#3

CARGO ON
BY TRANS.EU

Market Insights

Data from the world of logistics and transport

- **Fuel at a premium**
  What will the next few months bring about?
- Turbulent supply chains
- **Digitalisation** as a survival method

CargoON from **Trans.eu Group S.A.** is a digital transport platform that helps optimise and automate processes, communication and documentation related to road transport.

CargoON's transport management solutions — **Freights, Dock Scheduler, Visibility, Reports and Simple Tenders** support manufacturers with comprehensive and flexible transport management.

> The creator of the brand is **Trans.eu Group S.A.** - a provider of innovative solutions for the transport and logistics industry, which has been successfully developing one of Europe's most important logistics platforms since 2004.

A good start

Less planning, more responding

The current year began with plenty of concerns, but also some hopes. Everything points to the fact that inflation will slowly start to fall, although we still have to wait a while in Europe for decent economic growth. Managers and logisticians are watching developments with apprehension, but are calculating coldly. In effect, they are making concrete decisions on the fly, responding flexibly to new "bombshells". Perhaps the biggest unknown is the price of diesel in the face of the embargo on energy supplies from Russia, that was introduced on 5 February. Will there be shortage of fuel for trucks? Will LNG meet the needs of European economies, including the transport sector? Questions and challenges are abound, fuel being only one of them. For now, what remains to be done is an ad hoc response to further blows to the stability of supply chains. In a word: management by response. Here and now.

We invite you to read the next edition of our report.

The CargoON team

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What prevails in the statements of logistics market experts is, anxiety over chaos in supply chains, which means another year without planning, acting only in the here and now.

02 Comments and forecasts

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As European executives and CEOs predict, although many challenges await economies and supply chains in the current year, it does not have to be a year of drastic weakening of trade flows again.

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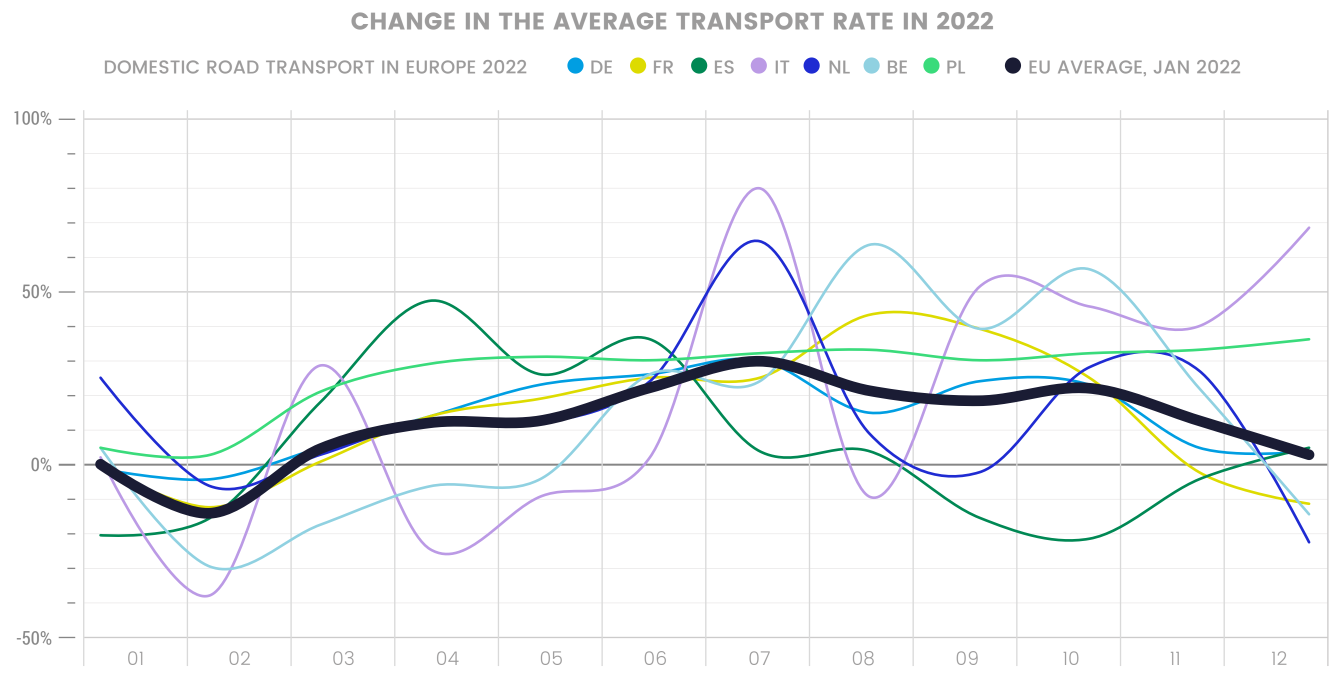
01

Market analysis

The economic downturn and high inflation have put producers, distribution companies and hauliers in a difficult position.

