



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 as of **May 6, 2020**.

Quote of the Week:

“When we are no longer able to change a situation, we are challenged to change ourselves.”

– Viktor Frankl

Steamship Lines Sailing into Uncharted Seas

- For the period February – June, steamship alliances have blanked 150 sailings to the West Coast and 65 to the East Coast; the lost revenue from blank sailings is approximately \$6 billion, which neatly matches the top 15 carriers’ combined profits for all of 2019
- US imports from Asia YTD are at their lowest volume in seven years
- Ocean carriers are reconsidering the value and strategy of employing mega-vessels; the cost models for these behemoths only work when vessels are sailing at 95% full or greater
- Bunker fuel costs are down between 65-75% since January, and steamship lines have scrambled to re-invent and broadcast new bunker formulas for 2020 service contracts
- The low cost of fuel has incentivized ocean carriers to sail around Africa to avoid paying high Suez Canal fees; the Suez Canal has countered with toll discounts as high as 75%
- An estimated 20% of booked containers are no-shows in today’s unstable environment; many ocean carriers fear that this percentage could soar to 40% by June
- Moody’s has downgraded the credit outlook of Hapag Lloyd, Maersk, and ONE from stable to negative; by most measures at least 10 ocean carriers are at high potential risk for bankruptcy due to negative working capital, recent history of negative earnings, and/or poor cashflows due to high debt and low volumes

Spotlight on US Seaports

- FMC to sign a formalized rule that targets the [fairness of detention and demurrage fees](#), a controversial subject made more difficult by COVID-19 port disruptions; a final rule is set to be released in two weeks
- The South Carolina Ports Authority (SCPA) has transferred day-to-day control of berth operations at Wando Welch Terminal to a joint venture of operators; the new entity will focus on container turnover time, improved equipment utilization, and total optimization of efficiencies for the terminal itself and vessel/gate operations
- Blank sailings from Asia (equaling almost 30% of total capacity) combined with the use of mega vessels are leaving US ports in a “feast or famine” position for their labor utilization and port efficiencies; many ports are reducing hours and often without much notice
- The Port of Los Angeles has announced reduced volume expectations of 21% for May and 16% for June
- Similarly, Long Beach, Oakland, and Tacoma are forecasting volume reductions of 20% for May, June and possibly beyond
- Low oil demand has forced oil tankers to “park” off the Southern California coast, with up to 27 giant vessels waiting to unload

Europe Begins Easing Restrictions, But Slowly

- **Austria** began easing lockdown restrictions on May 1st; restaurants will begin re-opening May 15th, followed by hotels at the end of the month
- **Belgium** permitted “non-essential” shops and businesses to re-open in phases, but restaurants and bars will remain closed until June 8th
- **Czech Republic** eased border restrictions at the end of April by allowing travel for business or seasonal work to/from other EU countries; gatherings of more than ten people are still forbidden
- **Denmark** has allowed nurseries, primary schools, day care centers, and small businesses with strict hygiene regulations to re-open
- **France** will remain locked down until May 11th; phase one of their re-opening will allow gatherings of up to 10 people, and citizens will no longer need to carry forms to leave their homes
- **Germany** has begun a phased re-opening since April 20th; they began with smaller businesses, and will next address schools and larger businesses and facilities
- **Greece** will allow some schools, small shops and hair salons to re-open, while larger shopping centers, hotels and restaurants will remain closed until June
- **Ireland** has extended its lockdown until May 18th and schools will not re-open until September; a five-stage plan to re-open the economy is scheduled for May 18th through August

