



# MARKET INSIGHTS

Global Logistics Update

May 18, 2022



# State of Global Trade

Prices for everyday goods and services continue to climb, marking the fastest pace since 1981. Price growth has now replaced the COVID-19 pandemic as the biggest obstacle toward a full economic recovery and poses the biggest risk of sparking a recession.

Rising inflation is stoking concerns about the overall health of the global economy. Morgan Stanley forecasts global economic growth in 2022 will be less than half of 2021, driven by a combination of continuing drag from the COVID-19 pandemic, persistent supply chain disruptions, increased logistics costs, worsening inflationary pressures, tightening monetary policies, and the impacts of the Russian invasion of Ukraine. The International Monetary Fund has warned that higher shipping costs “could increase inflations by about 1.5%,” and expects the situation to worsen through the end of the year.

In an effort to combat rising inflation, the Federal Reserve and central banks in the UK, EU, and other nations raised interest rates earlier this month. But, many critics fear that raising interest rates too quickly will crush demand, resulting in job loss and sparking an entirely new crises. Global stock markets reacted strongly to the increases - with a massive equities sell-off that prompted the Dow, Nasdaq, and benchmarks in Europe, Hong Kong, Seoul, Sidney, and Tokyo to drop sharply.

Consumer sentiment has slumped to the lowest level since 2011 amid the uncertainties. While U.S. household spending remains strong, online sales have slumped after two years of impressive growth. Even the housing market is showing signs of a cool down. Consumer spending in Europe has rebounded after a seeing a slight dip April amid uncertainties with the conflict in Ukraine, but analysts expect a slowdown early this summer.

The lockdowns in China and the Russian Invasion could worsen the situation. While inventories have reached levels not seen since the pandemic began, the supply bottlenecks caused by China’s draconian COVID policies have disrupted \$28 billion in global trade and could lead to another round of product shortages. Shortages of materials, parts, and components have impacted manufacturing

## Upcoming Global Holidays / Events

Holiday	Country	Date(s) Observed
Wesak	Malaysia, Singapore, and Thailand	May 16
Ascension Day	France, Germany, Sweden, and Switzerland	May 26
Memorial Day	U.S.	May 30

\*For a complete list of holidays by country, visit our website at [www.oceanair.net/helpful-links/holidays/](http://www.oceanair.net/helpful-links/holidays/)

output in key markets across the globe, with Germany, Japan, South Korea, Australia, and Indonesia especially hard hit, and global exports orders have shrunk in all markets except the U.S. Indeed, according to a report published by the EU Chamber of Commerce, 85% of companies polled have had difficulties obtaining raw materials or necessary components, and nearly 60% said they were lowering their 2022 revenue forecasts by 6% - 15%. In addition, shortages of key commodities, such as oil, metals, and rare earth minerals, due to Russian sanctions, have already boosted prices, adding to the increase costs for finished goods.

Stoking fears of a sharper economic downturn, President Xi Jinping recently affirmed Beijing’s commitment to the zero- tolerance COVID policy. Currently 40 cities across China, including Beijing, are under full or partial lockdown, impacting up to 220 million people. To put that into perspective, the number of people now under lockdown in China is estimated to be larger than the entire U.S. population. While manufacturing has restarted in Shanghai, with an additional 2,000 companies given permission this week to open under a closed-loop system, the factories are off to a limping start due to the lack of raw materials, components, and workers, who are not allowed to leave their homes or districts. Export shipments have also been hampered by a lack of drivers, transport permits, and logistics availability.

Authorities in Shanghai claim that the city will completely reopen on May 20 after eight districts archived zero community transmission

Continued on the next page



# State of Global Trade (Cont'd)

of COVID-19. It is expected to take at least four weeks after that to fully ramp up production, and many industry experts are warning of a cargo surge which could again overwhelm the ports. Meanwhile, all restrictions have been lifted in Shenzhen and Guangzhou, and production levels have increased to 95% of normal capacity.

Many analysts are predicting a large migration of manufacturing from China to other countries over the next five years due to the supply chain disruptions stemming from China's zero-COVID policy. Data from Tradeshift supports this, showing that invoice traffic from Mexican suppliers have grown at 4.1 times the global average over the past year, while Canadian supplier invoices were 3.1 times the average. Other businesses have shifted their supply chains to Europe and other Asian countries, including India, Bangladesh, and Vietnam.

## Major Disruptions

- Businesses in China are bracing for a “mass exodus” of foreign workers this summer due to the excessive COVID restrictions, with 10% planning to leave before their current employment contract ends
  - On Thursday, the Chinese National Immigration Administrations announced it would tighten its process of issuing travel documents and will strictly limit those looking to leave the country
- Some Japanese manufacturers forced to halt production as lockdowns in China cause shortages of raw materials, parts, and components
- Ukraine shuts off natural gas exports to Europe, effective May 11
  - Kiev was forced to declare **force majeure** on a third of its natural gas flows amid concerns over Russian interference with transmission operations
  - Natural gas prices across Europe soared by more than 6.4% following the announcement, and economists are warning that the blockade could have dire implications on European economies
- Sri Lanka plunges into chaos amid fuel, food, and medicine shortages
  - Prime minister, Mahinda Rajapaksa, resigned early last week following weeks of protests demanding he and the president step down over their mishandling of the economy
  - The protesters have said they will keep up their campaign as long as Gotabaya Rajapaksa remains president