This is because all costs cannot be passed on to the end customer.

Europe on the spot



Source: CargoON platform, Trans.eu

Changes in transport rates over the past year have resembled a real rollercoaster. But it could not have been otherwise. The aggression against Ukraine and its socio-economic consequences (the onset of the energy crisis, rising energy and fuel prices, spiking inflation) unsettled the transport market. Disrupted supply chains - not yet rebuilt after the pandemic - were again hit by severe shocks. For distribution networks in Europe - but also worldwide - the red alert had come on again.

Unfortunately, for a long time to come, the date of 24 February 2022, the start of Russian aggression in Ukraine, will be an important reference for the situation in individual European economies. The chart clearly shows that since the Russian aggression, rates have started to rise rapidly reaching a peak of 29% higher than January 2022. In the second half of the year, the situation in the transport market began to normalise, with prices slowly falling to reach almost pre-war levels in December 2022.

Freight costs varied from country to country, with the average in a particular country diverging significantly from the European average on some routes. As can be seen, large fluctuations were recorded by the Italian market and the Dutch market, were closer to the European average rates. Poland and Germany, the leaders in freight volumes in Europe. Freight prices were most influenced by changes in fuel prices, although this was not the only criterion.

WHAT NEXT?

01

Supply chain management from the beginning of 2020 is ongoing. It is a management of a process of constant change. Supply networks are still weakened after the pandemic and subsequently as a result of the ongoing war in Ukraine. 2023 will continue to be a period of uncertainty, managers will be forced to make decisions on the fly, while longer-term planning is both very difficult and subject to great uncertainty.

