#2

CARGOON
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Market Insights

Data from the world of transport

- Green logistics makes money
- Germany's freight demand declines: is a recession on the cards?
- The biggest challenges for supply chains

CARGO ON
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CargoON by Trans.eu Group S.A. is a digital freight platform that helps to optimize and automate processes, communication and documentation related to road transport management.

CargoON's Transport Management modular suite - **Freights, Dock Scheduler, Visibility, Reports, Simple Tenders** - natively combines contract and spot business, from sourcing up to lanes or load tendering, execution and analytics.

> **Trans.eu Group S.A.** is a freight tech and fintech company established in 2004 that develops one of the most important freight exchanges in Europe and several digital logistics platforms as well as road transport management services that bring together shippers, logistics companies, freight forwarders and carriers.

Demand drops, though supply chains are still under pressure

Ahead of you is the next issue of our cyclical report on the state of transportation and supply chains. The last (summer) quarter was relatively quiet by the standards of changes in supply chains. No spikes in transportation rates, nor another big diesel price hike. What are the key challenges facing logistics managers in the coming quarter? Traditionally, there are quite a few, but **the most important conundrum remains the price of fuel,** as not only Russian aggression in Ukraine is relevant here. The OPEC countries added their "brick" in October this year, when they decided to limit production and thus de facto raise the price of oil.

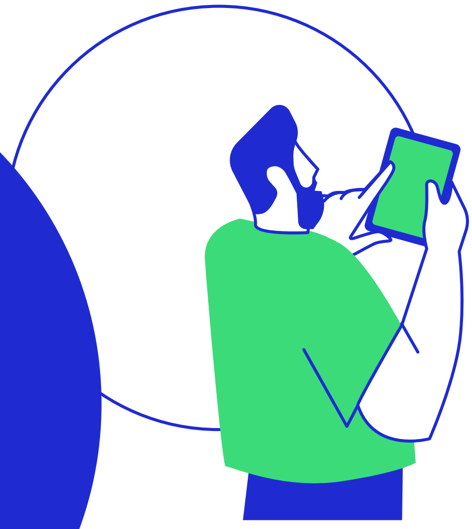
Besides, what seems to be most important, **the locomotive of increased demand** is starting to slow down across Europe, with Germany being a spectacular example. Economic indicators there are falling, and production is being cut back. According to an analysis by the prestigious Ifo Institute, next year economic growth on the Rhine may not even reach one percent. While lower demand is unlikely to please anyone, for logistics networks it will be a moment of respite and recovery after the last two turbulent years.

Our analysis and forecasts also include material on green logistics. For it seems that few large companies are aware of **the mandatory non-financial reporting** that the European Commission is now introducing. Starting in 2024, they will have to disclose in their reports all risks and opportunities in the areas of environment, social affairs and corporate governance.

Have a pleasant read,

CargoON Team

What's in Market Insights ON #2



01 Analyses and commentaries

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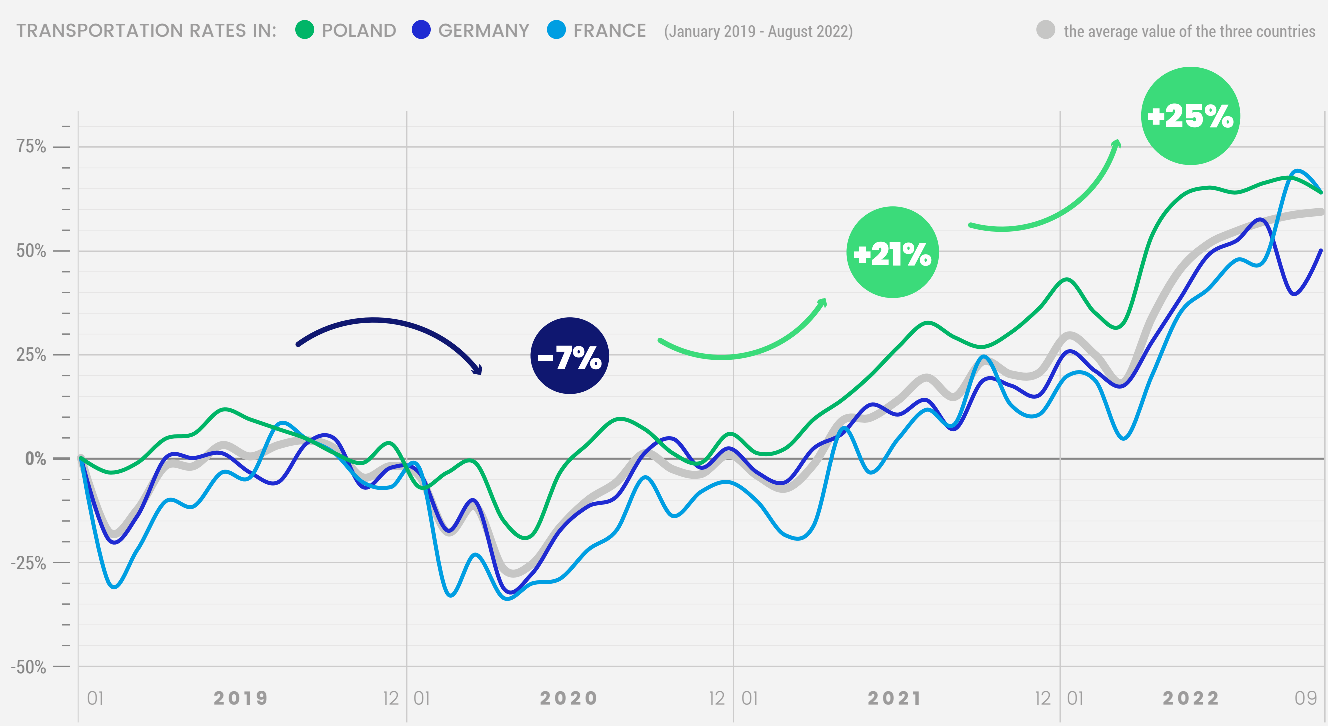
01

Analyses and commentaries

Although economists and managers are already seeing clear signs of an economic slowdown in Europe, no radical change can be discerned from the behavior of supply chains.

But this is likely the calm before the storm.

The war has abruptly changed rates



Source: own elaboration

Analysis of the selected period shows similar trends in all three countries. The highest increases were recorded by Polish carriers (which, of course, does not mean that the rates nominally were the highest there), while the lowest was by German carriers. However, the dynamics of price increases and decreases are similar. It is clear as day that the European market - at least in the segment of capacity demand and response to geopolitical, financial and economic volatility - is an interconnected system.

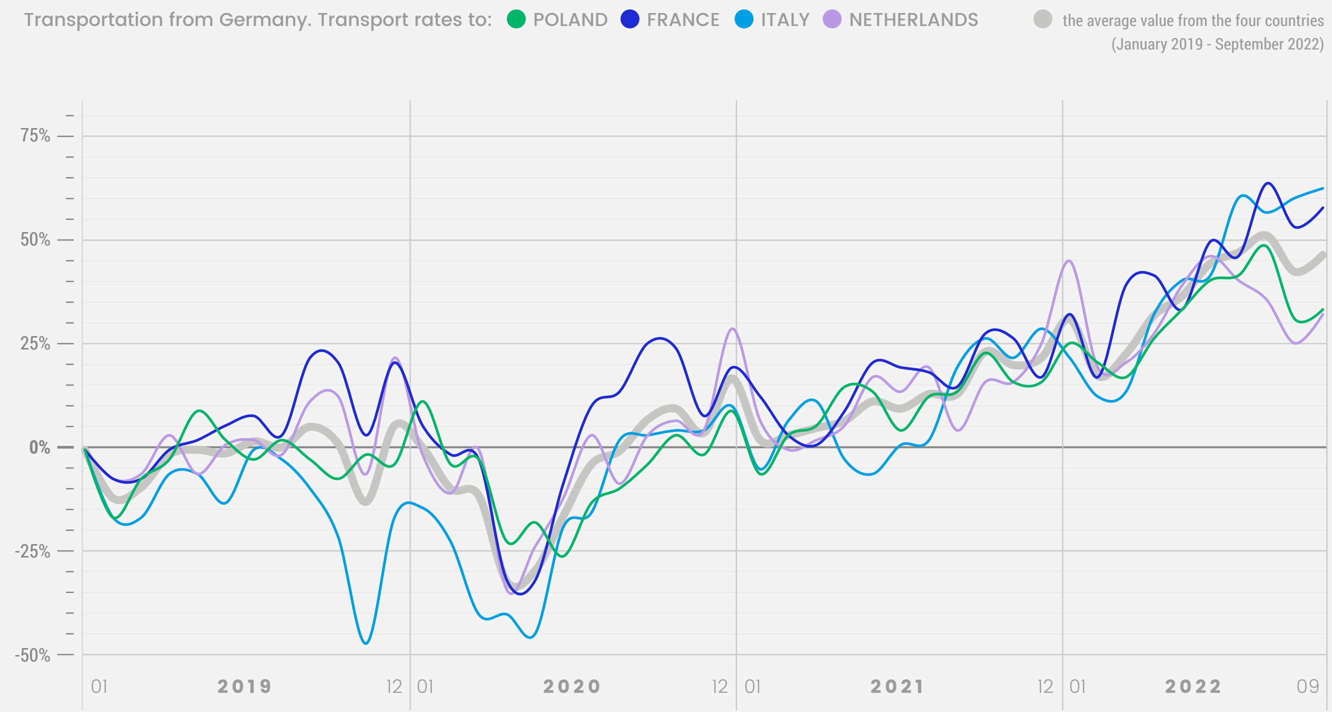
It is also evident that in the spring of 2020 (a period of hard lockdown in Europe, a temporary reduction in freight demand), rates on average fell by 23% to then rise by 50% at the end of August this year. The change in these eventful times has been as high as 73% in 29 months, and 50% considering January 2019 as the beginning of the reference period. The rate of growth accelerated sharply in February 2022. Previously it would average 2.5 percentage points per month, and from the Russian aggression in Ukraine until the end of August this year it averaged 4.9% per month. From the outbreak of the war

50% - the value of transportation rate increases from January 2019 to the end of August 2022.

until the end of August 2022 (more than 6 months), rates increased by 34 percentage points, and from the beginning of January 2019, the average increase was from 16 to 50 percentage points.

