

March 19, 2020

## Impacts of Coronavirus (COVID-19) on Supply Chain

*From the customer advisory email on March 19, 2020*

Due to the rapidly evolving nature of the COVID-19 situation, we will be sending daily emails with critical, shorter and more timely updates.

For the past week, as the COVID-19 epidemic continues to expand worldwide, there are now more total confirmed cases outside of China than inside China. As of March 18, the global confirmed cases reached 201,634, while confirmed cases in mainland China was 81,102. The World Health Organization (WHO) [called](#) on all countries to ramp up their testing programs as this is the best way to slow the advance of the coronavirus pandemic.

Based on the information we have as of today, March 19, 2020, the situation is as follows:

### News Headlines:

Moving forward, we'll include critical global trade and supply chain-related articles to help you stay up to date.

- ['U.S.-Canada border shuts as coronavirus battle intensifies](#), Reuters
- [Simon Property to close U.S. malls, retail outlets as coronavirus spreads](#), Reuters
- [Detroit Car Makers to Temporarily Close U.S. Plants](#), WSJ
- [Port of Houston Closes Two Terminals](#), KHOU

## Potential Impact on Global Trade & Supply Chain

- Reports citing official government data state that China's industrial production, retail sales and investment all [decreased](#) in the first two months of the year due to the economic impact of COVID-19 . Industrial production for January and February shrank 13.5%, the first decline in about 30 years.
- The Dow Jones Industrial Average [dropped](#) nearly 3,000 points on March 16, its steepest decline in the month. The decline underscores the worry among investors, given the disrupted supply chains, sidelined workers and infected populations.
- Thierry Breton, the internal market Commissioner at [The European Union](#), has estimated the European bloc's economy is at risk of taking a 2-2.5% hit and is expecting a global recession in 2020. The outbreak has complicated global supply chains, prompted numerous countries to close their borders and led to governments ordering citizen lockdowns in Italy and Spain, with Europe the new epicenter of the outbreak.

## Flexport Employees and Operations

- In an abundance of caution, Flexport has mandated all employees in North America and Europe who are able to, to work from home to minimize health risk. Our Asia offices have returned to regular office operations this week.
- Flexport has put the necessary technology and contingency plans in place to ensure that service to customers will remain uninterrupted and that we are able to respond quickly to our customers' needs. The Flexport Platform is a proprietary, secure cloud-based platform that is enhanced by our technology-driven operations model. Customers are able to easily access the platform with WiFi and a web browser.
- The platform combined with our technology focused model allows Flexport teams to remain connected with our shippers, partners and customers globally.
- We are constantly monitoring how the situation develops, following the updated instructions issued by government authorities and keeping everyone apprised of any changes.

## Air

- TransPacific (TPEB) and Far East Westbound (FEWB) corridors continue to strengthen as more factories come online and freight is transported to airports. On the FEWB we see demand picking up significantly and rates increasing. The same situation is happening on the TPEB. Rates are now over \$6/kg in most trade lanes and headed higher as we approach the end of Q1. The cost for full charters has almost doubled from the beginning of the March with quotes now running over \$900k USD for a one way flight between China and the US Midwest.
- We are staying close to the evolving situation and currently do not foresee material challenges to meeting our estimated transit time commitments on both the TPEB and FEWB.

## Air (cont.)

- The situation on the TransAtlantic is fluid given the passenger flight ban that went the week of March 16. By March 20, we anticipate that close to 90% of all passenger flights between North America and Europe will be suspended with only a few hub-to-hub flights left operating on a daily basis (i.e. ATL/AMS; JFK/LHR; ORD/FRA etc.). Passenger flights account for close to 80% of the total capacity on the TransAtlantic trade lane so this reduction will have a major impact on access to capacity and rates. We have already seen an approximate 5x increase in rates and expect this to grow even larger in the days to come. We expect more freighter capacity to fill part of the void. Many passenger airlines have now offered their passenger aircraft as mini-charters and we expect to see some of them flying in this manner soon. Rates will stay elevated for the foreseeable future.
- In addition, cross border trucking in the EU may become difficult as borders are closed and quarantines are put in place. This will further complicate the flow of goods as most volume tends to aggregate at a few major hubs for long haul flights (FRA, AMS, CDG, LHR etc.).

## Ocean / Shipping Lines & Ports

- According to Flexport's data, TPEB trade supply is nearly back to normal from week 12 onwards, currently around 90% on average of the pre-outbreak period. There are no additional large pre-scheduled blank sailings in the coming weeks (single digits). We expect the largest dip in capacity is to the PNW. Demand has been increasing through March and outlook is strong for April, so a new GRI is expected on April 1.
- Asia to North Europe (FEWB) trade was running at only around 45-65% of normal capacity in weeks 6-10. For weeks 11-14, it has returned to approximately 85-90% deployed capacity as blank sailings have reduced. There are no additional blank sailings scheduled in the coming weeks. Most rates have been extended until the end of March and the next planned GRI is April 1. The majority of production in China is expected to recover by the end of March or early April. However, given the evolving situation in Europe the market outlook remains uncertain and we expect continued rapid changes in demand.
- Northern Europe to Asia trade is experiencing a downstream impact from the high amount of blank sailings out of Asia. This has resulted in an equipment shortage in main ports and inland depots. Disruption is growing, especially in Rotterdam and Antwerp.
- On the Transatlantic Westbound (Europe to North America), container availability is heavily restricted due to the slow down of Asia imports, resulting in tight to no equipment at certain ports and inland locations. Flexport may be able to leverage our relationships to obtain allocations and priority on equipment for our customers. In order to do this, customers are encouraged to please book three or more weeks in advance. If there are any urgent bookings we can explore premium products as options for earlier departures.
- North America Exports: Container availability continues to be heavily restricted due to the slow down of Asia imports, resulting in tight to no equipment at inland locations and limited equipment at tier 2 port locations. Export volumes continue to be strong where carriers are booked 4-8 weeks in advance on services to Asia. Due to the change in supply demand balance, carriers are announcing GRI in late March and early April and in some cases carriers have announced multiple GRI's.
- For detailed information on specific schedule changes, please do not hesitate to contact your dedicated Flexport Squad.

## Terminals & Inland Operations

- As of this week, due to blank sailings, and substantially lower volumes there is no current shortage nor is one predicted for the coming weeks.
- Currently the trucking and inland operations in China are all recovered.

## Flexport.org

- Flexport continues to provide aid to those in need which is becoming increasingly complex as the virus continues to spread globally.
- Flexport delivered 143,000 face masks and medical coveralls to Amity Foundation in Nanjing, China for our client Project CURE. We anticipate that another 3,010kg of relief cargo will fly to China this weekend in conjunction with our nonprofit partner Airlink and Americares.
- We have six shipments in the air from private donors to nonprofits and medical centers in Hubei and other affected provinces, totalling 209,000 face masks, exam gloves, medical gloves and goggles.
- Our team is managing the movement of medical devices that will be sent to Rwanda and Kenya to help those countries prepare for any outbreak. Those flights are projected to depart this weekend.
- If your organization would like to support relief efforts, please contribute to the Flexport.org Fund at <https://flexport.org/fund-ngo/>