



COVID19 Supply “Pain” News

A Condensed Update for American Shippers

These certainly are challenging times for all of us. During this unprecedented pandemic, we have compiled a condensed update of supply chain conditions. The below is the status of events effective **April 8, 2020**.

Quote of the Week:

“There are no traffic jams along the extra mile.”

– Roger Staubach

Financial Uncertainty in the Transportation Sector

- IHS has increased its projection for US real GDP decline to reach 5.4% in 2020
- The expectation for global GDP is a decline of 2.8% (the 2009 decline was 1.7%)
- With thin margins being the norm for many trucking companies, cash could become a major concern for the industry in the coming months
- More than 200 sailings have been canceled for April and May by ocean carriers eager to respond quickly to diminishing demand
- Sharply declining cash flows coupled with a strong reduction in demand in the second quarter is eroding the financial stability of steamship lines
- The International Air Transportation Association (IATA) is forecasting a 70% fall in Revenue Passenger Kilometers (RPKs) in Q2 for the airline industry, an industry weighed down with \$60B in fixed costs for Q2
- IATA estimates 25 million jobs will be at risk globally for jobs created by air transportation: Asia: 11.2M; Europe: 5.6 M; LATAM: 2.9M; NA: 2.0M; Africa: 2.0M; and ME: 0.9M

- Small businesses in US transportation are evaluating these potential stimulus options:
 - **Paycheck Protection Plan** – the loan is designed to provide a direct incentive for small businesses to keep their workers on the payroll; SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities
 - **Economic Injury Disaster Loan Emergency Advance** – small business owners are eligible to apply for an Economic Injury Disaster Loan advance of up to \$10,000; this advance will provide economic relief to businesses that are currently experiencing a temporary loss of revenue
 - **SBA Express Bridge Loans** – allows small businesses who currently have a business relationship with an SBA Express Lender to access up to \$25,000 quickly; these loans can provide vital economic support to small businesses to help overcome the temporary loss of revenue
 - **SBA Debt Relief** – as part of SBA's debt relief efforts, the SBA will automatically pay the principal, interest, and fees of current 7(a), 504, and microloans for a period of six months; the SBA will also automatically pay the principal, interest, and fees of new 7(a), 504, and microloans issued prior to September 27, 2020

U.S. Domestic, Bottlenecks Abound

- Long-haul truckers, whose workers are usually thousands of miles away from home at a given time, are working hard to develop plans for drivers who become sick
- LTL truckers are struggling with social distancing as their multi-step process requires face-to-face interactions with terminals, warehouses, and other drivers
- An increasing number of regional carriers are taking the following measures:
 - Measuring driver temperatures at the start of the workday
 - Staggering start times to limit driver interactions
 - Temporary discontinuation of proof-of-delivery signature requirements
- An increasing number of states are reopening rest stops for truckers to allow for increased on-road safety
- Trucking rates have increased roughly 6.1%, on average nationally since February
- Capacity is getting tight as demand surges from retailers/manufacturers as they try to restock essential products
- U.S. trucking companies are bracing for a slowdown even as aggressive demand for essential goods is increasing freight volumes on some routes

- Concern rises over a lack of new drivers, as State Driver Licensing Agencies (SDLAs), which issue Commercial Driver's Licenses across the country, remain closed
- Shippers and truckers have expressed extreme alarm about potential demurrage and per diem as marine terminals prepare for massive congestion

Healthcare Shipping Becomes a Political Battle

- President Trump reverses course and eases restrictions on the exportation of N-95 masks, surgical gloves and other protective equipment after a temporary ban was communicated to US exporters on Friday
- The industry does expect new export restrictions to go into effect on April 10, though uncertainty abounds on the exact rules and restrictions
- The U.S. State Department shipped 17.8 tons of donated COVID-19 medical supplies to China seven weeks ago; shipments also went to Europe
- US firms that produce respiratory equipment have faced surging demand from international customers; companies across the US are adding many more employees and second shifts to keep up with demand for the products
- China exported a total of \$1.4 billion worth of medical supplies between March 1 and April 4; these products included about 3.9 billion masks, 37.5 million pieces of protective clothing, 2.4 million infrared thermometers, 16,000 ventilators, 2.8 million boxes of new coronavirus test kits, and 8.4 million pairs of goggles
- Europe complains of poor quality and defective equipment from China; Chinese manufacturers of coronavirus test kits and related medical supplies were told they would no longer be allowed to export their products unless they had a license to sell them
- There are now 68 countries that have imposed restrictions on medical supplies for export

U.S. Exporters Adapting on a Daily Basis

- Many truckers are hungry for export driven business as the imports of "non-essentials" have slowed resulting in more available drivers and fewer delays
- Exporters have continued to experience equipment availability issues at time of booking with the ocean carriers as a result of inbound imbalances caused directly by blank sailings from Asia
- The aggressive evaluation of the potential credit risk of overseas buyers (even those with historically good A/P practices) is becoming the new normal for US exporters