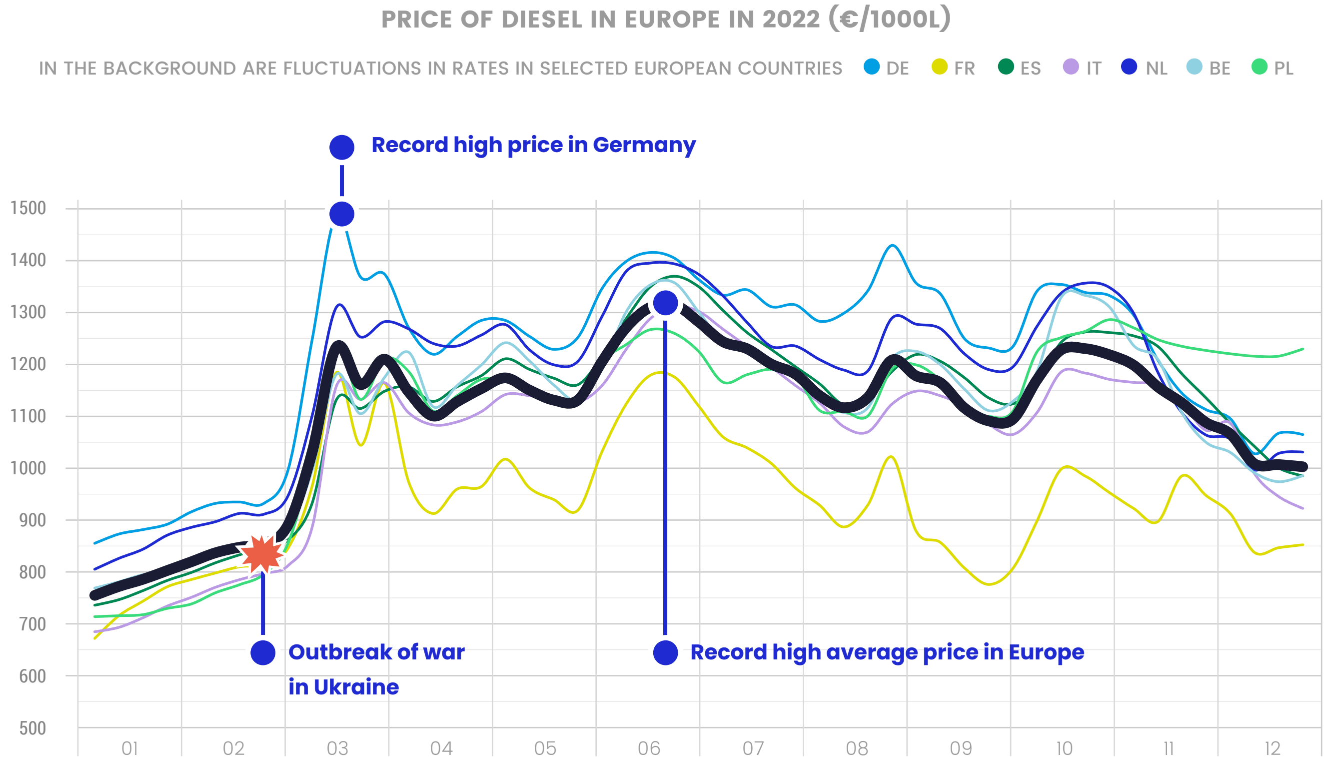
02

The approach to carrier contracts will be a combination of a contractual approach. This allows the creation of a budget framework for the coming quarter or year, and a spot, i.e. observing market rates and looking for missing capacity by organising rapid quotations (RFQs) for specific transport orders. This is a not insignificant technology enabling the creation of private exchanges combined with the automation of carrier verification (compliance).

03

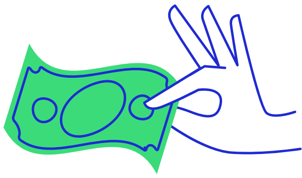
A growing trend is the digitalisation of the supply chain, of which transport management systems are an important part. Digitalisation has saved many supply chains during successive lockdowns - and managers remember this. The experience of the pandemic shows that automation of logistics (and management processes in general) brings tangible savings.

Fuel crisis



Source: Weekly Oil Bulletin, European Commission

The energy crisis and high commodity prices caused by the outbreak of war in Ukraine were the main drivers of high fuel prices last year. The average diesel price (net of duties and taxes) turned out to be 69.3% higher in 2022 than the average price in 2021. In addition, carriers were affected by the drastic increase in the price of the catalytic additive AdBlue, which, together with oil prices, had an almost immediate impact on freight price increases. All this was also compounded by the high demand for energy resources even before the outbreak of war - caused by the revitalised recovery of economies after the pandemic. However, contrary to the worst fears of the transport and logistics market, the price of diesel began to fall from the middle of the year, which was immediately reflected in lower freight prices. At the end of June, the average diesel price reached an annual maximum of EUR 1,302.98/thousand litres, but then the situation on the world stock exchanges began to calm down. As a result, prices declined steadily in the last quarter of last year (a temporary disruption to the downward trend proved to be the earlier increases in August and early September). Germany recorded the highest diesel prices. Taking additionally into account the fact that German carriers also use LNG propulsion - and have been hit by gigantic increases - German transport finds itself in a dire situation in 2022. Fuel costs have made German carriers less competitive in Europe. The record fuel price in Europe (EUR 1,472.46 per thousand litres) was set in mid-March last year in Germany. The Dutch economy also struggled with high fuel prices almost throughout 2022.



WHAT NEXT?

01

The current year offers moderate optimism for the fuel market. The average European diesel price was EUR 996.42 per thousand litres at the end of the previous year, allowing us to look at prices in 2023 with more confidence. However, as is usual in economic forecasting, there is always a but... The great unknown is the impact of the European Commission's embargo on Russian energy resources from 5 February this year. Can we expect a systematic increase in diesel prices again, or will the market remain calm? Unfortunately, even fuel market experts are unable to answer this question unequivocally.

02

While there are many unknowns, it seems that the declining demand for transport services is a stabilising factor for prices. The economic slowdown we are experiencing in Europe and around the world, the decline in industrial production in China and lower port traffic seem to indicate that the trend of excess supply over demand is sustainable. The lower demand for capacity - and consequently fuel - will certainly be a factor in holding back rapid price increases.