In June this year, the upward trend in rates began to slow down: it therefore seems that the market has become accustomed to the surge in fuel, gas and electricity prices. Freight prices are rising more slowly; it appears that pressure from manufacturers on freight companies and logistics operators, as well as awareness of participation in the same supply chain (and costs), has calmed the market somewhat. Some carriers who have an ongoing relationship with their customers are even willing to reduce their margins to ride with a proven partner. However, the key seems to be less demand for capacity in shipments to Germany.

Do rates herald a recession?



Source: own elaboration

Rate changes in the German market are an important determinant of all that follows in European markets. After the United States and China, the German economy is in fact the third global economic player, and the largest economy in Europe (not counting the European Union as a separate market, of course). Indeed, changes in economic indicators in Germany affect the work of supply chains across the continent.

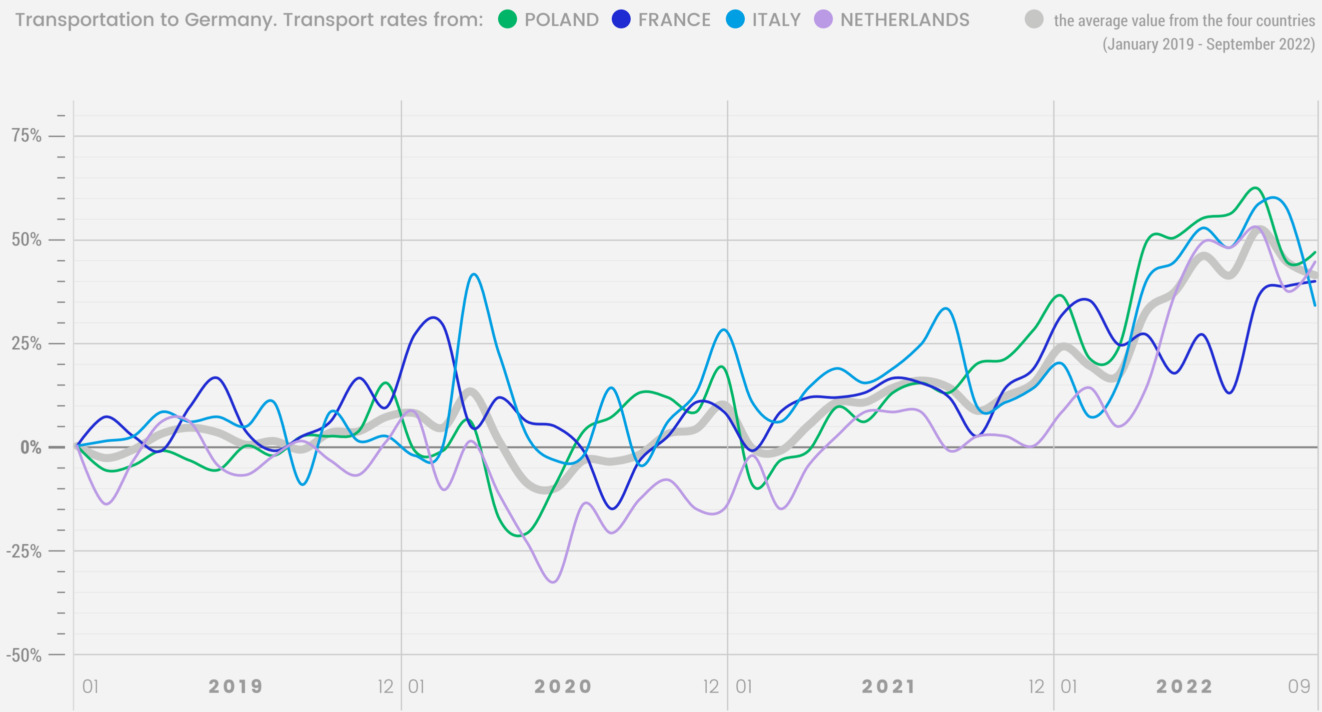
Indeed, when analyzing freight rates from Germany, there are several decisive moments. Beginning in December 2019, rates in all of the aforementioned directions began to fall sharply, and the downward trend continued until early April 2020. Indeed, almost from the beginning of the Covid-19 pandemic in Europe, transport rates from Germany began to rise, and the upward trend has gained even more momentum since the outbreak of the war in Ukraine (from February to July, rates rose from +15% to +44%).

29% - this is how much rates from Germany increased after the outbreak of war in Ukraine. Indeed, from February to July this year, rates rose from +15% to +44%.

But note: an analysis of the rates in August this year shows a marked drop in freight prices (from +44% to +37% on average), i.e. by 7 percentage points in just one month. The biggest declines were recorded in the direction of Poland and the Netherlands. But in September this year, rates rose again slightly, to +40% relative to January 2022. It is difficult to draw far-reaching conclusions based on this, such as those suggesting a permanent correction. For now, these are only the first symptoms of changes in the market, but to assess whether the trend suggesting a slowdown (or even a recession) we will have to wait a few more months for confirmation.

The decline in transportation rates to the Netherlands began as early as May this year, indicating a decline in exports by sea to Dutch ports (of course involving truck transport, mainly containerized).

Germany pulling the brakes?



Source: own elaboration

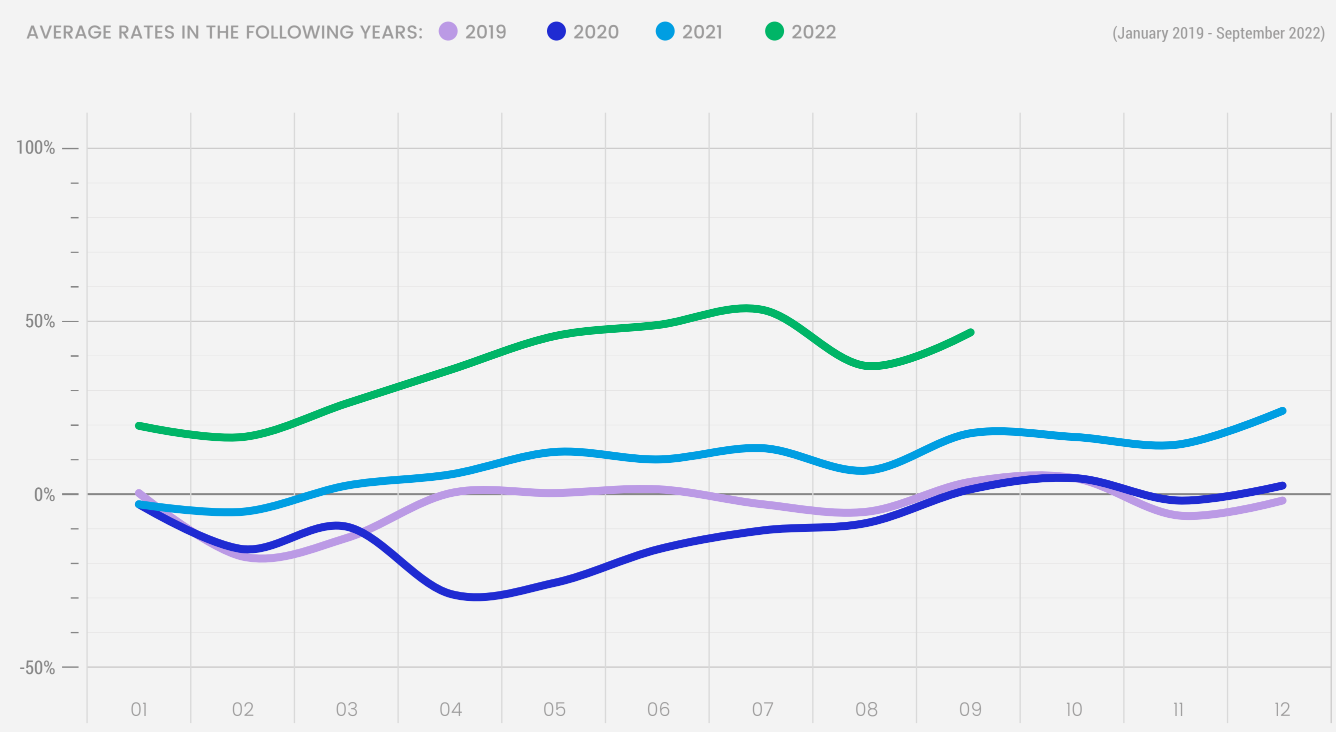
The German economy - Europe's largest supplier, but also importer - is behaving in line with the European trend when it comes to transportation. In the first months of Covid-19 in Europe (March - May 2020), the volume of deliveries to the German market decreased due to movement restrictions and lockdown. Already by the end of May 2020, however, supply chains had begun to unwind from pandemic restrictions. German industry and retail chains resumed cooperation with suppliers. The upward trend (with smaller or larger fluctuations) has continued until now. In June 2020, rates fell by 9 percentage points to 91% (compared to the accepted reference period from January 2019), and at the end of August this year were 38% higher on average.

