

2020-04-07

Logistics insights

Shock wave in supply chains from Greater China to Europe

Our heartfelt thanks and respect to the many people who in these unprecedented times have responded quickly and appropriately by stepping up valiantly to help, or “just” to do the right thing!

While COVID-19 was still centered on Wuhan, it first became an issue in Europe shortly before January 25. Internal borders in China were closed, and workers’ return from vacation back to work in the factories was slow; these had to have approval to restart production. It took time for nationwide truck forwarding services to resume their usual smooth operation. For many companies, the trade war between China and the US had resulted in full export warehouses. From there, goods could be exported at any time, mainly by sea. Market saturation had already been evident for a year, in the form of a sharper increase in cheap sea freight compared to the significantly more expensive, but faster, air freight.

This all changed when production capacities suddenly fell two, three, or more weeks behind schedule. Now many shipments which were planned as sea freight need to be transported more quickly. Traditionally this was only possible using air freight or various sea-air options. Today the “Iron Silk Road” via Siberia offers another alternative, where it is easier to increase capacity at short notice than is the case with air freight, which is limited by the availability of freight planes.

Consequently carriers have changed their schedules, taking some ships out of circulation, allowing them to cushion the reduction in demand. However, air freight responds to market fluctuations in a much more volatile way than sea freight. The majority of passenger flights have had to be canceled, with the result that 70 per cent of freight capacity has also been lost. The tonnage of pure freight planes is not sufficient to compensate for this.

There is currently a real shockwave coursing through the air freight market. A backlog and the dramatic reduction of cargo space are pushing prices up to dizzying heights. The effect on the European economy is beyond comparison with the SARS epidemic of 2003. Back then supply chains were nowhere near as globally networked as they are today! Many products cannot now be manufactured on one continent without components that come from another continent. This shockwave will be echoed if China has a shortfall in orders from companies abroad that have closed, such as the European automobile industry.

Forecasts and recommendations are unreliable at this stage. Nevertheless: if today’s delays and price increases continue, the air freight market is expected to reach a peak throughout April and well into May. It seems advisable to secure freight space and prices as early as possible, and to consider the “Iron Silk Road” through Siberia as an alternative to air and sea freight.