- A nation-wide curfew was announced just prior to the resignation, following increasingly violent clashes between pro-government and anti-government protestors
  - Since March, the protests have spread across the island nation amid the rising cost of living and difficulties in obtaining basic items, such as food, essential medicines, and cooking fuel
  - The military has been deployed to bring the violence under control and orders have been given to shoot-on-sight anyone caught damaging property or attacking people, stoking fears of a military takeover and martial law
- On Monday, the new prime minister, Ranil Wickremesinghe, announced the nation was down to a one-day supply of gasoline, forcing powers cuts that would extend to 15 hours a day
- The new PM pledged to see off its national airline to help the economy and was forced to print money to pay government salaries
- India cuts power and cancels trains amid rising coal shortages
  - Local governments appeal to the masses to cut back on electricity consumption
  - Punjab, Uttar Pradesh, and Andhra Pradesh to impose blackouts for eight+ hours a day as the energy crisis looms
- Reuters, others warn of power grid failures in the U. S. this summer due to the rushed conversion to green energy
  - Fossil fuel power plants across the U.S. are being retired more quickly than can be replaced with green infrastructure
  - Rolling blackouts will likely be implemented in many areas not impacted by power grid failures in an effort to conserve power
- UK's small and medium sized enterprises (SME) gutted by Brexit, as the increased bureaucracy and costs of trading dry up their European markets
  - Roughly 6.5% of British SMEs closed between 2020 and 2021 due to increased costs stemming from customs declarations, transit documentation, and EU accreditation processes and requirements
  - On the other hand, EU exporters have benefited from the UK's lack of import controls
- Will Nepal become the next Sri Lanka?
  - The Asian country's foreign reserves have fallen to dangerous lows, as spiraling prices strain its economy which has been decimated by the COVID pandemic
  - In an effort to conserve fuel, Nepal will cut its official work week, beginning May 15
  - Kathmandu has also banned imports of luxury goods in hopes of conserving its foreign exchange reserves



# State of Global Trade (Cont'd)



*We are forever grateful for the ultimate sacrifice of those who died for our country. May their courage and dedication never be forgotten.*

## Announcements

- The FDA will require importers of human and animal food to provide the DUNS number of the foreign supplier on each entry line for food on the entry form, effective July 24
  - Beginning July 24, CBP will reject entry lines of food subject to the FVSP regulation where “UNK” is listed instead of the nine-digit DUNS number
  - For more information on this, please contact FDA consultant [Domenic Veneziano](#) at (202) 734-3939 or via email by clicking [here](#)
- USTR releases [2022 Special 301 Report](#), cataloging various IPR infringements by America’s trading partners
  - The annual report placed 20 partners on watch lists for IPR infringements and labeled China, Argentina, Chile, India, Indonesia, Russia, and Venezuela as the countries that had the most egregious IP practices affecting U.S. businesses
- China to tighten export controls on dual-use technology
- Bangladesh expands its authorized economic operation (AEO) system to include factories and warehouses to speed up customs checks
  - AEO is a core part of the World Customs Organization’s framework of standards to secure and facilitate global trade, similar to CBP’s CTPAT program

## Public Hearings / Requests for Public Comments

- The FMCSA is seeking [public comment](#) on a proposed rulemaking which equips trucks with an electronic device which will impose speed limits – to be specified in the final rulemaking (less than the road speed limit) – on over the road drivers
  - Comments must be received by June 30, Docket Number FMCSA-2022-0004
- The International Trade Commission will hold a [public hearing](#) on the economic impacts of Section 232 and Section 301 tariffs on July 21
  - Requests to appear at the hearing are due by July 6
  - Pre-hearing briefs and statements are due July 8
  - All post-hearing briefs and statements are due August 12



# Air Freight

## Market Expectations, Space, Volume, and Rates

Market conditions in this sector continue to be challenging due to capacity shortages, delays, and elevated rates, with varying levels of impact across trade lanes. The Ukraine war, COVID, and surging fuel costs have all contributed to an overall global drop in demand for air freight, which is now tracking below pre-COVID levels. Passenger traffic has increased on some lanes, adding additional widebody aircraft capacity, while air space restrictions and geopolitical tensions continue to constrain capacity on others.

### Asia – U.S. / Asia - Europe

Low manufacturing activity continues to affected demand from China. Capacity out of Shanghai has been reduced to just a third of levels seen last year, with the majority of the reduction coming from non-Asian-based airlines. Where they can, companies have rerouted cargo through other Chinese hubs, who are now struggling with severe congestion due to labor shortage caused by localized COVID outbreaks. Inbound airfreight shipments are experiencing delays of 10–20 days due to customs closures in Shanghai and quarantine rules imposed at other major airports. On the other hand, capacity from Hong Kong has begun to recover as cross-border bottlenecks start to ease.

