

# WEEKLY MARKET *UPDATE*

Week 9 → 3-1-2022

## **LATEST News**

**Russia gets cut off from world trade as shippers halt cargoes.** Almost half of the world's container ships will no longer go to and from Russia, roiling trade in everything from food and metals to clothes and electronic goods. Shipping giants A.P Moller-Maersk A/S and MSC Mediterranean Shipping Co. said they're halting trade in the region, joining Hapag-Lloyd AG and Asia's Ocean Network Express Pte in stopping services. They're among the latest in a growing list of companies ceasing business with or exiting Russia following its invasion of Ukraine. The moves threaten to pile more strain on exports of Russian goods—as highlighted in surging prices of crucial commodities like aluminum. But it's also leaving the nation increasingly isolated from world markets. Russian firms will have to find new ways to import commodities and other goods as well as shipping ship out raw materials, threatening even higher costs to consumers. Maersk handles some shipments for aluminum giant United Co. Rusal International PJSC, and the suspension poses a risk to its exports, a person familiar with the matter said. Some shippers had already been refusing to transport Russian commodities such as nickel, but the impact on volumes so far has been minor, another person familiar with the matter has said. Maersk, MSC, Hapag-Lloyd and One Network together account for about 47% of global container shipping capacity, according to Alphaliner. Russian exports and imports of containerized goods make up around 3% of world volumes, shipping data and analytics company Xeneta estimates. The shipping companies' decisions come as Ukraine's ports are closed and traders are growing increasingly wary of booking cargoes out of Russia. That's causing chaos in global crop trade and further pushing up grains futures at a time when world food prices are near a record.

## **AIR Freight**

**Air Canada will add 3 freighters in 2022 to diversify, maintain cargo growth.** Dive Brief: Air Canada plans to add three dedicated freighters to its fleet in 2022 as the airline looks to diversify its revenue streams in the face of lower passenger demand, Executive Vice President and Chief Commercial Officer Lucie Guillemette said on a Feb. 18 earnings call. Air Canada saw record cargo revenues last year, aided by the temporary conversion of passenger aircraft to all-cargo configurations, per its Q4 results. Now it's adding permanent cargo-only flights — it introduced its first Boeing 767 freighter in December, the first of eight aircraft that will eventually make up its freighter fleet. "The sustained performance of Air Canada Cargo will validate our decision to return to fully dedicated cargo aircraft to take advantage of the growing cargo market both in dedicated belly space and freighters," Guillemette said. "Cargo business is an important part of our recovery and long-term growth, helping with seasonality and diversification." The COVID-19 pandemic cratered air travel demand, and airlines are still struggling to climb back to their pre-pandemic passenger activity levels. Cargo operations, meanwhile, have been a bright spot for the industry — United Airlines and American Airlines both reported record revenues in the segment on recent earnings calls. Strong cargo performance holds true for Air Canada, as well. The airline operated 10,217 cargo-only flights in 2021, more than double the 4,235 it

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operated the year before, according to its financial results. Passenger travel remains Air Canada's larger source of revenue, but YoY passenger revenue growth (3%) was easily outpaced by its cargo business (63%) in 2021. The use of converted passenger aircraft, which have seats removed from the passenger cabin to free up cargo space, buoyed these results. Air Canada plans to have all converted aircraft back in passenger configuration by the end of 2022, Executive Vice President and CFO Amos Kazzaz said on the call. However, the airline still expects to benefit from increased air cargo demand through the use of its new dedicated freighters. Air Canada is also investing \$16 million to bolster its cold chain handling capabilities at its Toronto Pearson International Airport cargo facility, according to a news release.