- Shipping activity for U.S. exporters on the Canada and Mexico border is operating well as travel restrictions for “non-essential” travel has eased border congestion
- U.S. exporters face challenges with delivery of product as many overseas “non-essential” warehousing locations are forced to close their operations; exporters are strongly encouraged to confirm and re-confirm delivery availability prior to shipment

Tough Times for the Indian Sub-Continent

- **India:**
 - The government has sealed its borders with Myanmar and Bangladesh and banned the entry of all foreigners
 - COVID-19 has reached critical levels in India (Kerala, New Delhi, Bangalore and some areas in Tamil Nadu have been most effected)
 - The Indian government is only permitting the distribution of “essential goods” (all other “non-essential” commercial cargo continues to sit)
 - The same would potentially be true for export shipments from India that have not already departed
 - While companies have closed their offices, most firms are still operational via remote working designs
 - The International Credit Rating Agency (ICRA) recently predicted that India's economy is likely to witness a sharp contraction of 4.5 percent during Q42020
- **Pakistan:**
 - The fast increase in the number COVID-19 infections has now prompted the government to impose emergency curfews and lockdowns in major cities
 - Carriers have activated Business Continuity Plans, and are working with skeleton staff at offices and document counters across the country
 - Port Qasim and the Port of Karachi are currently operational and have both implemented preventative wellness measures to protect the local workforces
 - Entry of any international commercial passenger aircraft is restricted into Pakistan
 - Airfreight rates continue to rise with hourly validity, and the carriers have withdrawn contractual rates
 - Production is estimated to be below 50% of normal levels

- **Bangladesh:**
 - Bangladesh Knitwear Manufacturers and Exporters Association or BKMEA, has instructed all members to announce a production shutdown
 - As a result of retail storefront closures in the US and Europe, more than \$2 billion in apparel and textile orders were canceled from Bangladesh in the past week
 - Loading and unloading of bulk cargoes and containers to and from vessels are going on as normal, but only the delivery of emergency medicine and health service-related materials are being allowed
 - Congestion continues to significantly impact Bangladeshi ports and inland terminals since importers are not taking delivery of their goods

CBP COVID Notes

- US Customs and Border Protection (CBP) has reduced hours at most ports which causes delays, especially with border crossings
- Customs has published a hugely helpful COVID webpage to house all announcements: <https://www.cbp.gov/newsroom/coronavirus>
- Shipments of scarce healthcare and medical resources are potentially being detained for export; the advanced Federal Register Notice is scheduled to be published on 4/10/20; it covers restrictions on the export of Personal Protective Equipment (PPE), which includes respirators, masks and gloves
- Federal Emergency Management Administration (FEMA) will play a large role in determining which goods are restricted for export; all eyes are on the 4/10 notice in the Federal Register
- U.S. Customs and Border and Protection (CBP) has established a COVID-19 Cargo Resolution Team (CCRT) to coordinate inquiries regarding the importation of medical supplies and personal protective equipment; the team can be contacted at COVID19_RELIEF_IMPORTS@cbp.dhs.gov

Airfreight Adjusts to Corona Realities

- Air cargo capacity is being dominated by urgently needed medical supplies for front line workers as consumer demand in most parts of the world plummets due to lockdowns
- Most airlines and forwarders are not offering quotes as a range of potential costs, not a specific firm quote
- Passenger airlines continue to deploy loss minimization strategies as they use their aircraft for freighter services (typically by placing cargo in seats and in overhead bins)

- Project Airbridge has delivered approx. 300 million gloves, 8 million masks, and 3 million gowns since its inception
- UPS announces it will manage and broker 25 charter flights in support of Project Airbridge
- 50-60% of total air freight cargo between the US and Europe is traveling in the bellies of passenger flights, not freighters
- Airfreight rates continue to top previous records from China to Europe as rates soar from Shanghai to Europe by 42% as medical equipment and pharmaceuticals are desperately needed
- The price tag for a chartered flight from China to the US starts at \$1M and may go up from there depending on the size of the aircraft
- The White House urges 3M to cease exporting respirators while President Trump signs an order preventing the export of personal protection equipment
- Alaska Airlines donates air transport services in support of The American Hospital Association's (AHA) "100 Million Mask Challenge"
- Air cargo terminals continue to decrease hours as flights are removed due to lower cargo volumes and more employees being impacted/quarantined
- The International Air Transport Association (IATA) continues to estimate a \$250-300 billion loss for the airline industry in 2020

Shap Fact of the Week:

Italian officials at the port of Ragusa tried to slow the spread of The Plague by keeping arriving sailors in isolation until it was clear they were not carrying the disease. The sailors were held on their ships initially for 30 days (a trentino), later increased to 40 days (a quarantine), the origin of the term we use today.

The leadership and staff of Shapiro understand the personal and business anxiety each of you is experiencing. We want nothing but safety today and a return to normalcy tomorrow for you and your families. Please reach out to us if you have any questions—or if we can assist you in any way.