It is worth noting that since the war started in Ukraine, the dynamics of rate increases have accelerated. In February, 115% of the initial rate (January 2019) had to be paid for deliveries to Germany, and by mid-July 2022, it was already 145%. In the five months since the outbreak of the war, the average freight rate to Germany has increased by 30 percentage points.

In the five months since the outbreak of the war, the average freight rate to Germany **has increased by 30 percentage points.**

However, in August this year, there was a rate adjustment (from 145% to 138%). The drop is significant, down 7 percentage points. The next quarter will show whether this is a permanent trend auguring a recession in Germany and Europe, or a temporary episode. In September this year, rates fell another 3 percentage points, to 135%. The August-September adjustment in rates indicates less demand for capacity toward Germany, with German economists noting the increasingly weak performance of the Rhine economy. Either way, the European Central Bank's Board of Directors predicts a slowdown in economic growth in the Eurozone as well; the European economy will grow by 3.1% in 2022, and just 0.9% in 2023. The reasons are mainly high energy prices and supply bottlenecks, which limit economic activity.

How have rates changed in Germany



Source: own elaboration

-5.2%

Decrease in rates in 2020 compared to 2019

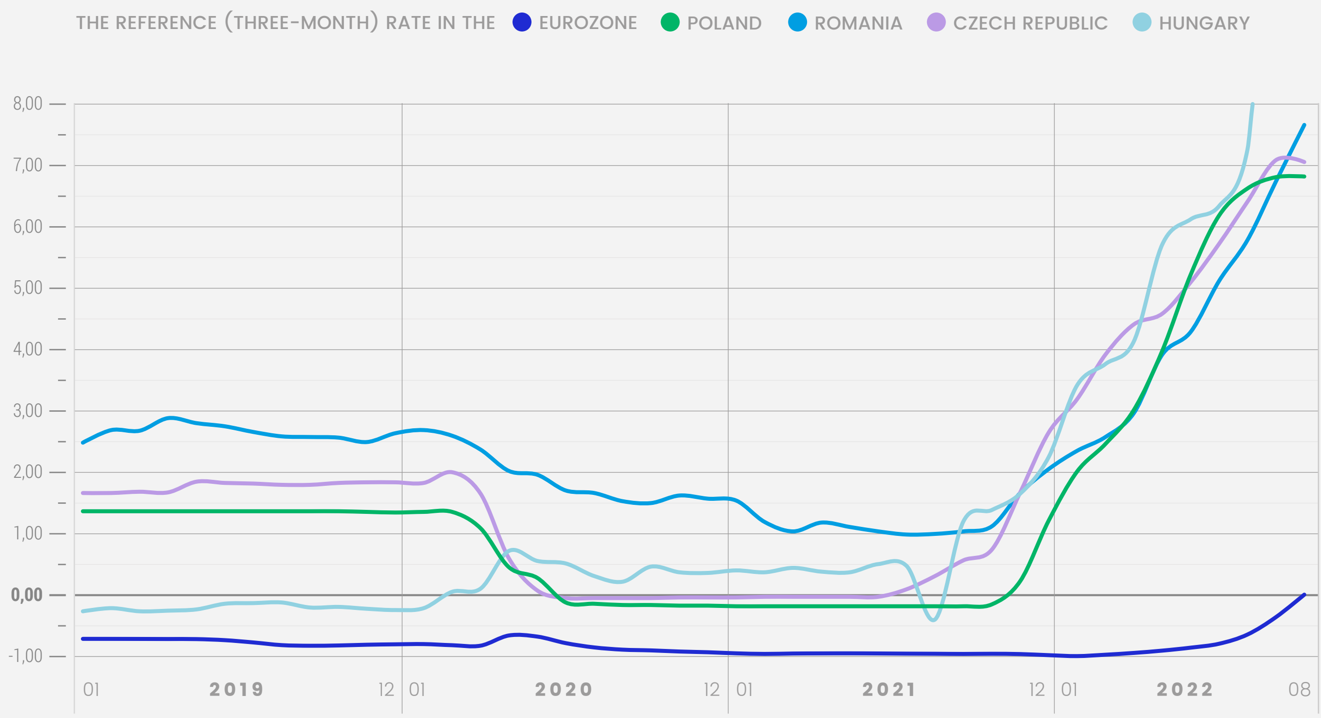
+21.4%

Increase in rates in 2022 compared to 2021
(data through August 31, 2022)

+17.8%

Increase in rates in 2021 compared to 2020

Europe raising interest rates



Source: own elaboration

Indicators of the three-month reference interest rate are an important index for the economy and quickly translate into supply chain operating costs. The Eurozone appears here - despite all the social, economic and political perturbations - as an oasis of stability. Interest rates were kept in negative territory until mid-2022; it wasn't until July this year that the European Central Bank's main interest rate was raised to 0.5%, and in early September to 1.25%. Among economists, these increases have caused much concern, but compared to, for example, Hungary (13%) or internationally important Poland (nearly 7%), this is a huge gap.

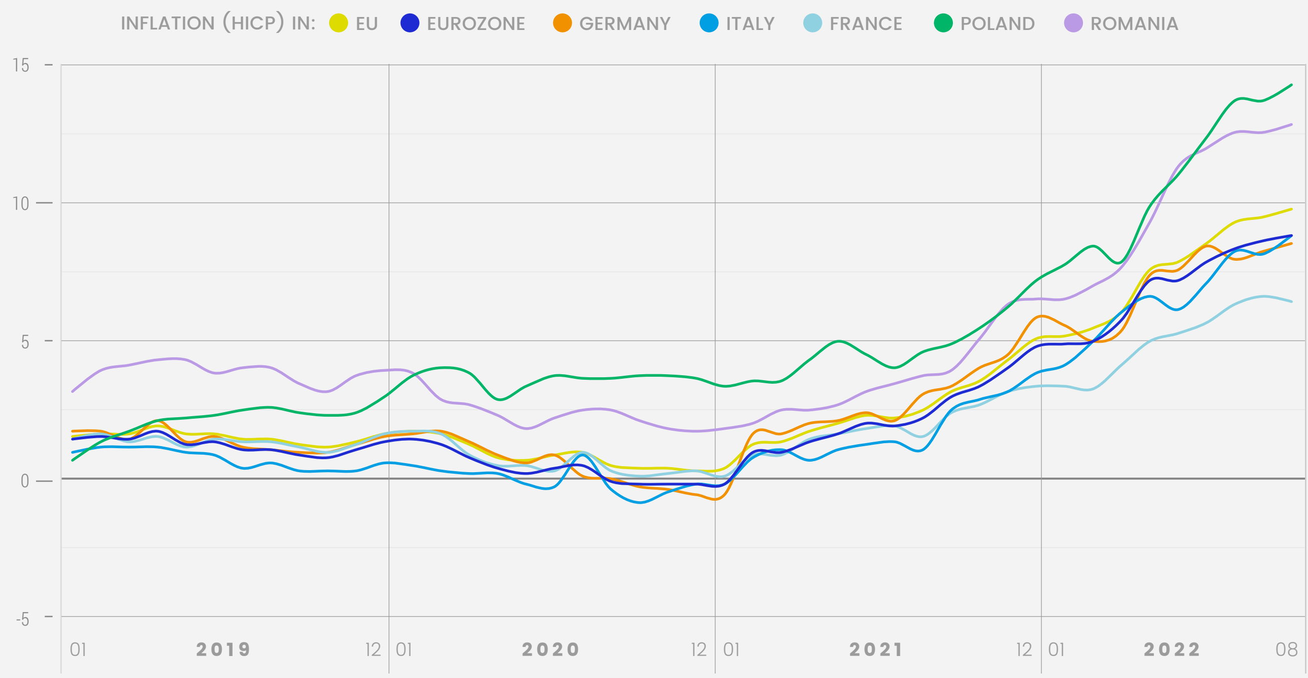
Higher interest rates translate into higher supply chain service costs. Fleet service costs are rising, as rising interest rates increase the cost of servicing borrowed or leased trucks. This can result, for example, in prolonged lease service on truck sets (tractors and trailers), because carriers will not be able to afford new vehicles. Increasing costs of truck financing (financial service and operation) will translate into freight costs.

