



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 13, 2020**.

Quote of the Week:

“Everything will be okay in the end. If it’s not okay, it’s not the end.”

– John Lennon

Unprecedented Financial Uncertainties

- This week, Denmark’s A.P. Moller-Maersk announced that it expects its Q2 transport volumes to drop by up to 25%; Though Maersk’s CEO, Soeren Skou, said the company was “strongly positioned to weather the storm”, he also admitted that the crisis will have “a significant impact”
- In April, U.S. exports to China amounted to \$9.11 billion, which marked a slight decrease from the \$9.74 billion exported in March; China’s exports to the U.S. increased by 28% since March, reaching \$31.8 billion
- U.S. unemployment climbed to 14.7% in April, a 11.2% increase since February; the current rate is the worst since 1940
- Oil prices rose as the U.S. reduces its production forecasts for the next two years
- U.S. consumer prices fell by the most since the Great Recession, weighed down by a significant drop in demand for gasoline and services, such as air travel
- The U.S. Labor Department has raised the possibility of deflation after the consumer price index tumbled another 0.8% in April, after falling nearly 0.4% in March
- House Democrats introduced the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act; the \$3 trillion relief package would provide new lifelines for the struggling US workforce, including more stimulus checks for Americans

- President Trump signed an Executive Order to help boost competitiveness in America's seafood industry (85% of US consumption is currently imported); the order is expected to help in the following ways:
 - Establishes more efficient and predictable aquaculture permitting processes
 - Accelerates regulatory reform to maximize commercial fishing
 - Upholds common-sense restrictions on seafood imports that do not meet American standards
 - Protects existing and creates new American jobs in the seafood industry
 - Provides \$300 million to support fisherman and related businesses

U.S. Exports Brace for Shortages in Demand and Equipment

- China suspended additional punitive tariffs on U.S. goods, including radar equipment for aviation, in an ongoing effort to cool off trade tensions between the two nations
- The Chinese Ministry of Finance announced that tariff increases on 79 types of goods, ranging from disinfectants to rare earths minerals, would be suspended for one year
- China will not meet its commitment to purchase \$200 billion in US exports by the end of 2021 due to COVID-19; current estimates project Chinese purchases to be as low as \$57 billion in 2020
- In April, export container volume at the Port of Oakland increased 3.6%; officials said that exports continue to be a "bright spot" at the port due to the strong growth in shipments to Southeast Asia
- U.S. natural gas exporters have put \$50 billion worth of infrastructure expansion investments on hold and have lost their edge against Asian and European providers as the prices abroad have sunk sharply
- U.S. exporters are bracing for container and chassis shortages as ocean carriers ramp up their blank sailing programs out of Asia; with 30% of total allocation potentially blanked, domestic equipment problems are inevitable
- On average, export transit times have increased an incredible 25% during the pandemic as exporters face port and warehouse closures and vessel and port congestion globally; if anything the negative trend in transit times is worsening over time

Shipping "Essential" Goods – Innovation Despite New Hurdles

- To date, the U.S. Department of Agriculture (USDA) has reported over 300 employees who have either tested positive for COVID-19 or are quarantined due to exposure
- As the virus rapidly spreads through meat processing facilities, many are now questioning whether Food Safety and Inspection Service (FSIS) examiners are contributing to the spread while traveling between plants

- PepsiCo launched two new websites that capitalize on direct to consumer shipping
- Potato chips and salty snacks are flying off the shelves as consumer demand for these types of comfort food has risen 25% compared to 2019
- US truckers are seeing a shift towards more short-haul trips as local distribution centers work to keep stores stocked with “essential” items, including food, medicine and toilet paper
- Since early March, frozen food sales have jumped 70%
- Airport hubs in China are being put to the test as the high number of medical supplies being exported out of China continues to overwhelm Customs and the airlines
- Personal Protective Equipment (PPE), once a low-value cargo item for Europe and North America, is now the fastest growing commodity by volume and by value
- Drones are making successful deliveries of medical supplies in Africa, China and Chile
- Nuro began using their robots to deliver food and medical supplies to a California stadium that has been converted into a treatment facility
- Delta Airlines plans to provide daily services of freighter flights from South Korea to Atlanta and LA due to the continued demand for medical supplies from Asia to the U.S.

Transitions in Domestic Freight Realities

- Meat processing giant, Tyson, has agreed to pay their truckers a \$1,000 bonus as an incentive to continue driving throughout the difficult circumstances
- Long-haul trips of more than 100 miles have dropped 10% over the last three months, as supply chains shorten to provide a steady supply of “essential” goods
- Trucking’s annual bidding and contracting negotiations have largely been put on hold as many US shippers are shying away from truckload pricing talks amid falling current and uncertain future volumes
- The American Transportation Research Institute (ATRI) and the Owner-Operator Independent Driver Association (OOIDA) recently released the results of a survey focused on the overall impact the pandemic has had on U.S. trucking operations, which included:
 - Driver detention generally has remained unchanged; however, owner-operators and small fleets have experienced worse detention delays compared to larger fleets
 - More than 40% of respondents said that truck parking has not worsened due to the COVID-19 crisis
 - The trucking industry generally has a favorable attitude towards state and federal responses
 - Perceptions about the country’s economic situation over the next several months are largely pessimistic – both in terms of freight movement volumes and consumer spending

