



Transport + Logistics: 2022

Navigating Choppy Waters





Global Logistics Markets

As world events continue to bring global logistics challenges to the forefront, we recently sat down with Brodie Collins (Mondiale VGL) and Scott Carson (International Forwarders & Customs Brokers Association of Australia - IFCBAA) to discuss the current state of play following the pandemic and the outlook for the industry and its customers.

COVID-19 has fundamentally changed the way world supply chains operate, with a shift from Just-In-Time stock management to Just-In-Case. This has led to increases in stock holdings, lead times and landed costs of goods. In short, it's been a challenging environment for both logistics providers and their customers to operate within.

The flow-on impacts from China maintaining its zero COVID policy have been considerable, with major disruptions to global supply chains and the main ports of Ningbo, Shenzhen and Shanghai significantly disrupted with minimum notice.

In Australia, we are still experiencing the impact of the China lockdowns, while globally, supply chains have been impeded by the Ukraine conflict.

The container imbalance experienced throughout the pandemic remains an issue due to the ongoing disruption to major ports around the world (Ukraine, Russia, China). Locally, a national pallet shortage affecting the unpacking of goods has proved an additional challenge.

"Ordering early and ordering more is an expensive way to manage the supply chain," says Brodie Collins, Group Head of Strategic Projects at Mondiale VGL, "and the more recent stabilisation of

manufacturing supply, which has removed the previous double impact of both manufacturing and logistics issues, has allowed some confidence to return and a tapering off of Just-In-Case ordering. Importers are showing more appetite for taking a risk."

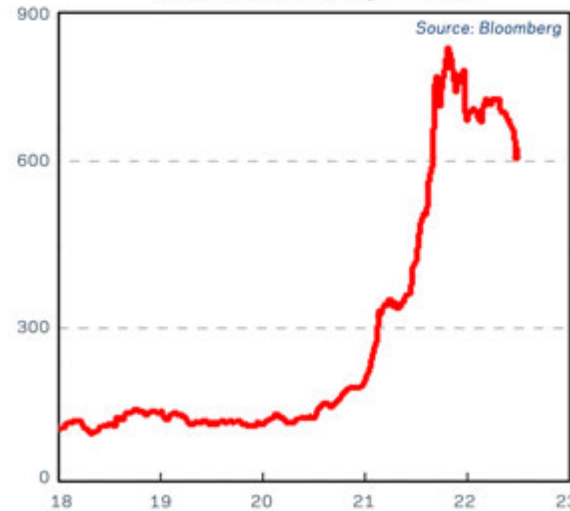
"While supply chain inflationary pressures in the industry have been largely absorbed by importers over the past two years, these will eventually need to be passed on," observes Scott Carson, Company Secretary of IFCBAA.

The key question on everyone's mind is the outlook for freight costs: when will these costs stabilise and will they return to pre-COVID levels?

Carson says that though it's generally accepted that pre-COVID costs of shipping were artificially low, and its highly unlikely those levels will return, we are heading towards a more stable level in the future. The latter half of next year should see trends in the right direction, though realistically, stabilisation is more likely to occur in 2024.

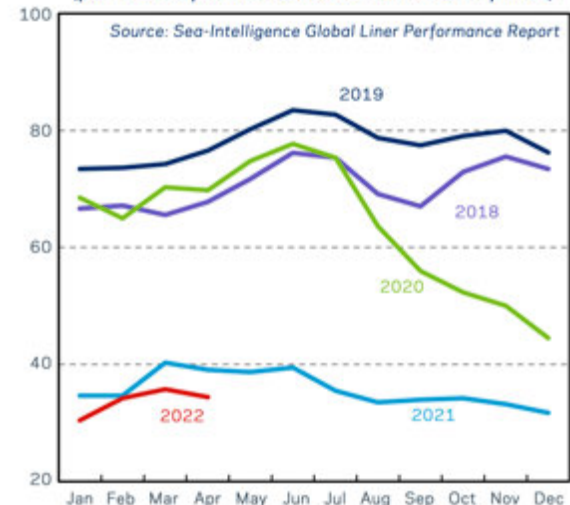
Collins has a similar view and expects that while we will see container demand levelling in 2023, with the new builds of vessels and containers coming in, freight costs are unlikely to ease until 2024.

