an unusual drop as companies stock up for peak season. Congestion at ground handling facilities limited how much volume could move through the supply chain, said Niall van de Wouw, Clive's managing director, on a Wednesday media call. Ground handling issues aren't limited to one region. Freight forwarders have reported congestion at airports in Asia, Europe and the U.S. There are "countless examples of" cargo handlers being short-staffed and unable to build pallets in time for departing flights, van de Wouw said. Dive Insight: Shippers lean on airfreight to move their goods faster, giving the transport mode increased interest in a time of ocean congestion and production slowdowns. But what happens when air shipping is beset by its own delays? Logistical workarounds include redirecting freight to better-staffed airlines or airports and to leverage truckload capabilities at origin and/or destination, C.H. Robinson said on its website. On the airports' side, U.S. ground handlers have implemented earlier closeout times for exports to account for longer throughput times, Flexport said in a Nov. 30 market update. Meanwhile, terminals in Europe "are hiring additional temporary staff, implementing new processes and rethinking their infrastructure." These measures don't make the current market conditions any easier for air cargo shippers, however. They've been grappling with limited capacity and elevated rates since the pandemic grounded many passenger flights in 2020, and November didn't provide much relief in those areas.

Sea Freight

West Coast backlogs grow even as rail lines reopen. Amid growing backlogs, Canadian National Railway Co. trains are moving through southern British Columbia again after extensive flooding over the last three weeks. CN said service resumed Sunday after crews worked around the clock on the Vancouver-

Kamloops corridor, which was first cut by landslides and washouts caused by torrential downpours in mid-November. The country's largest railroad operator restored limited activity along the vital supply link late last month before opting to close the line again a week ago as more storms triggered further mudslides and debris. The damage to tracks and cars in dozens of spots followed floods that have caused bottlenecks for imports and exports on the West Coast. "CN crews will continue to monitor both the rail infrastructure as well as the terrain over the coming days and weeks," CN spokesman Jonathan Abecassis said in an email. The restored connection will allow freight to flow to and from the Port of Vancouver and begin to clear the massive backlogs of incoming shipping containers and outgoing grain. The repaired lines will also allow Canadian Pacific Railway Ltd, which shares tracks with CN through part of the Fraser Valley, to boost its shipments.

Historic lows in ocean carrier reliability leave shippers looking for alternatives. Dive Brief: Schedule reliability across more than 60 carriers and 34 trade lanes is at 34.4% for October down 18 percentage points YoY as congestion in ocean shipping and at ports persists, according to Sea-Intelligence's Global Liner Performance report. The average delay for late vessel arrivals dropped to 7.34 days, lower than September but still higher than previous Octobers. A vessel arriving at least two days late after its scheduled berth time is considered a "late" arrival, according to Sea-Intelligence. Global schedule reliability reached an all-time low in September 2021 at 33.6%. October marked a slight improvement in comparison, but remained significantly lower than past years. Dive Insight: "Poor schedule reliability, coupled with high consumer demand, has handed shippers and forwarders a myriad of challenges," said Sri Laxmana, vice president of global ocean product at C.H. Robinson. Congestion at the ports due to lack of equipment such as chassis, empty containers not moving as fluidly, and lack of room for containers and ships are all contributors to schedule unreliability. The lack of space in particular leaves container ships sitting idle and further delays cargo. To combat these delays, many shippers are seeking alternative options, such as air transportation and LCL ocean shipping. Air cargo demand rose 3% in October compared to October 2019, according to Clive Data Services. "Air charters are still the fastest way to replenish inventory, which is vital for many shippers, especially in the holiday season," Laxmana said. To avoid the congested ocean ports, C.H. Robinson is moving on average 20 to 22 air charters a week globally for customers, an increase from what it ran before the pandemic. In addition, some shippers are using LCL ocean shipping to move their cargo. "Typically, space for LCL shipments is more readily available since you are only looking for some container space versus an entire empty container," said Laxmana. Still, LCL shipments face the same port congestion as full container load shipments.

Trucking

Fuel Transport offering $10,000 to vaccinated drivers. Amid an ongoing labour shortage, a Canadian logistics company is offering a $10,000 bonus to all truck drivers who have received their first dose of COVID-19 vaccine by mid-January. Fuel Transport, whose payroll counts about 300 employees – including roughly 90 truckers – says it hopes the incentive will retain employees and boost vaccination rates as well as head off potential delays at the border. "It wasn't just a pure play to motivate them to be vaccinated, but the opportunity was there to put it in and it was well-received," CEO Rob Piccioni said in a phone interview. "'We know we kept you out of our buildings. We know we kind of alienated you. … Thank you for sticking through it,"' he said, summing up his message to big-riggers. The federal government announced last month it will close certain loopholes in its vaccination requirement for international travellers, including for essential service providers such as truck drivers. As of Jan. 15, all truckers looking to cross into Canada will need to be fully inoculated. Non-residents who are not fully vaccinated will be turned away at the border, while residents of the same status will have to show proof of a recent negative test and quarantine for two weeks.

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This announcement applies to all Kintetsu World Express Transportation Services, including our Air Freight, Sea Freight, Ground Freight and Logistics.

Kintetsu World Express is continuously monitoring the situation and will provide further updates as the information becomes available.

If you have any questions, please contact your local KWE representative.

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