Active transportation markets outside the Eurozone are most likely to be affected by this situation: Poland, Romania, the Czech Republic and the Baltic States. Momentarily, the weakness of local currencies against the euro is allowing these countries to make up for rising fleet maintenance costs (freight settlements are conducted in euros).

6.75%

The level of the reference rate in Poland, the largest carrier in the European Union (data as of early September 2022). It is the highest in 20 years.

In the Eurozone, things are (somewhat) calmer



Source: own elaboration

As analysis of the data shows, member states of the Eurozone are recording lower inflation at home than countries outside the zone. Although, for example, inflation in Europe's largest economic powerhouse, Germany, is rising all the time. The level of inflation for September this year turned out to be the highest in 70 years. Inflation (HICP) according to Eurostat's unified basket was 10.9%, and inflation (CPI) rose to 10% (not shown in the chart, which covers the period up to the end of August this year).

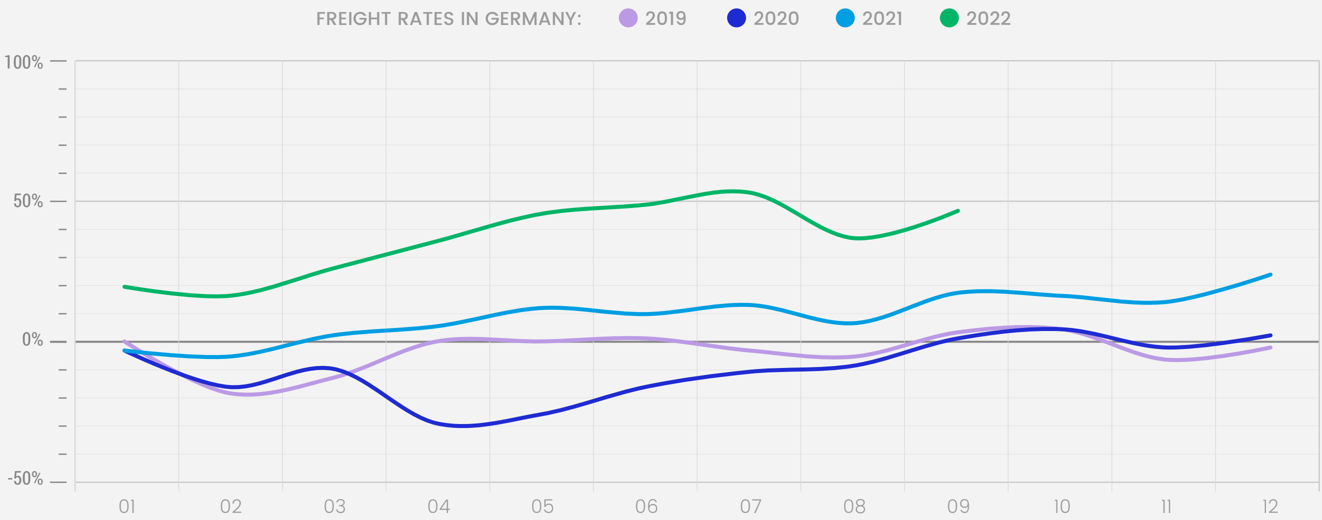
Significantly, Poland, which is a major player on the road transport map, is recording inflation well above the European Union average. In August this year, inflation in Poland was 14.8%, compared to 10.1% in the European Union and 9.1% in the Eurozone. It seems that the higher the inflation, the greater the pressure to raise freight prices and to increase wages for drivers (and both on domestic and international routes).

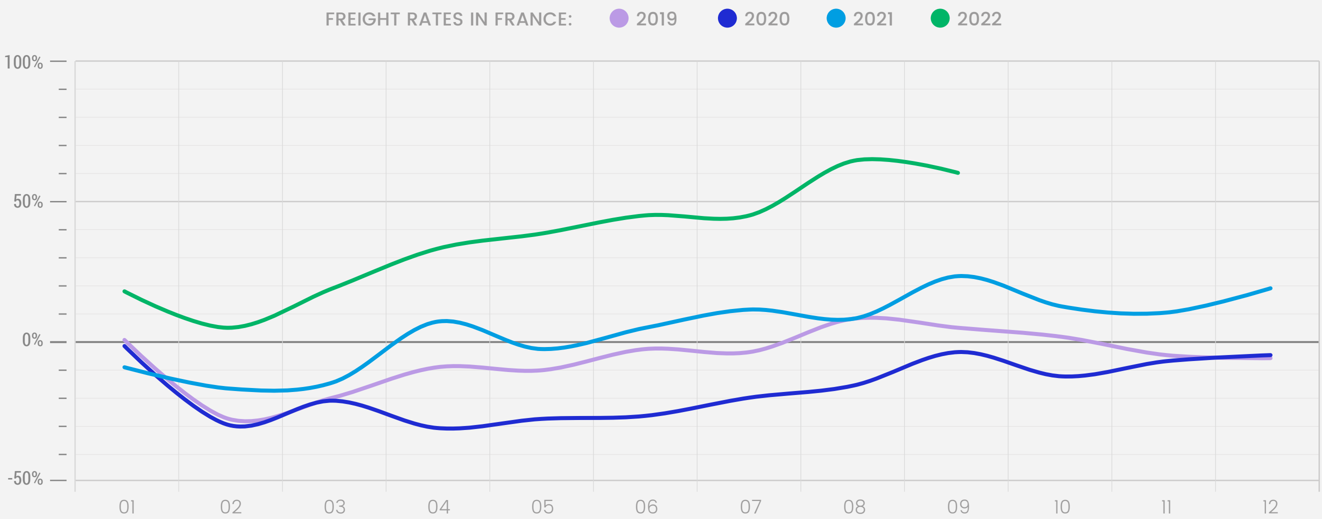
Temporary relief for carriers from CEE countries outside the Eurozone is in the weakening of national currencies against the euro. In the long term, however, this is not a favorable factor, as the weakness of local currencies is reflected in the purchase prices of new trucks (production costs are rising anyway, but outside the Eurozone, carriers also pay for the high quotation of the euro against the national currency).

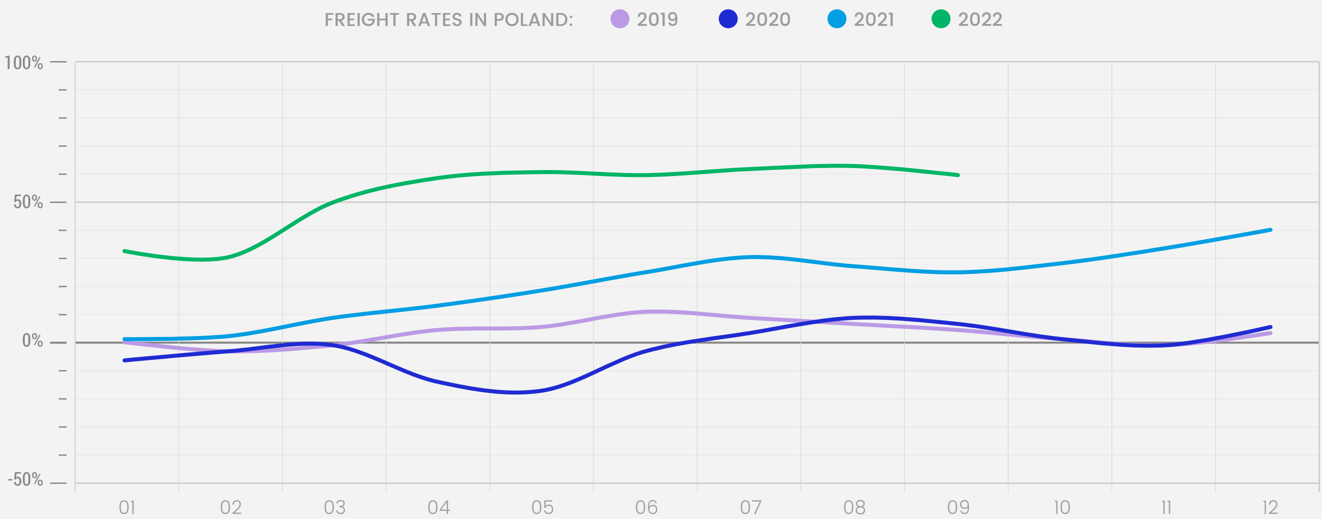
10.9%

The level of inflation (HICP) in September in Germany. This is the highest rate in 70 years. It will have its effect in the shape of a reduction in imports, thus less demand for capacity in Europe.

Are carriers departing from Western Europe?