Rates from China to the U.S. and Europe have softened due to the decreased demand, although they are still much higher than during the same period last year. Backhaul rates from both the U.S. and Europe remain stable. Rates from Hong Kong continue to remain elevated on all lanes as the airlines work to clear the backlogs.

Markets out of many South Asian origins, including Taiwan, Thailand, Malaysia, and Vietnam, have normalized and rates have stabilized, although still higher than pre-pandemic levels. Space remains tight out of India on all routes, with rates changing daily. Demand on the Korea-North America lane remains strong, keeping pressure on rates, while the Korea-Europe lane has seen a softening in demand, leading to a softening of rates.

### U.S. - Europe

Demand on the Transatlantic lane remains high, especially into Europe. For the first time since the pandemic began, capacity on this trade is higher than pre-pandemic levels as passenger travel continues to ramp up.

Rates on both hauls have been impacted by the added capacity. Spot rates from Europe to the U.S. have stabilized and some lanes have started to show a decrease. Deferred routings via secondary hubs provide cheaper rates overall. On the backhaul, rates have seen a substantial drop.



CAPACITY



EQUIPMENT



RATES

### Ex-Oceania

Capacity remains tight to the U.S. and rates are trending up amid continued high demand. On the backhaul, spot rates are trending down as capacity continues to loosen.

The return of capacity on the Oceania-Europe trade is welcome news in this challenging market. Longer flight paths and higher fuel prices continue to pressure prices, although we are seeing a slight rate decline into Europe.

## Major Disruptions

- Global jet fuel supplies have reached dangerously low levels, causing prices to skyrocket above \$200 a barrel
- The global airline industry faces recruitment challenges after laying off thousands of workers who refused the COVID vaccine; the lack of staff is likely to delay the return of belly capacity
- Disruptions continue to plague air freight shipments from China
  - While the main bottleneck continues to be the lack of trucking capacity, ground handling and customs operations have been severely impacted due to localized lockdowns, quarantine requirements, and long lines for mass testing
  - Many passenger and cargo airlines continue to cancel flights to Shanghai Pudong
  - Congestion has increased at other Chinese airports, including Zhengzhou, Beijing, Shenzhen, and Guangzhou, which have been overwhelmed with cargo diverted from Shanghai Pudong
  - Guangzhou Airport has cancelled all domestic flights due to suspected COVID cases; international cargo schedules have not yet been affected

## Announcements

- Cathay Pacific has announced plans to add more cargo flights out of Hong Kong, following the easing of crew quarantine rules
- Cargolux resumes some flights to Shanghai Pudong
- Air Canada to establish all-cargo division
- Congestion has been reported at Los Angeles, Chicago, and New York due to heavy export volumes, with dwell times of 3 days being reported
- Congestion levels at London Heathrow is starting to reduce



# Ocean Freight

## Market Expectations, Space, Volume, and Rates

Overall demand remains high despite, or better yet due to, rising global inflation as retailers rush to order record amounts of merchandise before inflation drives costs higher.

In the U.S., import volumes continue breaking one record after another. In March, U.S. ports handled 2.34 million TEU, up 3.2% y-o-y and surpassing the previous record of 2.33 million TEU set in May 2021. The coastal shift from the West Coast to East Coast ports is gaining momentum ahead of the West Coast labor negotiations. According to the latest statistics, combined volumes at East Coast ports rose 18.7%, while volumes on the West Coast retracted 3.4%.

While U.S. exports volumes remain high, exporters have been significantly hampered due to container and equipment shortages, canceled bookings, and inadequate receiving windows. In addition, three of four containers returning to Asia are empty, resulting in a significant backlog of sold product in need of transportation.

Overall port congestion continues to worsen and is becoming increasingly widespread. Congestion in Europe has been compounded by the slow movement of goods to the hinterlands.

Although vessel delays have improved marginally since the beginning of the year, the average delay of a ship's arrival is 7.26 days, a figure that rarely tops 4.5 days in normal times. Severe congestion at transshipment hubs continues to negatively impact schedule reliability. The best performing tradelane in terms of reliability is Asia – U.S. East Coast, while the worst performing lane is Oceania-Europe.

Overall, global spot rates are now marginally lower than they were at the beginning of the year but are still more than quadruple pre-pandemic levels. Marine fuel prices continue to soar, with Singapore, the world's largest refueling port, seeing prices jump 66% over the past year. The question ahead is whether the end of China's lockdowns, peak season volumes, and possible unrest in LA/LB will cause spot rates to spike again in the 2H'22 or if falling demand due to inflation combined with unceasing port congestion will pull spot rates lower.

With the rising cost of marine fuel impacting operational costs for container ships, carriers are contemplating the implementation of emergency fuel surcharges to tackle the volatile cost of carrying freight. This has been met with a lot of pessimism by shippers who view the costs for shipping as already too high, so additional costs will likely not be welcomed in the market.

### Asia – U.S. / Asia - Europe

Demand remains weak ex-China as the lockdown in and around Shanghai enters the seventh week. Container volumes at eight major Chinese port declined by 5.7% year-on-year. Severe congestion



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has been reported at the ports of Shanghai and Ningbo amid a lack of trucking services and manpower. Many industry experts anticipate it will take four to eight weeks for normal operations to resume once the lockdowns in China are lifted, and we expect to see a surge in volumes as retailers look to hold prices down for consumers. On backhaul routes from the U.S. and Europe, capacity remains flat month over month.