Global Shipping Price
(Index, 2019 average = 100)



We can see the extraordinary growth in container shipping costs since the beginning of the pandemic. While it appears to have softened recently, this is likely to be a 'false peak' as carriers react to changes in supply of services, following a reduction in demand, to maintain rates at higher levels. The impact of the latest China lockdowns on its major ports has to date had minimal impact on freight rates, however, shippers have incurred additional costs locally to export from alternative China ports. - Brodie Collins, Group Head of Strategic Projects, Mondiale VGL

Global Schedule Reliability
(per cent of on-time vessel arrivals in ports)



The reliability of shipping schedules has deteriorated considerably since the middle of 2020. Delays are common. In fact, according to Sea-Intelligence only around 35% of vessels have arrived on schedule in the past few months. This metric captures more than 11,000 vessels on average in more than 270 ports around the world. In 2019, prior to the disruptions to global supply chains, around 80% of vessels were arriving on schedule. - Matt Bunny, St. George Economist

Outlook for the logistics sector as we move forward

The logistics sector continues to respond to the changing environment with investment in new technology to ensure an improved customer experience and ability to track goods end to end.

There will be an ongoing focus on the automating of tasks, and the ability to identify where the product is at any given time.

The additional capacity in terms of containers and ships (including the re-commissioning of previously decommissioned ships) coming onboard will help ease the supply issues still evident in Australia as we head into 2023.

The pandemic has shown us the risks of such a strong supply chain reliance on China, which persists as China pursues its zero COVID policy. In response, businesses may explore a shift away from China towards Southeast Asian trading partners such as Vietnam, the Philippines and Indonesia. Though this is likely to be a longer-term change as it will take time to achieve diversification.

“Importers need to continue to be more nimble, more proactive and ensure strong communication with all key stakeholders to effectively manage the changing environment” says Collins. “Better visibility on all steps in the supply chain and a better line of sight regarding performance is key.”

Carson agrees that customers require more focus on increased visibility and more

agility, stressing that it will be crucial to reinforce and continue to build stronger relationships with customers and suppliers to deal with the uncertainty in the environment. He also notes that as we move forward, the impact of broader inflationary pressures will be one to watch for the industry.

One of the bigger changes on the horizon for the industry is shipping companies’ need to focus on decarbonisation. Maersk, the world’s largest shipping company, has announced its plan to power new container ships on carbon-neutral methanol. This will result in decades of investment and innovation to achieve and is likely to flow through to influence shipping costs in the future.

Currently, while substantial impacts on the global logistics market persist, there are some early signs of positive developments within the industry which should see global supply chains gradually return to a more normal operating rhythm over the next few years.

As logistics providers look to invest in new technologies, warehousing capacity and business growth, St George looks forward to continuing to support the industry and play a part in this key sector for the Australian economy.

Jacki Fraher
Executive Manager, Consumer Goods & Transport Industry Bank - St. George Business Bank

Tips for importers navigating the environment

 <p>Brodie Collins - Group Head of Strategic Projects, Mondiale VGL</p>	 <p>Scott Carson Company Secretary, IFCBAA</p>
<ul style="list-style-type: none"> ▪ Increase communication with all key stakeholders - crucial given the up to 300% hike in freight costs on some trades. 	<ul style="list-style-type: none"> ▪ Be nimble and better at communicating changes.
<ul style="list-style-type: none"> ▪ Increase discussions with internal sourcing teams and work closely with your logistics providers. 	<ul style="list-style-type: none"> ▪ Exercise caution in committing longer term with the shipping lines.
<ul style="list-style-type: none"> ▪ Understand the impacts of changing ETAs and the cost movement - who in the business needs that visibility? 	<ul style="list-style-type: none"> ▪ In terms of domestic side, remain mindful of other issues as well such as the current pallet shortage in Australia.
<ul style="list-style-type: none"> ▪ Get more involved in allocation planning, regularly review demand - are estimates/projections realistic? 	<ul style="list-style-type: none"> ▪ Be conscious of warehouse space tightening - it is becoming more expensive as many third-party operators are already full.
<ul style="list-style-type: none"> ▪ Work to current lead times and review these regularly. 	<ul style="list-style-type: none"> ▪ Operate with some caution on levels of extra stock while being mindful of potential changes in demand levels post pandemic.
<ul style="list-style-type: none"> ▪ Consider the true impact of end to end - free time vs transit (speak regularly to forwarders, shipping teams, adopt weekly calls). 	<ul style="list-style-type: none"> ▪ Continue to invest in building strong relationships with customers and suppliers. Also applies to relationship with overseas offices and agents.



YOU'VE GOT QUESTIONS? WE'VE GOT TIME TO TALK.



If you have any questions or would like to know more about the information contained in this report, please contact the author:

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