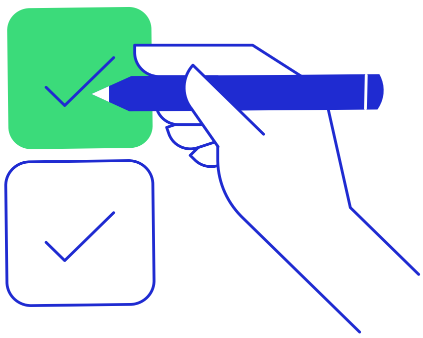
Source: own elaboration

It is clear that rates in each country have steadily increased, with the biggest rebound in 2022. Such growth is mainly influenced by 3 factors.

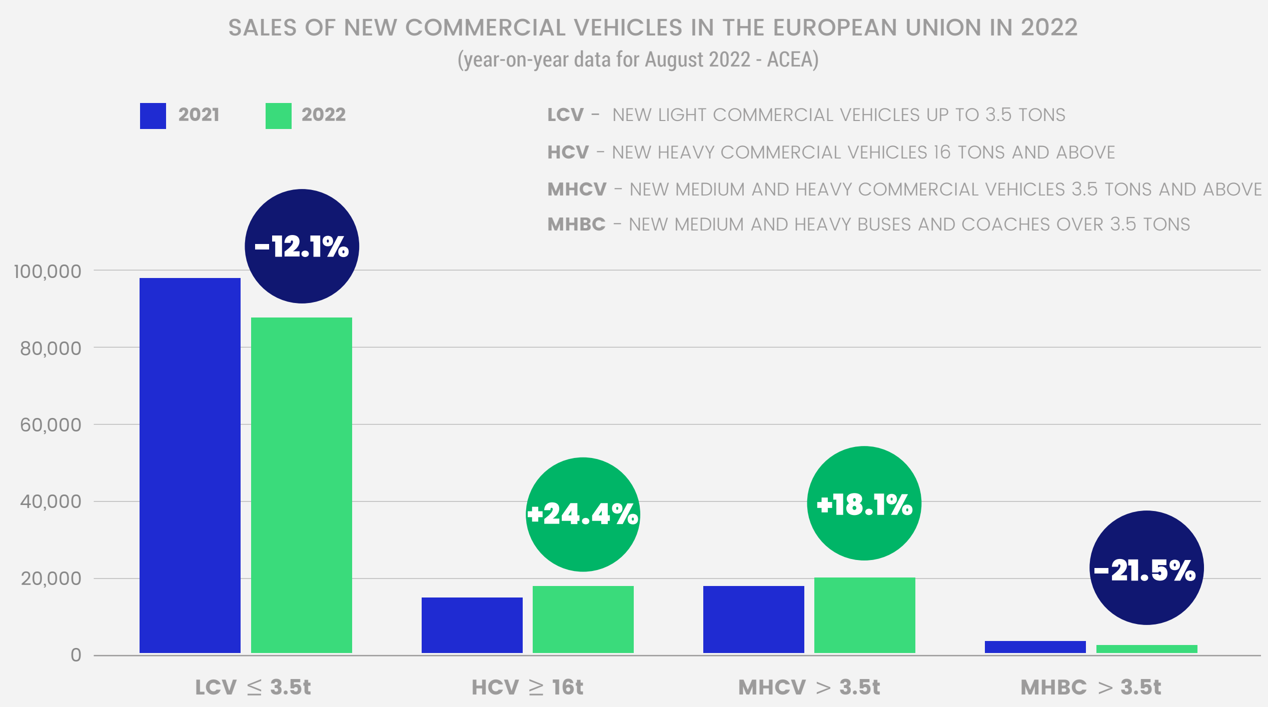
- Inflation, which has been rising since 2021, has accelerated as a result of the war in Ukraine and has been rising steadily throughout the European Union, but most rapidly in the countries of Central and Eastern Europe. Inflation is also rising as a result of rising commodity prices, remaining high levels of consumption still fueled by public support after the pandemic.
- Rising fuel prices, which can be clearly seen from the second quarter of 2020.
- The war in Ukraine, which has contributed (since March this year) to a spike in energy commodity prices and a further increase in inflation.

Interestingly, since August of this year, a drop in freight prices in Germany due to lower capacity demand has been noticeable. There are indications that this is a harbinger of recession rather than a seasonal drop in prices - but we should wait with the final verdict until the end of the next quarter. In contrast, in the French market a further increase in rates can be observed, which may be due to the outflow of carriers from Central and Eastern Europe, and thus a collapse in supply and increased demand for capacity. Stabilization is observed on the Polish market, although in view of the uncertainty on the fuel market and rising domestic inflation, many questions remain as to the future.

A further increase in rates can be observed on the French market, which may be due to the outflow of carriers from Central and Eastern Europe.



Unstable truck sales market



Source: ACEA

The number of new commercial vehicles in Europe has been declining regularly, although the negative sales performance is primarily due to a marked decline in registered commercial vehicles (under 3.5 T). The overall volume of registered vehicles fell by 8% compared to last year, and in the commercial vehicle segment by as much as 12.1%. But in other truck sales segments, the results currently look more encouraging.

In the heavy commercial vehicle segment of 16 tons and above, the growth bars soared as high as 24.4%. Increases were recorded in all European freight markets, although the largest number of trucks appeared in Central European markets. The largest trucking markets, however, posted various results. Europe's economic locomotive, Germany, even saw a decline in registered heavy trucks in the last eight months (-1.8%), which may be yet another harbinger of an impending recession. At the other extreme, however, is the very dynamic Spanish market, which has recorded a 9.9% increase in registrations since the beginning of this year.

Signals from the automotive market seem contradictory. According to ACEA, the decline in commercial vehicle sales is primarily due to weakening supply chains.

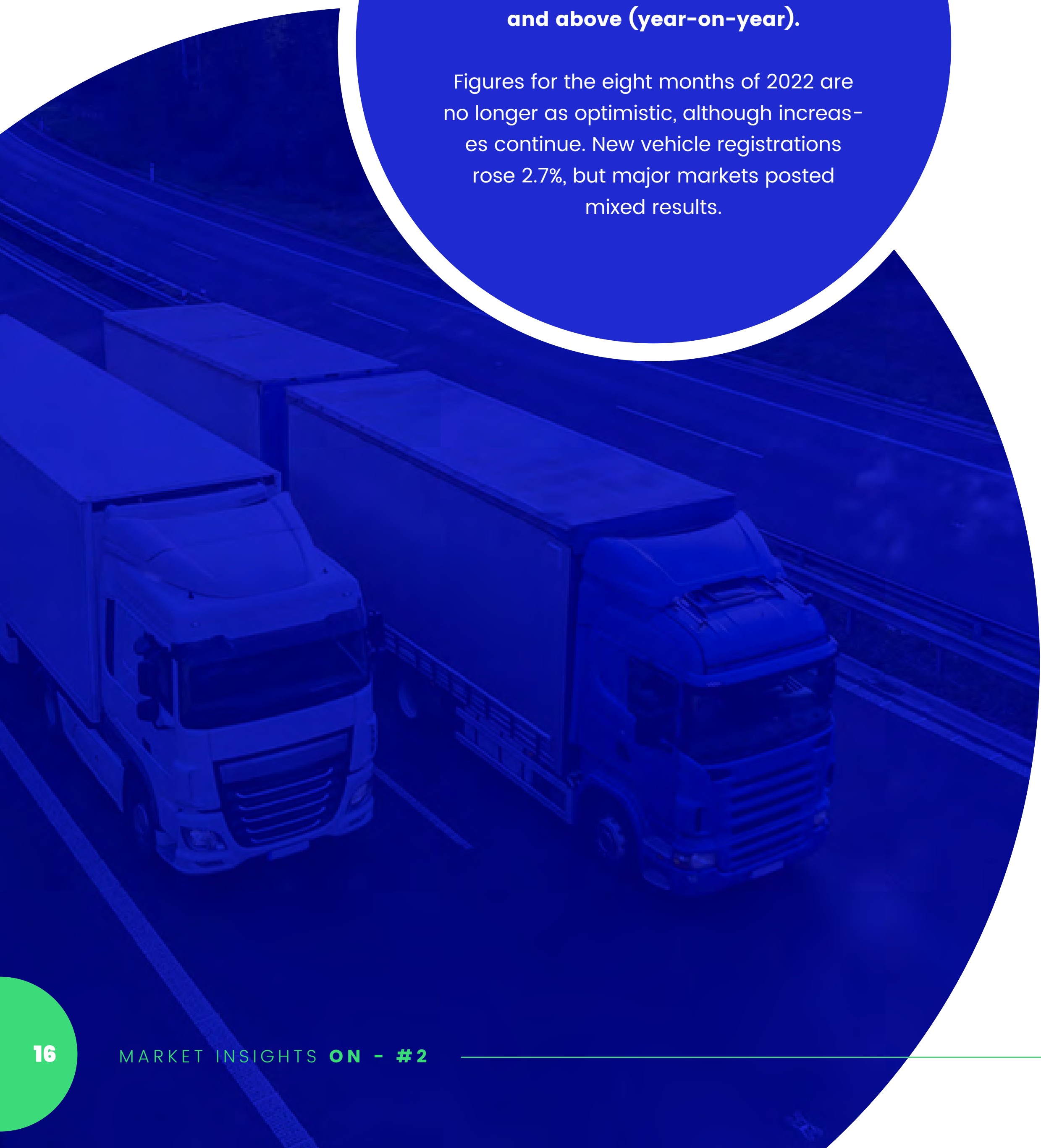
The results for medium and heavy commercial vehicle (MHCV) registrations also look optimistic. After stagnating in July, August's results in this segment showed a sharp rise (18.1%), driven primarily by the performance of the major European transport markets; mainly Poland (up 35.4%), Spain (27.4%), Italy (17.6%), France (8%) and Germany (4.4%). Considering only the last eight months of this year, the results in this segment are slightly worse. Analyzing the most important markets in Western Europe, only Spain (8.8%) recorded a clear increase, while the rest recorded declines; in Germany -6.1%, in France -1.8% and in Italy -1.6%.