All-inclusive rates to the U.S. and Europe are largely unchanged, while FAK rates eased back further amid slow booking activity. Spot rates are expected to remain stable in the coming weeks as the lockdowns in China and geopolitical tensions continue. While there remains a downward movement on the spot market, carriers will likely bring down their middle and higher rate tiers to closer align with the lower FAK rates. Severe congestion off the coast of China is pressuring backhaul rates, with rates from Europe edging up and rates from the U.S. remaining flat.

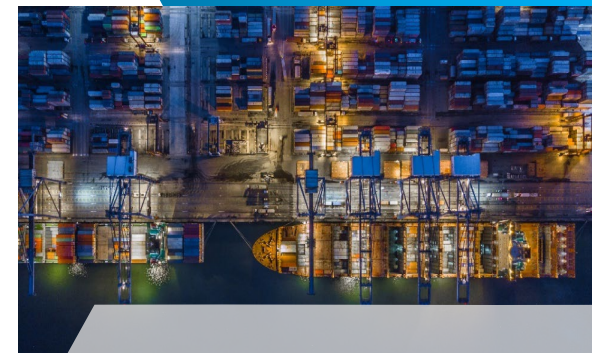
Space remains very limited from Bangladesh, Cambodia, Indonesia, India, Sri Lanka to all destinations, and carriers are only releasing space on high premiums. While space is limited ex-Vietnam, we are seeing a slight decline in rates. Delays at transshipment hubs in South-East Asia persist and continue to impact rates.

### U.S. - Europe

Demand on this tradelane remains high. Capacity continues to be extremely tight as carriers blank voyages to avoid delays caused by the severe congestion at American and European ports. Rates on both the headhaul and backhaul continue to increase, as schedule reliability in Europe continues to put pressure on rates.

### Ex-Oceania

Capacity remains tight ex-Oceania to all destinations. Spot rates to the U.S. are trending down, while rates to Europe continue trending up as delays at transshipment hubs and longer transit routes negatively impact rates. On the backhaul from both the U.S. and Europe, capacity and rates remain flat.



# Ocean Freight (Cont'd)

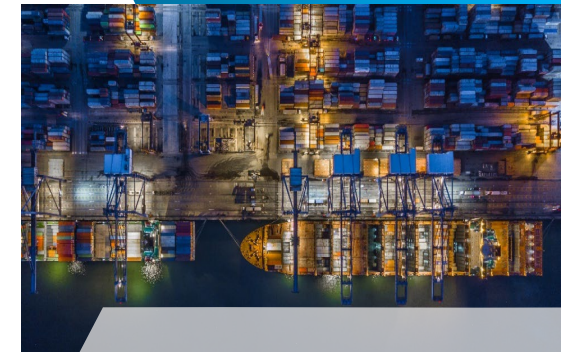
## Announcements

- FMC demands more information from the container shipping alliances, including pricing of individual trade lanes - by container and service type - as well as comprehensive information related to capacity management decisions of ocean carriers
  - The new requirements follow a slew of complaints from U.S. shippers and forwarders over concerns of possible antitrust violations, profiteering, and denial of service for U.S. exporters, while posting unprecedented annual profits ranging in 10's of billions of dollars
- Hapag Lloyd launches real-time IoT monitoring for its entire fleet of shipping containers after the successful launch of the technology on its reefer container fleet, beginning this summer
  - The GPS-based technology will monitor for temperature variations and “sudden shocks” to the container and allow for real-time track and trace
- Maersk resumes acceptance of reefer and dangerous goods cargo to Shanghai, after seeing an improvement in pickups of both empty export and import-laden containers
- CMA CGM offers \$300 incentive for returning containers within four days of being picked up
- The Federal Maritime Commission calls for increased budget to help with enforcement actions and consumer assistance capabilities amid rising complaints over supply chain challenges
- Chunker opens new off-port container storage facilities near the ports in Southern and Northern California
  - Each facility provides all the amenities of traditional facilities, but without the congestion and at lower cost
  - Chunker also has warehouse space available for transloading container cargo
- The International Longshore and Warehouse Union’s contract with the Pacific Maritime Association is set to expire of July 1; negotiations began on May 12
  - The ports and unions are clashing on automation, after the Pacific Maritime Association (PMA) released a study extolling the benefits of port automation on May 2
    - Wages, hours, and working conditions are also likely to be “challenging issues” for the negotiators
  - PMA and port authorities now expect the contentious negotiations will likely extend past the July 1 contract expiration
- Proposed [legislation](#) out of California looks to ban demurrage & detention (D&D) fees on cargo delayed at ports to which exporters have no control over