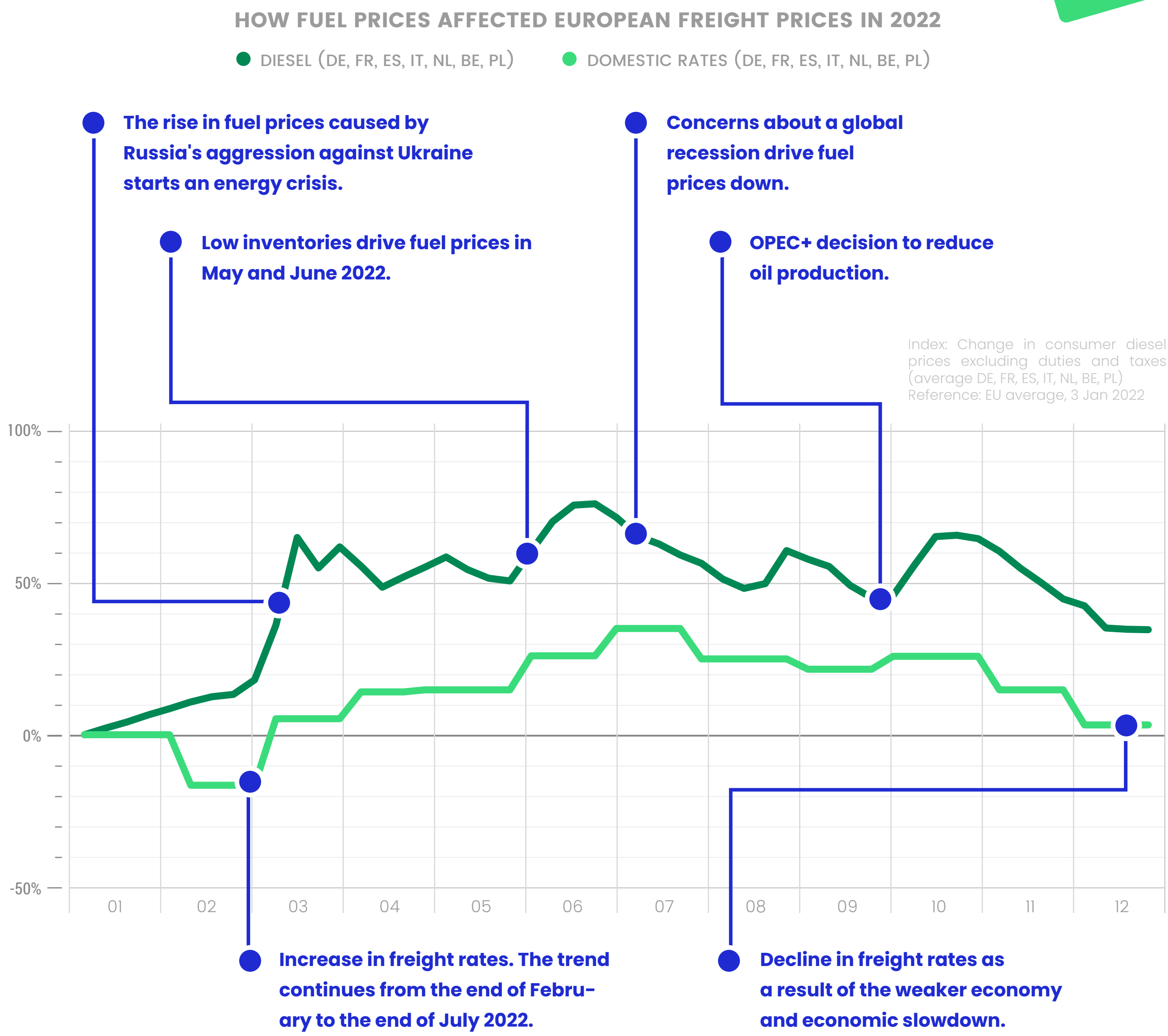
03

Experts at JP Morgan and Goldman Sachs - the largest US investment banks - also seem to confirm these views. They forecast that the average oil price in 2023 is likely to be lower than had been assumed just a few months ago. And this is due to an excess of supply over demand in the transport market. The latest forecasts from these financial institutions indicate that the average oil price on world exchanges will settle at $92-98 per barrel.