Signals from the automotive market seem contradictory. According to the European Automobile Manufacturers' Association (ACEA), the reason for the overall decline in commercial vehicle registrations (sales) lies primarily in weakened supply chains. The lack of a stable supply of semiconductors from Taiwan, China and South Korea, and the suspended production of wiring harnesses in Ukraine, are the most important factors on the side of supply chains that are limiting the pace of production. But the current situation is also affected by purely economic factors. For example, a spike in vehicle production costs as a result of rising inflation and high energy prices, as well as a decline in the purchasing power of smaller and medium-sized carriers as a result of increased fleet financing costs. In the case of commercial vehicles, the Mobility Package, which has led to the decline in interest in buying new cars through many new restrictions, has also made its contribution.

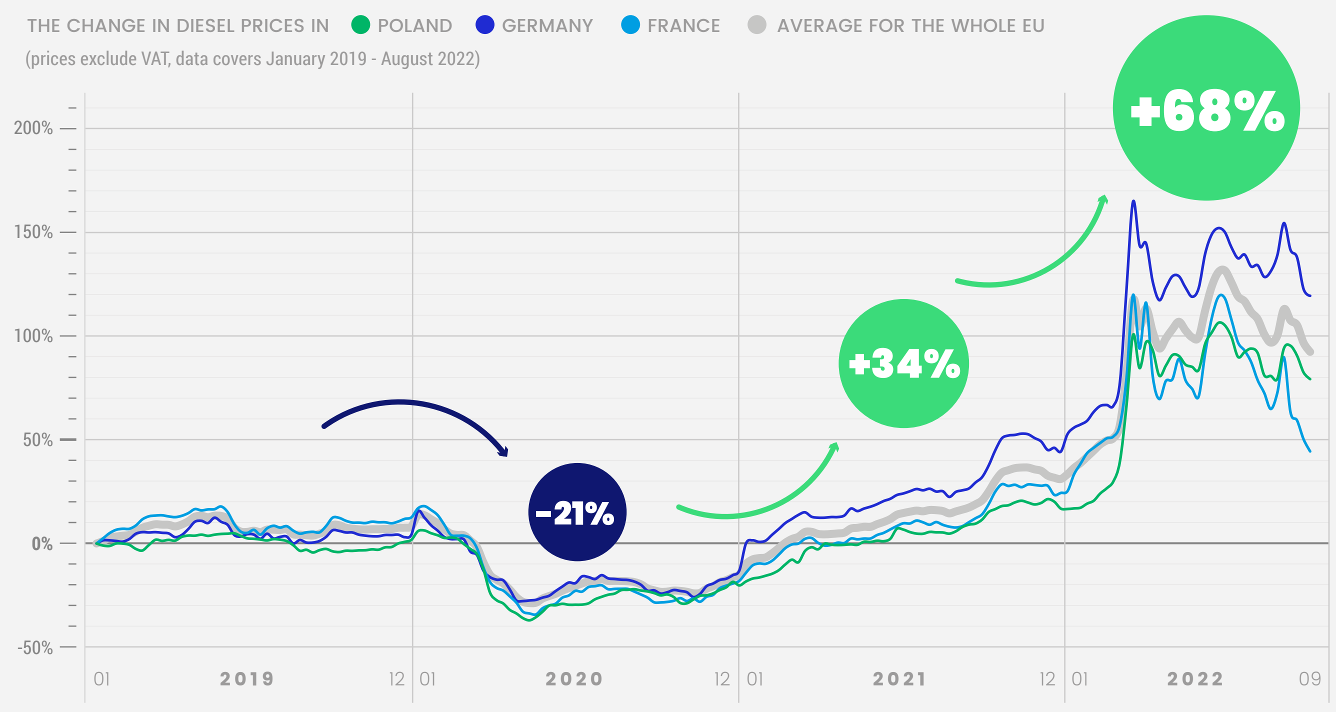
24.4%

Growth in sales of heavy trucks, 16 tons and above (year-on-year).

Figures for the eight months of 2022 are no longer as optimistic, although increases continue. New vehicle registrations rose 2.7%, but major markets posted mixed results.



Cheaper fuel boosts competitiveness



Source: own elaboration

The chart clearly shows the drop in fuel prices caused by the Covid-19 outbreak. The downward trend continued from the outbreak of the pandemic until November 2020. In the fourth quarter, prices on global exchanges began to rise, and with them fuel prices. The upward trend has continued, with a spike after the outbreak of the war in Ukraine and Russian aggression (this summer, the average price of diesel in Europe fell slightly and is 68% higher than the average for all of 2021, and comparing August 2022 to January 2019, the price is 103% higher).

The dynamics of diesel price growth in Germany were higher than in France and Poland in the period under review, which also translates into the dynamics of freight rates. Carriers from Poland refuel at domestic stations and thus are more competitive on international routes, especially in countries where fuel is more expensive.

It is difficult to predict further price movements, as much depends on the situation in Ukraine and Russia's behavior. Meanwhile, the G7 countries and the European Union are banning the transportation of Russian oil by sea, which will take effect on December 5, 2022. OPEC countries, in turn, decided in October to cut production, which is expected to force another rise in global markets. Certainly, this decision will have an impact on fuel prices (experts estimate that diesel could rise 30-40 cents per liter). In response, the US government has decided to release some of its energy reserves.

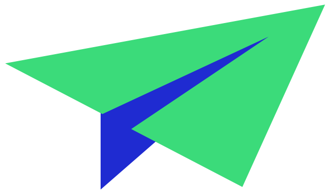
103% - the increase in diesel price in Europe from January 2019 to the end of August 2022. The next breakthrough moment could be December 5, 2022, when the ban on the transportation of Russian oil by sea comes into effect.

02

Trends

The idea of a green supply chain is not just about saving the planet, but also about making money.

Perhaps such a prospect will more quickly encourage companies to make systemic changes.



Green logistics: supply chains are in for a revolution

Today the whole world is talking about the necessity of sustainable development, of which the so-called green supply chain or, more broadly, green logistics, is an important element. It looks as if sustainability policy is finally ceasing to be a slick corporate buzzword, but will be a legal requirement for the entire European Union, as well as for cooperating economies. However, do manufacturers, logistics operators and carriers realize the scale of the coming changes? Because the fact that a “green" revolution is coming is not doubted by economists, climate experts or average, common-sense consumers.

In general, the whole philosophy of green logistics is not just about reducing harmful environmental impacts and especially reducing carbon emissions - although these are the primary goals - but is also about achieving business goals. It's about lowering the costs of logistics processes, increasing profits while adhering to sustainability principles. The timing for revolutionary change may not seem best - the pandemic and the war in Ukraine have either broken or weakened existing supply chains - but paradoxically, it is these events that have made Europe aware of the need for real, rather than simulated, change.

ESG rules will affect transportation

And how is this translating - or will it translate - into specific actions? **Maximilian Birle**, Sales and Service Manager Telematics & Digital Services at the KRONE Group, has answered this question. This German holding company is Europe's largest and the world's leading supplier of curtainsider trailers, box trailers, swap bodies and refrigerated trailers. According to Birle, the key to systemic change is the widespread implementation of ESG (Environmental, Social and Corporate Governance) principles, which the European Commission already started a few months ago.

- Soon banks will take into account not only economic criteria when granting loans, but also adherence to sustainability principles. The new criteria will also raise standards in the transport sector, he argues.

The European Parliament's Committee on Legal Affairs has already agreed on new rules for so-called non-financial reporting for large companies that employ more than 250 people and have a turnover of at least €40 million. Starting in 2024, they will have to disclose in their reports all risks and opportunities in the areas of the environment, social affairs and corporate governance (i.e., comply with the ESG principles mentioned by manager Birle). 4 years later, the changes are expected to apply to most businesses, including those that supply anything to EU markets. One of the pillars of the ESG concept is to stop the ongoing environmental degradation.