- Hapag Lloyd and Wan Hai have been ordered to pay \$822,220 and \$850,000 respectively in civil penalties for violations of the U.S. Shipping Act
  - In the two cases, FMC investigations found that Hapag Lloyd and Wan Hai incorrectly applied D&D fees on containers that were not returned on time at specified locations at the ports of L.A. and Long Beach because truckers were turned away from return locations or were unable to make reservations by the ports due to port congestion
  - The judge provided a cease-and-desist order against Hapag Lloyd over D&D charges, while Wan Hai has agreed to modify their D&D practices
  - The FMC expects a sharp increase in the number of court filings over the unreasonable D&D charges in the coming months
- South Korea works to develop a “smart” container which can transport lithium batteries safely following increased publicity about the dangers of shipping the highly combustible batteries
  - The proposed design for the Battery Safe Transport Smart Containers will feature fire insulation, flame retardant materials, sensors and shock protection
- UK proposes new legislation to reform seafarer pay after P&O Ferries disgraceful actions which sacked 800 workers
  - The new legislation will require all ferries regularly sailing in and out of UK ports to pay seafarers the UK minimum wage
  - Ferries failing to meet the new pay requirements will be banned from UK ports
  - The British government is also working with Ireland, France, Spain, Germany, the Netherlands, and Denmark to create “Minimum Wage Corridors” on routes between the countries
  - Consultations on the proposed changes will be held between May 10 – June 7

## Blank Sailings

- The seven-week lockdown in Shanghai has prompted carriers to blank an average of 36% of scheduled sailings between weeks 17 and 23 on the Transpacific and Asia-Europe tradelanes
  - Carriers continue to skip scheduled Shanghai port calls, rather than blanking entire voyages
  - Carriers will likely further increase the number of blank sailing as well as omit call to Shanghai unless Shanghai actually reopens soon
- Carriers continue to blank sailings on the U.S. – Europe tradelane, keeping the market tight



# Ocean Freight (Cont'd)

## Major Disruptions

- Shanghai container port is operating with around half of their normal manpower
  - The labor shortages will likely lead to huge backlogs and lengthy delays, further distorting the supply-demand balance
- Carriers continue to dump cargoes destined for the UK at other European ports without any plan to relay the containers; most of these shipments have been delayed for over a month
- Congestion is growing in Romania, as the Russian Invasion has forced Ukraine to move part of its freight through Constanta, causing lengthy delays
- The breakdown in rail service continues to make it difficult to clear the docks in Los Angeles and Long Beach, with the number of long-dwelling rail containers breaking new records every week
- As carriers face scrutiny over services for American exporters, exports from Long Beach continued to decline while the number of empties moved increased by 16.9%
- Carriers continue to reduce capacity allotments to India, despite the slowdown in global trade caused by the China lockdowns and the on-going war in Ukraine
  - One freight forwarder in India said, "There is no clear explanation, but they keep using [the] capacity crunch as an excuse to quote high rates"

## Port Call / Rotation Changes

- Zim partners with Hapag Lloyd on new weekly service (ZCT) between Turkey and the U.S. East Coast
  - Izmit - Aliaga - Tangier - New York - Norfolk - Savannah
- Hapag Lloyd adds Virginia to its Mediterranean Gulf Coast Express (MGX) service
  - Italy - Spain - Mexico's East Coast - Houston - Norfolk
- CU Line upgrades its transpacific service from Yantian to Los Angeles
  - Yantian - Guangdong - Hong Kong - Macao Great Bay Area - Los Angeles
  - The service will also accept transshipment cargo from: Bangkok - Laem Chabang - Haiphong - Ho Chi Ming - Taichung - Keelung - Kaohsiung - India - Middle East
- HMM to deploy more vessels on the Korea - U.S. tradelane to meet demand from the country's exporters, who have struggled to transport goods overseas

## Port Congestion

Region	Country/State	Vessel Backlog	Wait Times to Berth	Average Import Container Dwell Times
North America	Los Angeles / Long Beach	29 ↓	10-17 days ↓	4.9 days
	New York / New Jersey	20 ↑	14 days ↔	6-8 days
	Seattle	0 ↓	0 days ↓	2+ weeks
	Oakland	13 ↑	8-12 days ↔	8.2 days
	Houston	9 ↓	3 days ↓	9.7 days
	Savannah	6 ↑	2 days ↓	8.4 days
	Norfolk	12 ↑	7 days	7.5 days
	Charleston	7 ↑	9+ days ↓	12.6 days
Asia	China	~700 ↑	3-7 days ↑	16 days
Europe	Antwerp	* ↑	30%** ↑	Average across European Ports Imports: 6.5 days Exports: 10.8 days
	Rotterdam	* ↑	8%** ↑	
	Hamburg	* ↑	21%** ↑	
	Romania	56 ↑	* ↑	

\*Data not available, as ports are not forthcoming with timely data.

\*\* Aggregate turnaround time compared to five-year normal levels

## Equipment Shortages

- European ports are struggling with a severe shortage of containers, which is which is expected to impact export shipments
- Empty container stocks have dried up across Southeast Asian, cut off by skipped calls, delays, and feeder cancellations
  - The container imbalance at these origins will take many months to resolve as the trade will likely enter the summer peak season early
- While many exporters around the globe struggle to find equipment, executives of Triton International, the world's largest container-leasing company, announced last week that box production is down, new container pricing is down, leasing durations and leasing rates are down, and the pricing of older containers in the secondary market is down - although still higher than pre-pandemic levels

# Trucking

## Market Expectations, Space, Volume, and Rates

U.S.