- In April, transportation and warehousing jobs overall fell over 10%; a total of 584,100 jobs were lost across transportation modes
- Motel 6 is partnering with Trucker Path to offer a discount on room rates as a way to thank truck drivers hauling “essential” goods; the hospitality chain is offering a 12% discount to drivers who book a room through the Trucker Path app

Spotlight: Indian Sub-Continent

India

- India has extended their nationwide lockdown by 2 weeks to May 17th
- There has been a sharp decline in container trade at Jawaharlal Nehru Port Trust, India’s largest container gateway; volumes tumbled by 37% in April
- About \$1 billion of imported machinery and steel are stuck at Indian ports; goods in a transit area remain for 3-4 days typically, however cargoes are now lying for 45-50 days
- India recently announced that their ports are currently working between 70-80% of total capacity, representing a significant improvement over the past 2 weeks

Bangladesh

- The Bangladeshi government announced last week that it will gradually open additional factories, farms and logistics operations; the lockdown is currently set to expire on May 16th
- Average berthing delays at the Port of Chattogram have been reported at 10-14 days due to extreme vessel and port congestion

Pakistan

- Pakistan has been experimenting with curfew and partial forms of provincial lockdowns; enforcement is scheduled to continue until the end of May
- “Essential” businesses, including the healthcare and food sectors, are fully operational
- The government has allowed several “non-essential” companies to restart their production facilities with strict guidelines in accordance with rules established by the World Health Organization (WHO)
- Customs has announced a 42% decline in Pakistani exports for March and April
- Container freight stations are at capacity as multiple shippers are delaying or holding cargo movement from origins

U.S. Customs and Border Protection (CBP) Stays Vigilant on Enforcement

- Due to the backlog of PPE products, the Food and Drug Administration (FDA) has released a comprehensive list of tips to “expedite the admissibility process during this pandemic”; labeling is a key characteristic when determining if FDA clearance is required
- The US and the UK have begun negotiations for a formal trade agreement between the two countries
- To date, 3 CBP employees have died after being infected by COVID-19; a total of 341 CBP employees have tested positive
- Over Mother’s Day weekend, CBP officials seized over \$200,000 worth of illegal substances and drugs
- At one point in time, there were a total of 88 authorized manufacturers of imported, non-NIOSH approved respirators under the FDA’s Emergency Use Authorization, with 59 total KN95 respirator models; currently, there are only 14 approved manufacturers and 5 approved KN95 respirator models
- In the past six weeks, CBP has had 18 seizures in the Mid-Atlantic region; this includes 1,350 unapproved and counterfeit COVID-19 test kits, 400 counterfeit N95 respirator masks, 2,500 unapproved medicines and more than 67,000 counterfeit ACCU-CHEK test strips

Airfreight Updates

- As PPE and other medical supplies pile up for export, cargo airport hubs in China are being pummeled by backlogs; the most severe delays have been reported at Shanghai Pudong, Guangzhou Baiyun and Zhengzhou Xinzheng
- Avianca filed for chapter 11 bankruptcy protection, joining South Africa Airways and Virgin Australia as airline casualties to COVID-19
- Air rates are stabilizing as the TAC Index indicates declining rates from China to Europe and relatively flat rates from China to the US; please note the recent monthly rate trends:
 - 47-cent/kg decline for Shanghai to Europe
 - 32-cent/kg decline for China to Europe
 - 18-cent/kg decline for Hong Kong to Europe
 - 4-cent/kg decrease for Hong Kong to the US

In a World of Bad News, a Few Silver Linings

- The group of property and casualty insurers offering auto insurance premium discounts to their clients continues to grow, and now includes all major auto insurers; estimated savings for US consumers is more than \$8 billion
- According to the USDA, meat exports to China set a new record in Q1 2020
- The USDA has partnered with farmers, ranchers, crop producers, processors, and distributors to help ensure all American families have access to fresh and wholesome food with the “Farmers to Families Food Box”; farmers will sell food previously destined for restaurants or bulk purchases to USDA distributors, and will package family-sized boxes with the fresh dairy, meat, and produce they need
- UPS drivers in Canada are receiving handwritten thank you notes, creative chalk art on sidewalks and gift baskets left on porches; popular gift items are hand sanitizer bottles and antibacterial wipes
- Mary Barra, CEO of GM, was the first business leader to commit a company’s assembly line to the fight against the virus; the U.S. Department of Health promptly awarded GE a \$489 million contract for 30,000 ventilators to be delivered by the end of August
- Jack Ma, cofounder of Alibaba, continues to use his influence to help ease tensions between the US and China; he has sent 1,000 ventilators to New York, 1 million face masks to the CDC, and thousands of testing kits throughout the US

Shap Fact of the Week:

Jose Andres, the founder of World Central Kitchen, has fought COVID-19 hunger in several ways: he has had food forklifted onto quarantined cruise ships, has served 100,000 meals a day to health care workers and others in high infection areas, and has recently turned the Washington Nationals’ stadium into a massive, outdoor community kitchen for D.C. residents.

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.