Electric trucks raise questions

However, some companies - without waiting for EU or national sanctions - have already begun to buy into the sustainability trend on their own initiative. The aforementioned KRONE, for example, is working on a trailer project that will achieve better aerodynamics on the one hand and its own electric drive with a connected battery on the other. This will reduce the entire set's emissions of carbon dioxide by 40-60%. Also, all major truck manufacturers are already installing tractors with electric drive, although in large

Rail as a good alternative

I believe that rail is a viable alternative to mass land transport at the moment. Narrow-gauge rail should also be more involved in local transportation. It is through rail connections that we transport most of our products. As a company that implements and seeks solutions to reduce harmful gas emissions, we will always support the development of railroads.

Arūnas Strazdas

director of logistics and infrastructure at the Lithuanian company Linas Agro*

*The company is the largest supplier of agricultural products in Lithuania and ranks sixth among Lithuania's largest companies. It specializes in wholesale and retail trade.

fleets these are still exceptions, as until recently there was a doctrine that an ecological drive is one with LPG.

On the other hand - despite current trends - CEOs and supply chain managers are still skeptical of the European Commission's proposed changes. (Actually, these are no longer proposals: the EU's Fit for 55 package envisions a 55% reduction in greenhouse gas emissions from vans and trucks in eight years, and that EU countries will reach climate neutrality in 2050).

- Green solutions for heavy transport are far from being put into practice. Electric trucks are still in the testing phase, while the real alternative, gas-powered trucks, have become unprofitable as a result of the gigantic increases in gas prices - explains **Arūnas Strazdas**, director of logistics and infrastructure at Linas Agro, Lithuania's largest supplier of agricultural products.

And it's hard to disagree with him. The rapid transition to alternative power sources (batteries and hydrogen) will give rise to enormous infrastructural and financial challenges for all European economies - not just those "on the rise". For example, the issue of putting thousands of chargers at European parking sites. After all, they need to quickly (1-2 hours) charge the batteries in the tractor drive to make room for the next drivers and not waste time on unnecessary stops. However, it seems that the path for change has already been paved and the European Commission will not back down from the energy revolution.

For starters, the last mile

All the more so because the numbers are dramatically eye-popping. According to the EU Council, transportation - including road transport - generates nearly 25% of our continent's greenhouse gas emissions. And the volume of transported cargo is constantly increasing: it is estimated that by 2050 this value will increase up to three times, and in the world's 100 largest cities harmful emissions generated by commercial vehicles alone will increase by more than 30%. A special challenge, then, seems to be the so-called "last mile logistics" (from the warehouse to the customer), which, in view of the surge in e-commerce, generates not only the largest costs, but also the lion's share of greenhouse gas emissions.

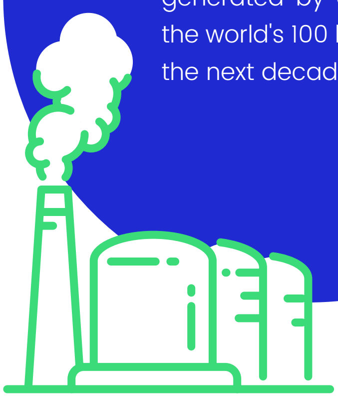
The international logistics operator No Limit, for example, is well aware of this, and it is at the last mile stage that it is making the most important changes leading to lower emissions of carbon dioxide and other environmentally harmful compounds.

- First you have to consider which part of the supply chain you want to make zero-emission; after all, you can't make all the changes at once. We have set our sights on the smart city concept - says **Maciej Rybak,** director of sales and customer relations at No Limit (as quoted from a discussion on green logistics at the Rzeczpospolita daily newspaper conference in Warsaw).

The company has already been investing in green transport and making low-emission deliveries to IKEA customers since 2015. In the first half of 2022, for example, it made 35% of its home deliveries in Warsaw by electric vehicles, and 15% in Poznań. The company's management makes no secret of the fact that its cooperation with the Swedish partner has been the inspiration for further changes.

30%

will be the increase in emissions generated by delivery trucks in the world's 100 largest cities over the next decade.



2030 r.

The EU's Fit for 55 package predicts that vans and trucks will reduce greenhouse gas emissions by 55% in eight years.

Green logistics in warehouses

Changes in the warehouse sector, which is after all the heart of the supply chain, are also progressing in an encouraging manner. It is telling, for example, that in Western Europe it is becoming increasingly difficult to get approval to build a warehouse that does not meet sustainability and green logistics principles.
- We want every new warehouse to meet environmentally friendly requirements, although this is difficult because developers constantly want to build as cheaply as possible. We recently bought old warehouses in Austria, which we want to convert into low-emission warehouses - reveals **Ewald Raben,** CEO of Raben Group, at the 4th TSL Industry Leaders Meeting.

Raben Group is not alone in having such a policy. In Europe, nearly one-third of warehouses have already obtained the so-called multi-criteria certification, which takes into account the principles of sustainable development. Market pressure and increasingly stringent environmental regulations make potential tenants unwilling to lease space that has not obtained, for example, BREEAM or LEED certificates.
- The need for green solutions is now being expressed by lessees and financial institutions themselves - confirms **Patrycja Rubik**, CEO of Wareh.com, a warehouse rental company. - EU regulations are

also prompting investment in green industrial facilities. Challenges include reducing the carbon footprint, reducing electricity consumption, using water sparingly and managing resources rationally - she adds.

What do green logistics solutions for large-scale warehouses actually consist of? Most often they involve the installation of photovoltaic panels and heat pumps, efficient water consumption, thoughtful inventory management, but also optimization of order picking and automation of warehouse processes as much as possible. In a broader context - this also involves locating warehouses close to end customers in order to shorten the transportation of goods, and thus reduce the harmful impact of transportation on the environment. There may be many more such measures, more or less complex, by the way.

Fighting fire with a bucket

At least some of the above-mentioned measures are not possible, however, without an advanced process of digitalization of the supply chain. And this still varies in Europe, especially at the stage of supply planning and transportation. According to Eurostat, about 70% of large European companies use cloud solutions, for example, but the level of digitalization in small and medium-sized companies is only 40%. Despite the fact that after successive waves of the pandemic, an increasing percentage of manufacturers, distributors and carriers declared the implementation of technological processes - in practice, this often ended with declarations.

The mechanism is explained by **Paweł Ziaja**, Head of Product at CargoON, an organization that implements digital solutions for logistics. - Manufacturers often explain that they don't have time to implement new solutions because they are too busy putting out current fires. In fact, logistics managers face endless challenges: problems with vehicle availability, extended transport times, driver shortages, etc. - he says.

However, as Ziaja further argues, such thinking leads nowhere: invoking the comparison to a fire is most appropriate here. - Giving up on new solutions means trying to put out a big fire with a small bucket. The bigger the fire, then, the faster you have to run with that bucket. And yet it is possible to invest in automatic sprinklers, that is, to improve logistical processes in the company. If only to respond faster to crisis situations - adds Paweł Ziaja.

It pays off

Manager **Maximilian Birle** of KRONE is also convinced that the digitalization of logistics processes leads to higher efficiency in the supply chain, enables the implementation of sustainability policies, and at the same time allows one to earn money. - If you send a semi-trailer from Berlin to Amsterdam and it is only seventy percent utilized, and thanks to digitalization you can top up four more pallets on the way, you earn an extra 400 euros. And all thanks to digital software that monitors the use of cargo space - Birle explains.

Because green logistics doesn't just mean costly investments to save the planet, it also translates into concrete financial results in practice. Either now or in the next few years.

Lower emissions in trucks and warehouses

Reducing greenhouse gas emissions throughout the supply chain is a priority for us. We have joined the SBTi initiative, and the approved targets primarily involve reducing direct and purchased energy emissions by 38.7% from 2020 levels. We are also systematically working to reduce the emissions intensity of transportation through improved loading efficiency, better route planning and fleet replacement. This year we've also had the opportunity to initiate a project involving the first electric truck. We are also working to reduce the carbon footprint from building use. One of the projects currently underway in this regard is the construction of the first near-zero-emission warehouse at our branch in the Netherlands.

Piotr Lachowicz
Group Sustainability Expert at Raben Group

03

Summaries and forecasts

High energy prices and inflation are strangling European economies.

Demand is shrinking, and with it the need for supplies. But supply chains will emerge from this situation strengthened.

A cooling is coming for economies and supply chains

The economic downturn or, to put it more bluntly, the looming economic crisis in Europe, is something that is resounding more and more strongly in the statements of experts. Supply chain managers are recognizing it too. Today it is still difficult to say how this will affect freight rates and the availability of cargo space. In any case, in the coming months, the transportation and logistics market does not foresee events that could drastically reduce demand for capacity. But transport demand will certainly see a reduction soon.

Despite a marked reduction in production in European markets, demand for cargo space is not diminishing. A symptomatic example is cited by **Guido Kuckartz**, an experienced logistics manager from Berlin, currently director responsible for the development of DACH markets at the technology company CargoON.

