Kintetsu World Express, Canada Inc.

Weekly Market Update

Version: 15 (week) → Date: 4-13-2021

Latest News

Air Canada agrees to $5.9 billion aid package. Rescue deal will give the government a six percent equity stake in the airline. After months of negotiations, Ottawa has reached a multibillion-dollar rescue deal with Air Canada that will give the government an equity stake in the pandemic-battered airline. Under the agreement, Air Canada can access up to $5.9 billion from the public purse but must refund passengers whose flights were cancelled due to COVID-19, cap executive compensation at $1 million and restore service to regional airports. The package, which will see the federal government pay $500 million for a six-percent stake in the country's biggest airline, also requires the carrier to maintain employment at current levels or higher. "Taxpayers aren't footing the bill. This is a loan facility, and the government of Canada fully expects to be paid back," Finance Minister Chrystia Freeland said Monday night, referring to the $5.4-billion credit facility. Customers to be reimburse. Some $1.4 billion of that is earmarked to help reimburse the thousands of customers who paid for tickets but remained in the lurch at the end of 2020. "We have agreed with Air Canada that refunds should be issued as soon as possible, beginning in the coming weeks and months," said Transport Minister Omar Alghabra, though Air Canada has up to seven years to draw on the low-interest loan. Both Goldy Hyder, chief executive officer of the Business Council of Canada, and Canadian Labour Congress president Hassan Yussuff expressed approval of a rescue package tailored to a devastated industry. But the Canadian Union of Public Employees, which represents 10,000 Air Canada flight attendants, decried the deal, saying it "betrays the government's commitment to support airline workers affected by the pandemic." "We had a commitment from the Trudeau government that any relief money for the airline sector would flow directly to support workers, and that commitment is not reflected in this agreement," CUPE president Mark Hancock said in a statement. "This deal is exactly what we feared a deal cooked up behind closed doors would look like: it's a year late, no transparency, and not nearly enough to support the thousands of flight attendants still reeling from the impacts of the pandemic."

Air Freight

As more air cargo capacity is needed, freighter conversion sector ups its game. With air freight capacity still 20% below 2019 levels and airlines predicting lower passenger traffic until 2023 or 2024, the freighter conversion market is heating up. GE Capital Aviation Services (Gecas) and Israel Aerospace Industries (IAI) said today they were halfway through the development programme for the 777-300ER conversion, a "key milestone". The project has now moved from planning into physical modifications, a major step forward in the "Big Twin" initiative. "We've begun executing on the dedicated freighter design developed by the IAI and Gecas Cargo team towards manufacturing the kits and the actual conversion phase under licensing from Boeing," explained Rich Greener, SVP and manager of Gecas Cargo. Work on converting the prototype will be underway by the end of June. The critical design review is complete, while the prototype 777-300ER was delivered to IAI in June of last year — six months ahead of the initial timeline. "By leveraging our fleet of passenger aircraft to provide freighter conversion feedstock, we're delivering on our strategy to meet the need for replacement of retiring freighters and increased demand for dedicated cargo capacity," added Mr Greener. "We see the Big Twin meeting requirements of the air cargo industry for the next 20 years, so entering this next phase is thrilling." Cargo-focused airlines are lining up for converted aircraft. Kalitta Air is launch operator for the Big Twin, while this month MNG Airlines said it had contracted Elbe Flugzeugwerke (EFW) to convert two A330-300 aircraft. Work on the first began this month, while the second aircraft will be inducted next year. MNG already operates four converted A300-600ERF, and one factory-produced A330-200F.

Rising jet fuel price puts extra pressure on airfreight sector. Airlines implement surcharges, could drop auxiliary passenger freighters if oil market strengthens. The rising price of jet fuel this year is further burdening companies with airfreight shipments and could reduce limited capacity if passenger airlines opt to scuttle cargo-only flights temporarily operated since the start of the pandemic, industry officials say. The average price for jet fuel closed Friday at $66.90 per barrel or $1.59 per gallon, more than double the cost (70 cents a gallon) to refuel an aircraft 12 months ago and nearly as expensive as before the global crisis, according to energy information provider Platts. Spot prices for U.S. jet fuel on Friday were $1.68 per gallon, Argus Media's index showed. The price of Brent crude oil averaged $65 per barrel in March, up $3 per barrel from February and $33 per barrel from March 2020 as demand for fuel increases in countries reopening from lockdowns amid production limits set by OPEC and other oil producers. It finished Friday trading at $63.20 per barrel. Airline industry officials say higher prices for fuel, which accounts for about a quarter of operating costs, will make it more difficult for airlines to return to cash-positive operations. The industry lost $118.5 billion last year and sharply reduced flight operations to slow the run on cash as customers avoided travel because of health concerns. International traffic remains almost 90% below pre-pandemic levels, and airlines borrowed heavily to remain in business. The ripple effects from higher fuel prices are also reaching cargo owners that use airlines to move goods. Many airlines in the past 90 days have added fuel surcharges to their bills and will have to assess how long they can continue to operate repurposed passenger aircraft for dedicated cargo routes.