Freight demand remains strong in the major markets, while smaller markets have contracted on a year-over-year basis. Accepted tenders are mostly on par with last year's levels, with the exception of long-haul – loads that move more than 800 miles – which has dropped 19% since March 1. Capacity remains in under supply in the markets with high demand, while the smaller markets are seeing a return to normal levels of capacity. Tender rejection rates reflect the regional discrepancies, with higher traffic markets holding steady and smaller markets currently in a free fall. The reefer market saw the sharpest decline in tender rejection rates, followed by dry van. Only 3 markets – Pennsylvania, New York, and New Jersey - reported increases in tender rejections.

Spot rates saw an uptick this week thanks to inflationary pressures, including rising fuel, labor, maintenance, and equipment expenses, even in markets which have seen reductions in demand. Contracted rates remain steady, with some regions moderately increasing.

The LTL market is leveling off, but capacity remains tight. Pricing remain strong in this market due to the higher fuel costs.

The current horizon for diesel prices and supply is shockingly grim, especially on the East Coast. A recently released report by the Energy Information Administration revealed that the PADD 1 region - which accounts for all states along the Atlantic coast, plus Vermont, Pennsylvania, and West Virginia - had critically low inventories of diesel fuel and other fuel oils with industrial use. Indeed, a major diesel fuel stop chain in the region has reported some instances where diesel has run out at the pump. Immediately following the release of the report, fuel prices along the East Coast surged to record highs, not seen since the 90's.

Forecasting freight demand in the current environment remains a challenge. Inflationary pressures, the war in Ukraine, and China's lockdowns all continue to present unknown risks. If consumer demand for retail goods is dampened by inflationary pressures and China continues with its zero-tolerance policy, which will affect the availability of commodities and raw materials, van volume levels will contract, potentially putting downward pressure on spot rates.



CAPACITY



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RATES

### China

Inland transportation continues to be the biggest challenge for logistics operations due to the country's strict COVID policies. Many experts anticipate that once factories are able to ramp up production, there won't be enough trucking capacity available due to the strict testing requirements.

In an effort to keep goods moving, Vice-Premier Liu He announced the implementation of a nationally-recognized COVID test pass to enable truck drivers to deliver raw materials, components, food, and essential supplies between provinces without having to wait for results at every stop. The cabinet has also promised to grant more special vehicle passes to facilitate the movement of trucks between Shanghai and neighboring cities, such as Suzhou and Hangzhou.

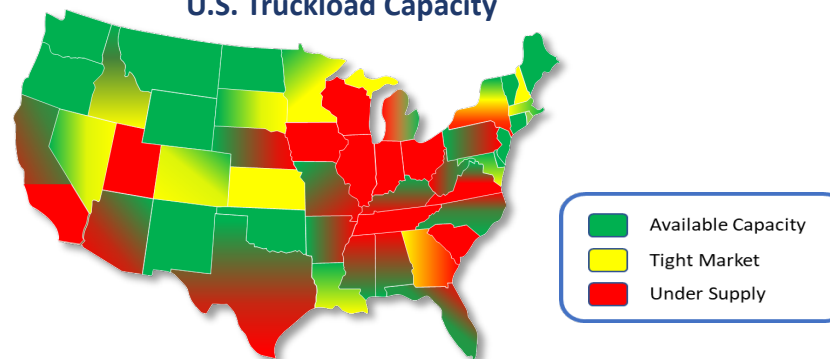
### Europe

Trucking availability is showing a slight improvement in the UK, while Denmark, Germany, Sweden, Finland, and Poland remains tight. Severe congestion at the ports in Italy continue to pose challenges to trucking operations, and delays should be anticipated.

### Mexico

The cross-border freight market remains tight. Rates from Mexico have seen a substantial increase due to the tight capacity and rapidly rising diesel fuel prices. Southbound rates are also rising and are almost inline with import costs.