- In the spring of this year, there was a severe collapse in the supply of cargo space on the route from Italy to Germany. This happened after the outbreak of war in Ukraine, which caused a sharp increase in energy costs, hitting many important sectors of the Italian economy. This was especially so in the steel industry, which depended on Ukrainian supplies. It seemed that demand for capacity would fall, and the opposite happened. The ratio of freight demand to cargo space supply even reached a ratio of 75% to 25%. Apparently, there has been an increase in shipments to Germany in many sectors, which has bridged the gap - Kuckartz comments.

Less consumption, fewer shipments

It seems, then, that the slowdown and then expected crisis will not manifest itself in a sharp drop in demand for capacity everywhere and to the same extent, but rather in local declines on specific routes, in specific sectors of the economy. However, no one is really questioning the prediction that the crisis will reduce demand for transportation. The only question is when this process will begin in a perceptible way.

How are supply chains changing?

- Large companies are trying to change the operation of their supply networks to prevent constant shocks to the supply flow.
- They are increasingly abandoning long-distance transportation in favor of local, domestic sourcing.
- The automotive industry (Stellantis, Peugeot, Citroen, Opel, Fiat and others) is switching production facilities in each country to local suppliers.
- Higher delivery costs are offset by shorter transportation routes and fewer disruptions to the entire chain.

Demand for transportation will decline

Spanish transport companies are currently going through one of the most turbulent periods in modern history. Energy costs and inflation are rising, while digitalization and the energy transition are accelerating. Supply chains can't cope with the ever-high demand, as there is a shortage of raw materials and components for production. Under these conditions, shipping needs strongly outstrip the supply of cargo space. But this trend will soon come to an end in view of the expected decline in consumption and industrial activity.

Ramón Valdivia

Vice President of the Asociación de Transporte Internacional por Carretera (ASTIC)

Ramón Valdivia, Vice President of the Madrid-based Asociación de Transporte Internacional por Carretera (ASTIC), has no doubt about the aforementioned trend. And Spain is, after all, one of the fastest growing freight markets in Europe. - That momentum, however, may slow down in the coming months, at least in some transportation and logistics subsectors. After all, everything suggests that household demand will decline significantly, as will industrial production and the investment capacity of businesses. Lower industrial activity and lower trade volumes indeed translate into lower demand for transportation - says the ASTIC Vice President.

And his forecast is confirmed by **Nuria Lacaci**, secretary general of the Asociación de Cargadores de España (ACE), an association that represents Spanish shippers and logistics managers. - The war in Europe, galloping inflation and the raw materials and energy crisis have already led to a decline in demand for goods and services. A further decline in consumption will affect all sectors of the economy, including road transportation - she predicts. But Spanish manufacturers - like logistics managers in most European countries - are already looking for solutions to ensure their supply continuity. First of all, they are moving production centers closer to distribution sites and looking for suppliers closer to them. All this to reduce dependence on long-distance road transport, but especially long-distance sea transport.

Long and expensive sea routes

Przemysław Piętak, Supply Chain Advisory Director at CBRE, points out the limitations of long-haul transportation - especially from Chinese ports to Europe. Despite falling freight costs, global supply chains are still disrupted, especially for shipments from China to Europe.

According to Flexport's analysis, the average total time that passes from receipt of goods in Asia to unloading at the destination port is now around 95 days.

In contrast, as recently as 2019, it was almost a month shorter, he confirms.

Meanwhile, the richest economies such as those of Germany, the Netherlands and the UK rely heavily on deliveries by sea. Ports in Hamburg, Rotterdam or England's Felixstowe receive deliveries that are then distributed to manufacturers and distributors in individual countries and even across the continent.

But it's not just delivery times that are a problem for shipping, but also the still high freight costs, which have not returned to pre-pandemic levels. - According to the XSI index, as recently as February this year, it cost more than $14,000 for a forty-foot

Uncertainty is the norm

Across Europe, managers at manufacturing and trading companies are saying the same thing: uncertainty is the new reality and will remain with us for some time to come. The war in Ukraine has put enormous upward pressure on energy prices. And yet they are a major cost in many industries, which is not easy to reduce in the short term. Planning supply and demand is a huge challenge for business managers today. Rising inflation influences consumers' purchasing decisions, but at the same time creates many challenges for manufacturers to plan wisely for actual demand. On the other hand, shortages of production components are disrupting companies' production capacity. In addition, driver shortages and rising fuel prices are putting upward pressure on freight rates. On the positive side, however, the pandemic has accelerated the digitalization of the transportation ecosystem, as it is now seen as a prerequisite for supply chain competitiveness and resilience.

Antoine Bertrandy
CEO at CargoON

container from Asia to Europe, while now it's below eight thousand. However, this does not mean that the market is free of disruption anymore and prices have returned to normal. Despite recent declines, shipping by sea is still several times more expensive than before the pandemic, when it usually cost less than two thousand dollars to transport one container by sea - explains Przemysław Piętak of CBRE.

Gas prices are killing entrepreneurship

It's hard to disagree with the thesis that global supply chains are still not back to their pre-pandemic state. In the face of new challenges and difficulties, it seems that logistics supply networks - overburdened with work, stockpiling inventory and responding to emergencies on an ongoing basis - will rest only during a slowdown and then a recession. And that the latter is imminent, one need only look at the economic situation in Germany, which, after all, projects the economic condition of most European countries. The German Association of Chambers of Industry and Commerce (DIHK) is warning that one-third of companies have stopped accumulating investment funds to respond to current risks due to high energy prices.

- The gigantic increase in gas prices will have considerable consequences for the German economy. In fact, it already has. There is a growing number of small and medium-sized companies in the east of the country that have halted production because of it. This includes, for example, larger bakeries or ceramics manufacturers, because they use a lot of energy in the production process - explains Guido Kuckartz of CargoON. Besides, gas prices are also

KEY CHALLENGES FOR THE TSL SECTOR

according to
Guido Kuckartz
supply chain expert and manager at CargoON

Inflation
Slowing investment in new vehicles, trailers, IT systems.

Shortage of drivers
Unattractive work model for young people, lack of career opportunities.

Shortage of parts in the automotive sector
Shortage of components for new, as well as used vehicles.

Low water levels in European rivers
Reduction of inland shipping, especially in Germany, the Netherlands, France and Italy.

Shortage of cargo space
Shortage of drivers, increasing cost of fleet maintenance.

Shortage and prices of LPG gas
European fleets run largely on liquefied petroleum gas (LPG). (In some countries as much as 10-20%). Gas price spikes have drastically reduced the competitiveness of such companies.

The rising price of diesel
Increasing fleet maintenance costs.

directly affecting the condition of German carriers, who in recent years - encouraged by those in power - have switched from diesel to LPG drives, something they have been sternly regretting for the past year or so. - Due to soaring energy prices and a persistent shortage of drivers, numerous transport companies - especially the smallest ones - have had to get rid of some of their trucks or close down business - Kuckartz adds.

Some optimism

All right, but can we say something optimistic at the end? This is a question often heard from supply chain participants at numerous conferences and industry meetings. Indeed, we definitely can. **Ramón Valdivia,** Vice President of ASTIC, puts it this way: - For decades, the transportation and logistics sector has been working in a changing environment, but has always managed to overcome any difficulties. Our industry has a great ability to adapt to any new situation. And this will not change.

It is hard to find a better commentary to sum up. The cooling of European economies - unwelcome to most of us, will nonetheless allow respite for "red-hot" supply chains. It will allow them to recover from the shock of the pandemic and the outbreak of war in Ukraine.

Logistics needs digitalization

A sizable problem for Spanish carriers is a shortage of drivers, which limits capacity. Limited digitalization is also a challenge for supply chains, especially the lack of visibility of downstream processes, from producer to distribution. As for freight rates: if they are not going down anytime soon, they will at least stabilize at current levels. According to the latest MITMA study, the average price of road transportation has increased by 13.87% compared to 2021. Further increases in rates may not be bearable by the rest of the supply chain, and ultimately consumers.

Nuria Lacaci
secretary general of the Asociación de Cargadores de España (ACE)

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An expert and manager with several years of experience in logistics and transport. Currently, he is the Head of Business Consulting at Trans.eu – the largest logistics platform in Central and Eastern Europe. He advises clients primarily in the field of innovative digital transformation and optimisation of the supply chain and increasing the efficiency of their businesses. He has a holistic approach to cooperation with clients as he tries to both understand their needs and recommend solutions that will be a real support for their companies.

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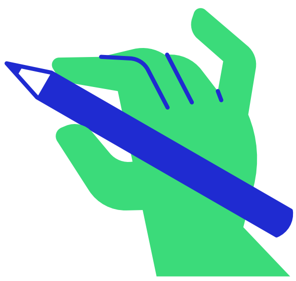
He has been associated with the transport and logistics industry for many years. In 2000-2007, he was the editor-in-chief of the Eurologistics magazine. He wrote about the Transport, Forwarding and Logistics market for magazines/newspapers such as Puls Biznesu, Parkiet or Transport Manager. He is looking with interest at the constant transformation of supply chains. He was one of the first people in Poland to predict the development of RFID technology in logistics. He conducted numerous conferences devoted to the transport and logistics market and he prepared the Logistics Gala with the team.



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