04

Lower demand for capacity and the expected stabilisation in the energy commodity price market will at the same time contribute to a calming of freight prices or even a temporary downward adjustment in selected markets.

Fuel and freight



Source: CargoON platform, Trans.eu, Weekly Oil Bulletin, European Commission

The analysis clearly shows a direct link between diesel prices and freight prices. The start of the energy crisis caused by Russian aggression almost simultaneously translated into an increase in freight rates. The upward trend in freight prices stopped at the end of July 2022 - in response to the start of the decline in diesel prices some two weeks earlier. Experts link the lower fuel prices to the first stronger signs of economic recession in Europe, particularly in Germany, which was plagued by rising inflation and the effects of the energy crisis. (The German economy - like no other - was dependent on Russian energy resources).

The decision of the OPEC+ countries to cut oil production by around 2 million barrels per day (beginning October 2022) caused an instant reaction from global stock exchanges and a rise in the price of oil and, consequently, diesel. However, freight prices rose little this time around, only to start falling steadily in November and December - at the time of the Christmas freight rush. The situation in the fuel market also stabilised quickly, with diesel prices declining steadily until the end of the year.

Nevertheless, looking at the whole of 2022, it is hard not to see a strong link between energy commodity prices and freight prices. It seems that never before has this relationship been so strong. The reason for this is a change in the cost structure of haulage companies. So far, they have been more or less evenly split into three groups; fleet maintenance costs, personnel costs and fuel costs. The energy crisis has changed this paradigm; nowadays, fuel acquisition costs account for an increasing proportion of costs. It is estimated that they currently amount on average to 40-50% of freight costs.

In the last quarter of last year, the market no longer reacted as strongly to the rise in oil prices, as another trend proved stronger; the economic recession in Europe and the decline in industrial production resulted in lower demand for capacity. Hence the drop in freight rates despite the traditional consumer rush in November and December.

WHAT NEXT?

01

If the situation in the energy commodity market stabilises - and carriers are not affected by price spikes - the relationship between freight prices and diesel costs will no longer be so significant. However, much depends on the consequences of the EU embargo on energy imports from Russia that was introduced in February this year.

02

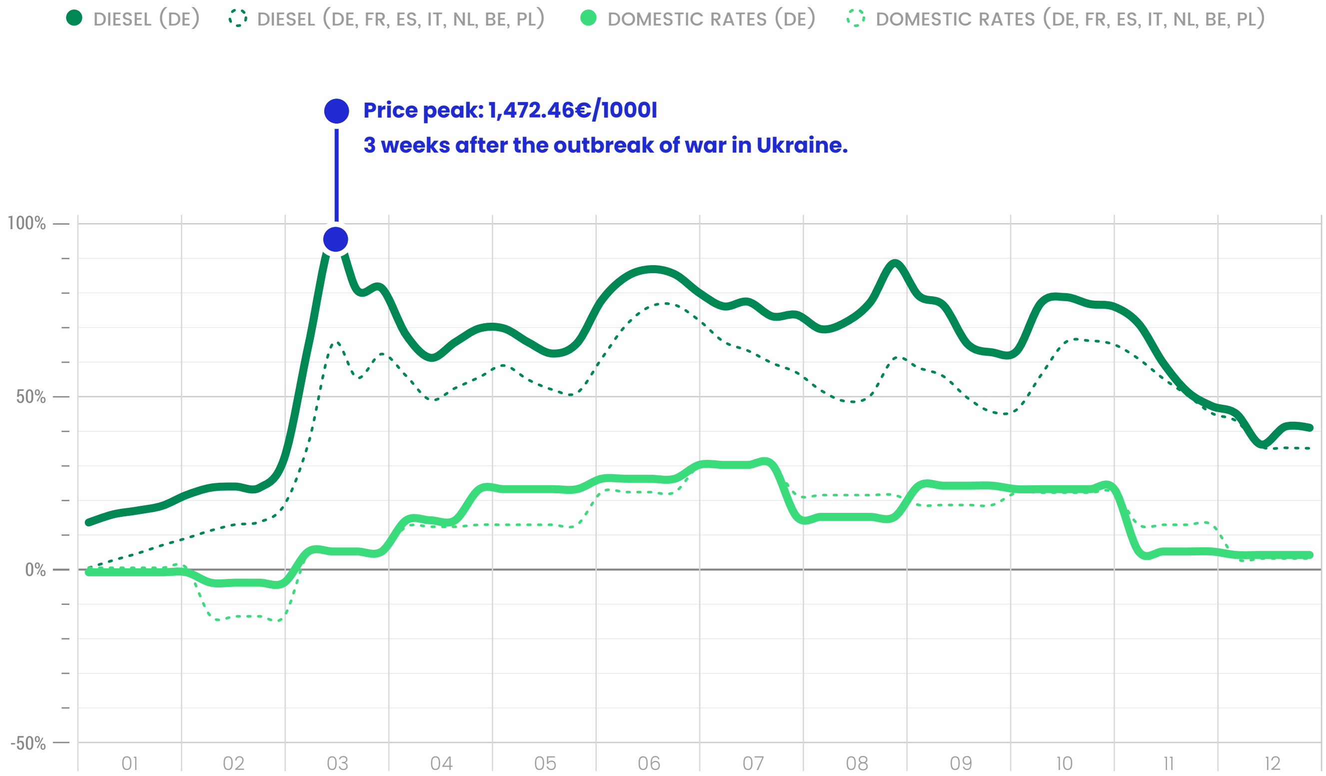
The decline in freight demand as a result of the continuing global economic downturn (crisis?) will probably facilitate more stable freight prices compared to more than a year ago. The small margins of carriers are being eaten up by high inflation, pressure on driver wages and the high price of fuel (despite stabilising in recent months). Now it is the carriers in their relationship with shippers who have found themselves in a more difficult position, at least in the spot market. They need to drive to survive.

