

2020-04-07

## Logistics insights

### The new air freight market with China

COVID-19 has the air freight industry on edge. It is hard to keep up with the escalating news stories and intervention measures. Things are moving noticeably faster than usual in the freight forwarding industry.

Passenger travel is restricted, but goods traffic is expected to continue as a mainstay of the economy. However, the majority of air freight is transported as “belly freight” in the lower deck, below the passenger areas. When time is tight in global trade, air freight is usually the obvious alternative. Air freight normally responds to market fluctuations a few months ahead of sea freight, and is much more volatile. But there is no such thing as normality at the moment, because right now we are dealing with an unprecedented global shockwave. The most suitable goods for air freight are those with a high value relative to their weight. This applies particularly to high-tech products, eCommerce goods and a large number of prefabricated industrial items and components. If one single prefabricated element is missing, out of 8,000 parts of an automobile, this can halt an entire production line – or prevent production from restarting. Have we perhaps overdone “Industry 4.0” and “just-in-time delivery” (JIT)? Transferred too much from the warehouses to the transport routes, reduced the level of inventories a bit too far? It remains to be seen what we will think about all this once the COVID-19 pandemic is past.

China is slowly beginning to restart its production facilities. Some carriers with a hub on the route between China and Europe kept their freight services going. They now have an additional problem, namely that these goods cannot currently be shipped onward to Europe. Because flights going that way have been almost completely stopped. Airport backlogs are a challenge that cannot just be resolved overnight. That also means long wait times – somewhere in the world – for goods that have already left China. High prices are making it increasingly worthwhile to load large passenger planes purely with heavy freight, and to fly with passenger decks full of empty seats, or lightly loaded with freight. This is known as “P2F”: “passenger to freighter.” A surprisingly reliable alternative has emerged in recent years, in the form of the “Iron Silk Road,” i.e. the rail link from China to Europe. Only once has there been any real delay, due to route congestion in Belarus, but this may now arise again.

To summarize: The situation in the freight market is changing by the minute. Nothing is really predictable, though a continued increase in charter flights is likely, and where available, in direct flights. With the latter, however, there is also a risk of ending up stuck in a queue or backlog. It seems that whenever goods are absolutely essential, it is best advised to make plans in plenty of time and if possible to consider alternative routes. One economical alternative to air freight, though slower, can be the “Iron Silk Road.”