U.S. Truckload Capacity



# Domestic Trucking (Cont'd)

## Major Disruptions

- **Media outlets are reporting that diesel shortages will likely rock the globe by as early as June**
  - As a result, diesel prices have surged to the highest level in decades
    - The Trucking industry will have no choice but to pass expenses on to customers, which will inevitably affect consumers and will add to the skyrocketing inflation
  - Industry experts anticipate that the U.S. will likely begin rationing diesel fuel this summer, with the East Coast, where distillate inventories have fallen to their lowest level since 1996, likely to begin as early as June
  - The UK and Sri Lanka have already begun rationing diesel fuel amid severe shortages, and other European countries will likely follow suit in the coming weeks
  - The shortages of diesel fuel will deal a hefty blow to the trucking, rail, and agriculture sectors, which consumes ~87% of all diesel produced
  - What is causing the global shortage of diesel fuel?
    - Sanctions imposed against Russia have removed  $\frac{1}{3}$  of the world's diesel supply
    - Gulf Coast fuel producers have ramped up exports to Europe and Latin America, decimating the U.S. domestic pipeline
      - The White House has also indicated their intention to increase national gas exports to Europe to help wean them off Russian gas
    - In a rush to prepare for the Green New Deal, diesel refineries, especially in the Mid-West and California, have been taken offline to convert to the production biofuels
    - Proponents of biofuels, which are produced using food oils such as corn and soy, argue that biofuels use more energy than they release, making them less effective than conventional diesel fuel, and the vast majority of trucks and trains are not set up to run on biofuels
- The widespread catastrophic issues with U.S. rail services could sideline 10% of the U.S. commercial trucking fleet due to disruptions to the supply of fuel and additives, specifically for diesel exhaust fluid (DEF), renewable diesel, and ethanol
  - A number of DEF shippers, including Pilot Travel Centers, have been ordered by Union Pacific to reduce the number of rail carloads or face a shipment embargo
    - A single rail car of DEF carries 21,5000 gallon of the additive, which services 3,000 trucks for roughly 5 million miles of driving
- Canadian and U.S. cross-border vaccine mandates, which have been extended indefinitely, continue to disrupt border freight, with food supply chain shortages a main concern
  - Farmers and agriculture producers in Idaho, North Dakota, Michigan, Minnesota, and Montana aren't receiving the seedlings and fertilizers they need to plant spring crops, while dairy farmers and cattle ranchers are facing a decline in feed shipments

- Trucking capacity in China continues to be severely constricted seven weeks into the lockdown and is the main bottleneck for cargo flows
- The truckers protest group, the People's Convoy, are heading back to Washington, DC to demand an end to the COVID-19 emergency declaration
  - The truckers are expected to arrive on May 17; at this time no end date for the protest has been announced

## Announcements

- The Federal Motor Carrier Safety Administration (FMCSA) has announced a proposed rulemaking which will mandate all commercial vehicles over a gross weight of 26,000 lbs. be equipped with an electronic engine control unit (ECU) which will be capable of governing speed to a limit that will be determined in the rulemaking process
  - Since the public comment period opened on May 4, the FMCSA has received more than 5,4000 comments speaking out against the proposed rulemaking
  - Many of the opponents of the rulemaking pointed out potential problems with a federal speed limiter mandate, including more congestion on roadways, difficulties for lighter trucks to climb hills, more aggressive driving as passenger vehicles attempt to pass the slower moving trucks, increases in road rage incidents, increases in major accidents, and the loss of even more truck drivers that will not put up with being limited

## Equipment Shortages

Limited equipment availability continues to be a major challenge for the trucking industry. Carriers are urging customers to take immediate steps to reduce chassis off-terminal dwell times. Without significant reductions in dwell times, truckers may face challenges and delays in securing the equipment.

### U.S. Chassis Availability

Port	20' Chassis	40' Chassis
Chicago	Constrained	Critical
Charleston	Critical	Critical
Houston	Critical	Critical
New York / New Jersey	Critical	Critical
Oakland	Critical	Constrained
Seattle / Tacoma	Constrained	Critical
Los Angeles / Long Beach	Critical	Critical

# Rail

## Market Expectations, Space, Volume, and Rates

In the U.S., overall carload volumes were down 4.5% y-o-y, while intermodal volumes dropped 9.8%. Only two of the ten carload commodities tracked saw increases in traffic, while coal, grain, and metallic ores saw dramatic drops - 6,010, 2,351, and 1,959 carloads respectively. The massive drop in volumes for these three commodities stems from decisions by Union Pacific and BNSF to drastically cut the number of shipments for these customers in order to focus on more lucrative commodities, such as automobiles and automotive parts. Indeed, unfulfilled car orders for agricultural commodities in 2022 are at the highest levels ever seen on record.

The U.S. rail industry continues to be plagued with deteriorating service levels, from slow trains and delayed rail car deliveries to unreliable service and crew and equipment shortages. The implementation of precision scheduled railroading (PSR), lack of competition, and lack of structural and market-based incentives to be customer-focused have all contributed to the decline in rail service, high shipping rates, and poor cycle times. PSR has led to a slashed workforce, shuttered facilities, shelved equipment, and reduced service levels. PSR also enforces the use of longer trains, some as long as three miles, which increase congestion and cause lengthy delays and accidents.

International rail traffic saw the steepest drop amid uncertainty in the market caused by Ukraine Conflict and lockdown-related supply chain disruptions in China.

High demand and severely restricted capacity has kept global premium rates at historically high levels. Increased fuel surcharges also continue to put pressure on rates.

## Major Disruptions

- Hundreds of BNSF workers quit after the railroad company instituted a “draconian” attendance policy on February 1
  - While working conditions at BNSF have worsened in recent years, the introduction of the new policy, which one union official called “the worst and most egregious attendance policy ever adopted by any rail carrier” was the last straw for more than 1,000 railroaders who have walked off the job since the policy took effect
    - Under the Hi-Viz policy, workers - who are required to be on call 24/7 with only 1 day off per month - are assigned 30 points; points are deducted for missed calls or unplanned time off, including sickness or family emergencies
    - Employees are disciplined for points lost, including suspension and termination, regardless of the reason



CAPACITY



EQUIPMENT



RATES

- Severe congestion continues to be reported at all major rail facilities
  - Conditions continue to deteriorate in Chicago, Columbus, Los Angeles, Charleston, Savannah, and Seattle