Sea Freight

Labour dispute at the Port of Montreal: a part-time public service with significantly reduced capacity. Created to cost-effectively meet the needs of importers and exporters, the Port of Montreal is a strategic infrastructure serving millions of Quebecers and other Canadians. Every year, $100 billion worth of goods pass through our facilities. That's close to $275 million a day! That cargo includes goods that go to families in the Greater Montreal area who are renovating their homes, to manufacturers in Central Quebec, to pharmacies in Quebec City, and to automobile plants in Ontario. The Port of Montreal is not the port of a single city or company or industry: it's every resident in Eastern Canada's port. But at the turn of the first quarter of 2021, the Port is being hit by a climate of uncertainty incompatible with a shipping industry that must choose to divert its vessels to provide a minimum of reliability despite the added delays and costs. The recent deterioration in labour relations between the dockworkers' union CUPE 375 and the Maritime Employers Association is seriously impacting our ability to fulfil a mission that has been drastically curtailed. And the potential for escalation will only further curtail it. After an 11% decline in volumes in March, the Port now has to deal with decisions that will drop its port capacity by close to 30%. For once in its history, the Port of Montreal is posting results that pale in comparison to its competitors on the U.S. East Coast, who are enjoying significant growth. The continuity of international trade is essential not only to the supply of critical goods, but also to the very functioning of our economy, whether or not in recovery. Accordingly, the Port of Montreal has a dual role as an economic agent that creates wealth and as a reliable public service that ensures the security of the communities it serves. This is becoming an increasingly difficult mandate.

Partial strike at Port of Montreal as union, employers dig in. Longshoremen to refuse overtime and weekend work after pay guarantee suspended. Longshoremen at the Port of Montreal are set to begin a partial strike on Tuesday after their employers moved to suspend guaranteed minimum pay in response to an 11% plunge in cargo volumes. The Canadian Union of Public Employees Local 375 stopped short of calling a full-blown strike at Canada's second busiest port. Longshoremen won't work overtime on weekdays or at all on the weekends, but will handle containers related to the pandemic and provide grain offloading services. The union's move came after the Maritime Employers Association (MEA) announced it will suspend providing a guaranteed base pay for longshoremen and will instead compensate them for the actual hours worked. The MEA, in a statement, characterized it as a cost-cutting move in response to the drop in cargo volumes "caused by the uncertainty and anxiety triggered by the labor-relations situation." The continued discord between the MEA and longshoremen isn't much of a surprise. A seven-month truce between the two sides ended in March with little to show for it apart from a contract offer that longshoremen overwhelmingly rejected. The two sides agreed to a truce after a series of limited strikes culminating with a 12-day walkout at the port in 2020.

Cargo owners still 'in the dark' as Ever Given compensation row heats up. The stand-off between the Suez Canal Authority (SCA) and the Japanese owner of the 20,124 teu Ever Given over compensation has entered a third week. Meanwhile, European cargo owners are still none the wiser as to when and where their containers will be made available, or the percentage of the value of their cargo that will be required by the average adjusters in the form of an insurance bond or cash deposit. The vessel was re-floated on 29 March after becoming wedged across the waterway for six days, and was moved to the Great Bitter Lake convoy assembling point for surveyors to assess any damage to the hull. Owner Shoei Kisen Kaisha confirmed on 3 April that an underwater inspection of the ship had taken place the previous day and the results passed to the vessel's classification society, the American Bureau of Shipping (ABS), which would "determine what, if any, repairs may be required".

Northern Europe to Asia Exporters Face 80% Container Capacity Drop. Sea-Intelligence reports European exporters with cargo to the Far East are facing an 80% drop in ocean freight container capacity this week due to the fallout from the six-day Suez Canal blockage. Subsequently, a higher than usual export capacity will occur the next two weeks when delayed vessels make it to their scheduled ports of call. Alan Murphy, CEO of Sea-Intelligence said the sudden decline in export capacity will "certainly leave a significant amount of European export cargo stranded in Europe for a week or two until it can be moved." A 60% drop in capacity is expected for exporters on the Mediterranean to Asia trades then similarly followed by a sharp availability of capacity. Murphy forecasts a series of "reducing waves" whereby impacts on both the North Europe to Asia, and Mediterranean to Asia trades will slowly dissipate. "The most important element is for European exporters to note just how large a drop they will face imminently in export capacity, and plan in accordance with the reality that a sizeable part of the cargo has to wait 1-2 weeks before it is physically possible to get loaded on a vessel going to Asia," Murphy said. On the Asia to Europe and Asia to Mediterranean trade, the impact of reduced capacity will present itself in the form of blank sailings in Week 19 when vessels fail to arrive on time from Europe. "On Asia to North Europe, the ripples will gradually get larger until they reach a crescendo in week 21 with a 24% drop in capacity," Murphy said.

Market Sources

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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. Thank you, we appreciate your business.

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