03

Manufacturers and distributors - faced with an ever-declining economy - are feeling the pressure to improve efficiency faster while implementing more rational cost management. Both goals cannot be achieved without advanced digitalisation of the supply chain. The automation of transport search and ordering processes is becoming a necessity, not just a slick advertising slogan. Nevertheless, an important element remains related to the effective and efficient management of time slot booking at loading and unloading.

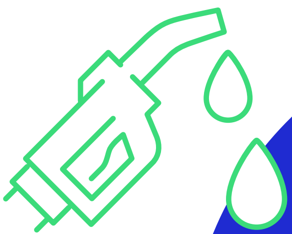
Germany: how fuel killed competitiveness

DIESEL COSTS AND FREIGHT PRICES IN GERMANY COMPARED TO EUROPE



Source: CargoON platform, Trans.eu, Weekly Oil Bulletin, European Commission

Index: Domestic road transport in European countries 2022 (average DE, FR, ES, IT, NL, BE, PL)
Weekly consumer diesel prices excluding duties and taxes (averages DE, FR, ES, IT, NL, BE, PL)
Reference: EU average, 3 January 2022



61.6%

This is how much the price of diesel increased in Germany in 2022.

The maximum price was **1,472.46€/1000l** and the difference between the maximum and minimum price was as much as **561.35€.**

Source: Trans.eu

Starting with the war in Ukraine, Germany has been struggling with high fuel prices. Primarily diesel, but also LNG, which was used by an increasing number of carriers present on the German market. Fuel costs have significantly worsened the economic situation of German carriers (next to Poland, Spain and the Netherlands, the leader in European haulage). Indeed, despite the increase in freight prices, carriers were forced to give up their existing margins in order to remain competitive on European routes. The high price of energy and raw materials in Germany (the highest in Europe) caused by high dependence on Russian supplies - for instance has also contributed to inflation and the economic downturn.

Germany's economic downturn as Europe's economic leader has taken its toll on the health of other economies. The decline in supplies to Germany has worsened the situation for many producers and distributors, and not only from the Old Continent. Last year, Germany's GDP grew by only 1.4%, despite experts estimating that it would exceed 4% even at the beginning of the year. Economists at the Bundesbank estimate that the German economy will contract by a further 0.5% in 2023. In the last quarter - with the reduction in fuel prices - freight prices also fell, for a while even below the European average. However, it must be added that fuel costs were already rising before the war in Ukraine, and the war itself accelerated the process, very sharply.

WHAT NEXT?