## Announcements

- The Port of Long Beach adds second rail line to boost capacity by 25%
- Hapag Lloyd announces new westbound rail service from the Port of Virginia to California, giving West Coast shippers another option to access Mediterranean goods
- Norfolk Southern announces the launch of the next phase of its PSR plan, beginning in late Q2
  - The deployment of the Top SPG phase - which stands for service, productivity, and growth - will look to restore service by incorporating operational efficiencies, such as deploying longer trains in some areas, while lessening labor intensity (by keeping only one crew in a particular district)
- BNSF railroad workers protested at Warren Buffett’s Berkshire Hathaway (the parent company of BNSF) meeting in Omaha, NE on April 30 over a lack of pay increases since 2019, safety issues, policies that penalize employees for taking time off, and proposed cuts to healthcare policies
- Maersk announces alternative Asia-Europe rail/sea service via Central Asia and the Black Sea
- British railworkers begin balloting for the biggest rail strike in decades
  - Thousands of rail workers attended a mass meeting on April 28 to campaign for a strike action over Boris Johnson’s Great British Railways re-privatization project
    - Balloting is set to close on May 24
  - If approved, the strike could begin by June
  - The huge turnout demonstrates workers’ determination to fight against the pay freeze since 2019, massive job cuts, scaling back of employee benefits, slashing of pensions, scheduling shift changes, including making Sunday part of the normal work week (i.e., no compensation for Sunday shifts), and downgraded safety practices



# Rail (Cont'd)

## STB Emergency Hearing - Update

At an emergency public hearing late last month, officials from the Surface Transportation Board (STB) heard testimony from shippers across the country about the broad and serious ramifications the inconsistent and unreliable service has had on their businesses. Shippers reported that transit times increased by as much as 100%, forcing them to reduce or suspend production due to lack of needed supplies. Farmers have not been able to get enough fertilizer to plant their spring crops or feed for their herds, which would be detrimental to America's food supply. Power companies fear the long delays for coal deliveries could reduce the supply of electricity or upset the power grid. The National Grain and Feed Organization testified that it "estimates the combined costs to the grain industry due to lost revenues and additional freight expenses in the first quarter of 2022 at more than \$100 million," which will likely be passed on to consumers. Click [here](#) to read the NGFA's entire testimony.

At the hearing, railroad workers testified about the "demoralizing" working conditions since the implementation of PSR and the Hi-Viz attendance policies, which "all but eliminate the possibility of pursuing a life apart from work," as well as efforts by the railroads and unions to suppress worker opposition to those policies. Since January, the largest railworkers' union, the Brotherhood of Locomotive Engineers and Trainmen (BLET), has worked with the railroads to suppress worker opposition to the "Hi-Viz" attendance policy by enforcing an anti-strike injunction and forbidding its members to speak publicly about their grievances.

Senior executives from Union Pacific, BNSF, CSX, and Norfolk Southern were required to attend the hearing and to describe their plans to improve performance, but only one Class I railroad was represented by a CEO, which STB member Robert Primus said was "disappointing and disheartening... [and an indication that] they are not taking this seriously." None of the railroad representatives denied their failures, but rather made the same tired excuses we've already heard.

STB noted that these service issues - including tight car supply, unfilled car orders, transportation delays, increased origin dwell time, missed switches, and ineffective customer service - have directly impacted farmers and manufacturers, are harming the American economy, and have contributed to the inflationary forces affecting food and fuel prices. The STB further went on to say, "these rail service issues have highlighted the need to provide shippers with the opportunity to receive swift action in order to ensure the nation's freight rail traffic continues to move." Therefore, the STB has instructed the four major Class I railroads to submit a report outlining how they expect to improve

rail service. In addition, they will be required to provide weekly progress updates on operational improvement, overall performance data, and employment metrics, as well as attend biweekly conference calls with STB staff. The STB will also require all seven Class I railroads to provide biweekly service performance and employment data. The data will be used to help the STB assess whether further actions may be needed. Many of the railroads' customers have criticized the action, saying the STB isn't doing enough to improve the situation.

STB's announcement and further details are available [here](#).

Stakeholder testimonies from the emergency hearing are available [here](#).

## Equipment Shortages

- Chassis shortages continue to plague the industry, particularly at major rail hubs in Atlanta, Charleston, Chicago, Houston, Jacksonville, Nashville, and Savannah; shippers should expect extended delays in pickups and deliveries to/from these rail facilities
- Severe shortages of rail cars continue to compound shipping delays
- The lockdowns in China continue to restrict railroad capacity, as the factories that produce chassis, containers, rail cars, and locomotives remain closed
- The rising cost of steel production looks set to impact the rail sector, with the energy-intensive process likely to impact the production of rail tracks, wagons, and locomotives

## Container Dwell Times

Rail Terminal	Average Dwell
Charleston	10.4 days
Chicago	11.1 days
Houston	8.7 days
Kansas City	10.6 days
Los Angeles / Long Beach	12.6 days
Memphis	7.2 days
New York / New Jersey	7.4 days
Norfolk	8.3 days
Savannah	11.8 days





# Thank You

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