- **Italy** is carefully loosening overall restrictions with factories, construction firms, wholesalers, and parks by re-opening with strict regulations still in place for social distancing, sanitation, and crowding; Italy has targeted May 18th to commence a phased re-opening of retail shops and restaurants
- **Netherlands** has extended their lockdown on large-scale events such as concerts and sporting venues until September; however, schools will begin class on May 11th, and restaurants will likely re-open on May 20th
- **Portugal** has mandated the use of facemasks and/or visors in stores and in public, while targeting May 18th to re-open high schools, restaurants, museums, and bars
- **Spain** has announced a four-stage re-opening with a minimum of two weeks between each stage to allow for a “wait and see” approach; the first phase re-opens hotels, small shops, tourist accommodations, construction sites, many factories, and some office buildings
- **Switzerland** has implemented a multi-phased approach by allowing a wide range of businesses to re-open at the end of April; on May 11th, museums, libraries, schools, shops and restaurants will be allowed to re-open
- **United Kingdom** is expected to address the nation on May 10th with details of when and how the police-enforced lockdown may be lifted and how they plan to re-open

Greater Asia Attempting to Get Back to Work

- China has high hopes for Labor Day consumer spending during the extended May 1st – 5th holiday after their GDP shrank 6.8% in the first quarter
- China’s construction sector dropped by a whopping 17.5% in the first three months of 2020
- Hong Kong’s GDP has plummeted 8.9% in Q1 while unemployment rose to 4.2%, surpassing its worst quarterly performance on record
- South Korea has announced they are relaxing social distancing rules beginning May 6th, with schools beginning a phased re-opening on May 13th
- Japan has announced an extension of their national state of emergency from May 6th through May 31st
- After the Tokyo Summer Olympics had already been postponed to 2021, experts are now saying they most likely will not occur at all
- In Singapore, 3,100 “safe distancing ambassadors” patrol streets and fine people \$300 for disobeying safe distance rules; \$10,000 fines or imprisonment are at stake for holding public or private gatherings
- Malaysia eases lockdown restrictions; however, 6 of their 13 states refuse to comply, while another 3 states say they will not fully ease safe distancing measures
- Indonesia has suspended their budget deficit cap of 3% of GDP to free funding for consumer support and for fighting the pandemic; current estimates indicate a budget deficit of 5.07% of GDP for 2020
- The Philippines has imposed a 10% increase on imported petroleum duties to help fund the costs of fighting the pandemic

Financial Corner: Global Trade on the Run

- The World Trade Organization (WTO) has predicted a range of decline for 2020 global international trade of 13 to 32 percentage points
- FMC Commissioners (Carl Bentzel and Louis Sola) presented a letter to the leadership of the Senate Commerce and House Transportation and Infrastructure Committees asking them to address “financial gaps” anticipated by the nation’s marine terminals
- New York Governor Andrew M. Cuomo, New Jersey Governor Phil Murphy, Connecticut Governor Ned Lamont, Pennsylvania Governor Tom Wolf, Delaware Governor John Carney, Rhode Island Governor Gina Raimondo and Massachusetts Governor Charlie Baker recently announced a joint multi-state agreement to develop a regional supply chain purchase plan for personal protective equipment (PPE) and other medical equipment
- President Trump’s chief economic adviser, Larry Kudlow, said that there may be additional coronavirus stimulus legislation; “There may well be additional legislation, there’s kind of a pause period right now,” Kudlow said on Sunday
- Mark Cohen, Director of Retail Studies at Columbia University, is predicting the e-commerce marketplace will dramatically expand at the expense of retail sales during and after COVID-19
- J Crew and Gold’s Gym have joined Pier One and Modell’s Sporting Goods as notable US bankruptcies in 2020
- IHS Markit has recently updated its 2020 forecast for auto sales:
 - **US:** 26.7% reduction to 12.5 million
 - **Europe:** 24.6% reduction to 15.5 million
 - **Global Total:** 22% reduction to 69.6 million

Airline Profits Landing Below Zero Across the Board

- The International Air Transport Association (IATA) and Airports Council International (ACI) are calling for governmental support and stimulus across the globe
- Air Canada reported a \$2.6 billion loss in revenue while estimating three years to return to 2019 levels; the loss was their first after 27 consecutive quarters in the black
- IATA is estimating that airlines in India will lose approximately \$11.2 billion in revenue, which will put 2.9 million jobs at risk
- United Airlines has lost \$1.7 billion in the first quarter of 2020 and is receiving \$5 billion in federal aid to assist with payroll protection through September 30
- Southwest Airlines’ CEO said that the first week of April has been the worst single week they have ever seen, but May’s business is trending up slightly
- The United States Postal Service has decided to ship certain categories of mail by ocean to Europe since the price of air cargo is so highly inflated
- The Philippines has suspended all commercial flights as of May 3rd to help slow the spread of the virus, but cargo and maintenance flights will be permitted to continue

