

## Weekly Market Update

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### Latest News

**Seventeen percent of SMEs in danger of closing.** The Canadian Federation of Independent Business said Thursday one in six, or about 181,000, Canadian small business owners are now seriously contemplating closing. The latest figures, based on a survey of the CFIB's members done between Jan. 12 and 16, come on top of 58,000 businesses that became inactive in 2020. Based on the organization's updated forecast, more than 2.4 million people could be out of work – a staggering 20 percent of private-sector jobs.

**Feds step up to fund small Ontario airlines Government of Canada is contributing up to \$11 million** for air services to remote communities. The Covid-19 pandemic is having a significant impact on remote communities that depend on small air carriers for essential goods, services, and for access in and out of the community. The Government of Canada is contributing up to \$11,134,000 for air services to remote communities to cover the period of July 1 to December 31, 2020. The Government of Ontario is investing \$14.2 million to operate remote airports in 2020/21, including an additional \$4 million this year to ensure continued safe operations during the pandemic. Remote communities are those that rely on air service as the only year-round mode of transportation. There are 34 remote communities in Northern Ontario, 28 of which do not have year-round road access and rely on small commercial air carriers for essential services and goods. Some communities may have limited access to seasonal ice roads or long and unreliable gravel roads.

### Air Freight

**Covid rules 'workaround' means KLM Cargo can continue to fly its freighters.** KLM, Martinair – and other cargo airlines visiting the Netherlands – can operate freighter services normally, after the Dutch government and KLM found a 'pragmatic workaround' to new rules. These insist on both a PCR and rapid Covid test for everyone entering the Netherlands and risked leaving crew members in other countries, something KLM refused to do. But aircrew will now be exempt from the rules if, either they do not leave the aircraft position upon reaching their destination, or if a PCR test is done within 12 hours before the flight, then the rapid test is not required. Crew may also operate within a '72-hour bubble', allowing them to isolate in a hotel. Ministers decided that full freighter operations had a lower risk of spreading infection than passenger services.

**Supply-demand imbalance continues to vex air cargo shippers.** Heavy ordering increases transport need, but aircraft scarcity leads to higher prices and delays. The new year is off to a hot start for the air cargo market with no sign of cooling off. International transport activity typically softens following the holiday peak season, but demand and rates remain elevated because of unusual shipping patterns and a severe shortage of airlift triggered by the coronavirus pandemic. And logistics companies don't expect air cargo volumes to subside before the Chinese New Year because manufacturers plan to continue operating without a traditional break. The latest consolidated statistics from World ACD and CLIVE Data Services for December showed air cargo volumes only contracted 3.7% to 5%, respectively, compared to 2019. The figures show how far the air cargo industry has recovered since hitting bottom last May, when demand fell nearly 40%.

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The thirst for air transport is heavily driven by continued inventory replenishment, with inventory-to-sales ratios near record lows for consumer goods, and a saturated ocean container market. Port and rail congestion as well as a shortage of empty containers continue to drive up ocean prices and cause significant delays, especially on trunk routes from Asia, pushing more incremental demand to air, according to analysts and logistics providers. Container vessels are stacked up outside the Los Angeles-Long Beach port complex, and the situation could get worse as a major COVID outbreak among dockworkers reduces productivity and turn times. Commodities seeking air transport include automotive equipment, consumer goods bought online and COVID-related medical supplies. Aircraft are also being utilized to ship new COVID vaccines, although how much general cargo they displace is unclear because a large number of doses move over the road and sometimes only involve a couple of containers per flight. Nonetheless, when space is tight, vaccines will get priority boarding.

**Plans for tighter Covid restrictions in Hong Kong threaten airfreight xref to KLM.** One of the most important global airfreight gateways is facing the spectre of tighter measures that could have a profound impact on cargo capacity. According to a report in the South China Morning Post, the Hong Kong government is looking to implement measures next week that include a mandatory 14-day quarantine for airline crews. This would apply to those on passenger and freighter aircraft returning to the territory after an international layover – so far they have been exempt from quarantine requirements. In Hong Kong’s fourth wave of Covid-19 infections, the number of new cases has risen lately, with 70 registered on Thursday alone. Seven were of foreign origin.

## Sea Freight

**COVID outbreak could cripple California container ports “Catastrophic infection rates” among Los Angeles/Long Beach dockworkers.** Los Angeles County is at the epicenter of the current COVID surge. That county’s Los Angeles/Long Beach port complex is simultaneously at the epicenter of America’s import surge. These two spikes are now converging as hundreds of California dockworkers catch COVID. The doomsday scenario — COVID-induced terminal closures in California at the very height of the import boom — is generally considered unlikely. But it’s being openly talked about. “If the catastrophic infection rates continue, there may be a need to close the San Pedro Bay Port Complex to protect the health and safety of the workforce,” executives of the ILWU dockworkers union warned in a letter Monday to the Pacific Maritime Association (PMA), which represents employers. U.S. Reps. Alan Lowenthal and Nanette Diaz Barragan said in a letter to California health officials on Jan. 15, “Without immediate action, terminals at the largest port complex in America may face the very real danger of terminal shutdowns. This would be disastrous for ... the entire nation.”