**Air freight rates expected to soar as Russia's AirBridgeCargo exits Europe.** Air cargo shippers on Asia to Europe lanes should expect a hike in prices after a substantial amount of capacity has come out of the market. The EU and UK ban on Russian aircraft in their airspace has seen Volga-Dnepr Group's AirBridgeCargo remove all its aircraft from Europe in the past three days. At least four aircraft departed the EU yesterday as the ban came in, according to FlightRadar24. ABC has 15 747Fs, and one 777F in its fleet, a large amount of capacity, particularly given the current marketplace. The aircraft are either currently in Russia or operating to destinations in Asia, primarily China, but Asia-Europe is its key operating region. It remains to be seen what volumes it can carry in its new restricted world. Volga-Dnepr Airlines' aircraft have also left the EU, with one AN-124 destined to arrive in Marseille yesterday, diverted to Tunis. Canada has also banned Russian airlines from its airspace, but one AN-124 appears to be in Toronto, and it is unclear whether it will be able to leave. The US is considering a ban on Russian airlines but has not yet implemented it. ABC had two aircraft in the US over the weekend – both have now departed. EU airlines associated with Volga-Dnepr – Cargologicair in the UK and Cargologic Germany – continue to operate normally, and all aircraft are currently in the EU or UK.

## **SEA Freight**

**Ocean carriers suspend Russia services.** Major ocean carriers are suspending services to Russia today. A.P. Moller – Maersk, CMA CGM, and MSC announced they will no longer accept bookings for Russia-bound cargo. Maersk said this applies to bookings within ocean, air and intercontinental rail to and from Russia, with the exception of foodstuffs, medical and humanitarian supplies. In a customer bulletin, Maersk said it is closely following the new sanctions against Russia and the regular adjustments that are being made to the list of restrictions and is adjusting its booking processes accordingly. Maersk said it is “deeply concerned by how the crisis keeps escalating in Ukraine,” and added that the safety and stability of its operations is being directly and indirectly affected by the sanctions. “This exception is to underline that our company is focusing on social responsibility and making the efforts to support society despite all the complications and uncertainties within the current supply chain to/from Russia. We are also starting to see the effect on global supply chain flows such as delays and detention of cargo by customs authorities across various transshipment hubs – overall resulting in unpredictable operational impacts,” the bulletin said. CMA CGM said it has raised alert levels throughout the company and took preventive measures to protect IT systems as well as customers' personal and company data. Significant delays are occurring as countries such as the Netherlands, Belgium and Germany are holding back vessels en route to Russia in search of restricted commodities, primarily dual-use items. The inspections of export and transshipment cargo bound for Russia are intended to ensure compliance with sanctions and export controls recently imposed by different jurisdictions.

## **SURFACE *Transportation***

**Canada aims to keep cross-border relations smooth.** Canada is committed to working closely with the U.S. and Mexico to increase cross-border coordination and cooperation. Michael Grant, assistant deputy minister for the Americas, Global Affairs Canada, said cooperation during the pandemic has showed the relationship's strength to deal with adversity. Speaking at the North American Transportation Forum webinar Wednesday, Grant said Canada is committed to being a reliable, predictable, and secure trading partner. Given recent events in Canada, border crossings are open, and the government continues to monitor them closely to ensure there are no further disruptions, he said. With 70 percent of North American trade by value, transported by truck, international road transport has never been more important and CUSMA (Canada-United States-Mexico Agreement) that went into force in 2020 has helped modernize trade rules and mechanisms. Mark Seymour, CEO Kriska Transportation Group, said a great example of cooperation is the pre-clearance initiative ahead of truck arriving at border. He said the Free and Secure Trade program, Customs-Trade Partnership Against Terrorism, Automated Commercial Environment and Advanced Commercial Information have made a tremendous difference getting back and forth from the border. Out of sync: He pointed out things that have not gone well too. He said the U.S. and Canada were not in sync when announcing the vaccine mandate for cross-border truck drivers, and it may have led in part to frustration that paralyzed the Ambassador Bridge connecting Ontario and Michigan for some time. Seymour also questioned why, as a Canadian, an empty trailer move in the U.S. is considered cabotage. "It is not something we want to do because it helps us, although it does, but more importantly it helps our customers, and they want us to be able of do that in name of efficiency."

## **MARKET *Sources***

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