- Berkshire Hathaway has sold all their shares in four airlines; they divested the following stakes in each airline according to their annual report:
 - **Delta Air Lines:** 11%
 - **American Airlines:** 10%
 - **Southwest Airlines:** 10%
 - **United Airlines:** 9%

Update: U.S. Customs and Border Protection (CBP)

- Though personal protection equipment (PPE) is scarce, CBP has ensured that personnel who cannot telework are given efficient protection equipment at work; currently 326 CBP officers have tested positive for the virus
- CBP has stopped its validations of the Customs-Trade Partnership Against Terrorism (CTPAT) program due to the pandemic; CBP will not be delaying dates for the implementation of the updated minimum security criteria, but will allow more discretion in those validations
- The Department of Justice withdrew its “statement of interest” submitted for the suspension of the Antidumping and Countervailing Duties (AD/CVD) Investigation on mattresses from Cambodia, China, Indonesia, Malaysia, Serbia, Thailand, Turkey and Vietnam
- On FEMA’s May 4th call, they said, “... the medical PPE supply chain is being steadily replenished with over 150 flights via Project Air Bridge and many ocean shipments of PPE expected to arrive soon”
- The FDA provided the trade community with additional clarity on claiming hand sanitizer as an over-the-counter drug; there are currently no Emergency Use Authorizations (EUA) or Enforcement Discretion policies in place for this item, so manufacturer registration and a drug listing number are required by the FDA for entry
- PPE that is not intended to be used for medical purposes does not require FDA clearance at this time (example: the masks we wear in public)
- For all FDA Items using the Enforcement Discretion, the FDA is encouraging importers to retain complete records to ensure that the Enforcement Discretion policy applies

In a World of Bad News, a Few Silver Linings

- China’s 2020 carbon emissions have declined for the first time in three years; residents in major cities have reported improved breathing while glimpsing blue skies
- The DOT has offered a \$500 million loan to the Port of Long Beach under the Transportation Infrastructure Finance and Innovation Act (TIFIA); the federal infrastructure loan is not directly connected to the pandemic, but the timing is certainly advantageous
- While Vietnam’s manufacturing sector has been jolted by order cancellations, the country has had fewer than 300 confirmed infections and zero deaths from COVID-19

- CBP officers in Ohio made 500 masks for hospitals in Cleveland; a CBP Supervisor said, "...our CBP officers have and will continue to respond with compassion and resolve. We will always look for ways to help our community while maintaining our critical enforcement posture on the front lines"
- Shipping and Freight Resource has reported that more than 42% of logistics professionals surveyed expect their companies to make substantive changes to their supply chains in the wake of the COVID-19 pandemic:
 - 67% will invest in technology
 - 33% will hire new employees
 - 26% will purchase or lease assets
 - 13% will make acquisitions
- The "Fueling Our Heroes" campaign launched by CDL Life is aiming to distribute as many fresh meals as possible to the trucking community across the country as challenges continue for drivers finding open restaurants along the nation's interstates
- Kindergarten student, Jack Mahar, made a "pit stop" for delivery truck drivers in his Niskayuna, NY driveway; Jack is committed to keeping the drivers fueled and has already talked about different items he can offer each day (cookies, candy, etc.)

Shap Fact of the Week:

After Native Americans helped raise nearly \$170 (roughly \$5k today) for the Irish during the devastating Potato Famine in 1847, the favor has now been returned. The Irish started flooding a GoFundMe page set-up for the Navajo Nation and Hopi Reservation after a story describing their plight during the pandemic was brought to Ireland's attention by a journalist on Twitter. In total, the GoFundMe page has raised over \$2.6 million to provide water, food and clothing to the Navajo and Hopi people, which will go a long way in helping them during these unprecedented times.

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.