**750 boxes fall off Maersk ship during another Pacific storm.** Maersk has confirmed another case of bad weather in the Pacific has knocked hundreds of boxes from one its ships. The 13,100 teu Maersk Essen was midway through the Pacific bound for Los Angeles when it lost up to 750 containers on January 16, according to claims consultancy WK Webster. As well as the boxes lost overboard during the storm, many containers have collapsed and been damaged and will need to be removed and repositioned when the ship docks in California. Its scheduled arrival into Los Angeles is tomorrow. Its calls at ports after Los Angeles are likely to be delayed. Maersk confirmed the incident yesterday in a statement regarding the Danish flagged vessel. “All crew members are safe and a detailed cargo assessment is ongoing while the vessel continues on her journey. The US Coast Guard, flag state and relevant authorities have been notified,” Maersk said.

**Most ports more than a year late complying with digital data exchange rules.** Only around 30% of ports globally have implemented the mandatory IMO convention for the introduction of electronic information exchange between ships and ports to facilitate clearance processes. Known as the FAL Convention and signed-off by the IMO and its member states, the legislation came into force in April 2019, with countries given a 12-month implementation window. Now, nearly a year past the April 2020 deadline, around 70% of ports have not complied, according to a new survey from the International Association of Ports and Harbours (IAPH). “Approximately a third of the global sample of ports have not commenced the process of implementing respective electronic data exchange systems. Of those that have, another third are either designing or implementing their system, with only the final third being operationally active,” the report says.

**Spot rates ease – but it could be too little, too late for some.** Container spot rates have peaked and appear to be declining slightly on the main tradelanes, albeit from record high levels. But it could be too little and too late to save some businesses. “Carriers have started to extend rates into mid-February, and prepaid space seems to be available at the Chinese main ports,” said Christoph Baumeister, senior trade manager, Asia-Europe, at Flexport. Today’s Shanghai Containerized Freight Index (SCFI) recorded the first decrease in its composite index for more than three months, tracking down 16 points to 2,869. Nevertheless, the index remains 190% higher than for the same week of last year, reflecting considerable gains in components over the past six months. Spot rates to North Europe edged down, with carriers said to be adopting a “wait-and-see attitude to pricing”, while spot rates from Asia to the Mediterranean were flat this week, some 260% higher than a year ago.

**Port of Prince Rupert moves record cargo in 2020.** Bulk exports make up for container declines. The Prince Rupert Port Authority (PRPA) has set another record for annual cargo volumes. Despite the pandemic, 32.4 million tonnes of cargo moved through the Port of Prince Rupert in 2020, nine percent more than in 2019. Exports of coal, propane, and wood pellets led the increase. Ridley Terminal saw a year-over-year increase of 26 percent, driven by demand for thermal coal. ALTAMA’s Ridley Island Propane Export Terminal marked its first full year of operation in May 2020 and ended the year with 1,159,207 tonnes loaded onto 27 vessels bound for Asia. Pinnacle Renewable Energy’s Westview Terminal had a record year, exporting 1,474,301 tons of wood pellets, an increase of 33 percent over 2019. Factory shutdowns in Asia and locked down economies in North America caused a 19 percent drop in container traffic in the second quarter. However, volumes rebounded, and DP World’s Fairview Container Terminal finished just six percent down with 1,141,390 TEUs moving through the port for the year. Smaller numbers of empty containers being shipped through Prince Rupert back to Asia accounted for the decline.

## Trucking

**TFI to acquire UPS Freight for \$800M. Deal will dramatically expand US truckload, LTL footprint.** TFI International has agreed to acquire UPS Freight for about \$800 million, the Canadian trucking and logistics company and UPS (NYSE:UPS) said Monday, in a deal that will transform it into a North American less-than-truckload juggernaut. The deal, expected to close in the second quarter, will represent TFI’s largest acquisition to date in sheer dollars, dwarfing the \$558 million it spent to buy CFI from XPO in 2016. It will bring TFI a comprehensive U.S. LTL network and a dedicated truckload business, which brought in over \$3 billion in revenue in 2019. “We’re excited by this very attractive opportunity to extend our long-standing record of successful growth through acquisition, which will vault TFI International to one of the largest North American LTL carriers,” TFI CEO Alain Bedard said in a statement. UPS Freight will operate as TForce Freight. Its 14,500 employees will shift to the new TFI unit, which will also continue serving UPS’ LTL needs under a five-year agreement. UPS Ground customers will also be able to receive freight pricing. After the acquisition closes, U.S.-based businesses will dominate TFI’s revenue stream. The UPS Freight deal follows the acquisition of Chicago-based third-party logistics provider DLS in September. TFI has built itself into one of North America’s largest trucking and logistics companies by acquiring companies with struggling margins — and then aggressively turning them around. The deal also represents TFI’s single-largest turnaround project. UPS Freight is expected to post a \$463 million operating loss for 2020. It posted a \$75 million profit in 2019 and a \$26 million loss in 2018.

## Market Sources

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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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