01 **No other country has been as badly affected by the higher cost of energy and raw materials - primarily natural gas, but also diesel - as Germany. However, the fall in diesel and freight prices at the end of 2022 provides a good basis for price stabilisation in the transport market in 2023. This is because, over the last six months of last year, oil prices on world stock exchanges have been falling. (With the exception of the October incident following the OPEC+ decision to cut production). The most serious question mark is the response of the fuel market to the EU embargo on energy imports. It is not just about the situation immediately after 5 February 2023, but also in the following quarters. This prompts the question: Can Europe ensure continuity of supply of energy resources after cutting itself off from Russia?**

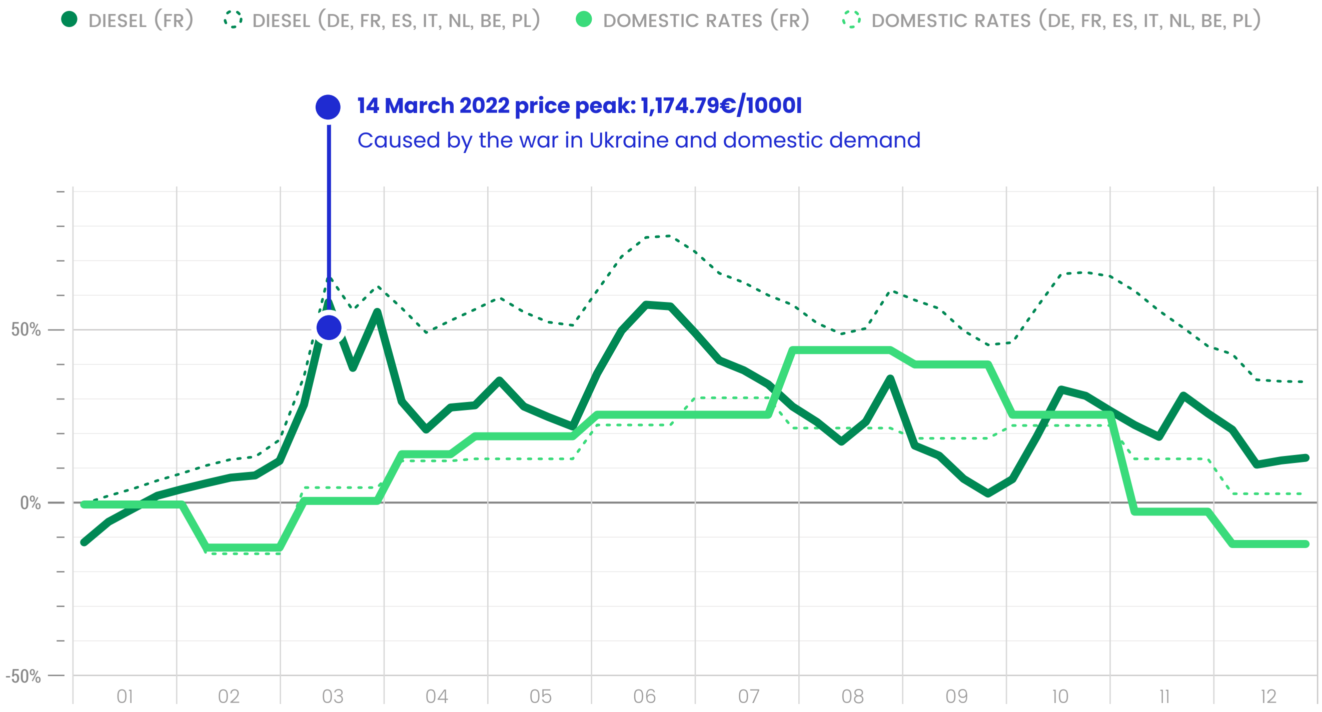
02 **Shippers, i.e. industrial producers and distribution companies, can expect freight prices to stabilise (provided that there is no drastic spike in fuel prices).**

03 **Demand for capacity will fall, but the situation will be somewhat improved by the systematic development of the e-commerce market. It needs not only air deliveries, but also international road transport and last-mile deliveries in particular.**

04 **The level of economic recession in Germany will determine the fate of supply chains across the continent. In December 2022, the ifo Business Climate Index rose slightly, which offers some hope that the economic recession will not turn into a deep crisis.**

France resilient after COVID

FUEL AND FREIGHT RATES AGAINST EUROPEAN AVERAGE FROM SELECTED COUNTRIES (2022)



Source: CargoON platform, Trans.eu, Weekly Oil Bulletin, European Commission

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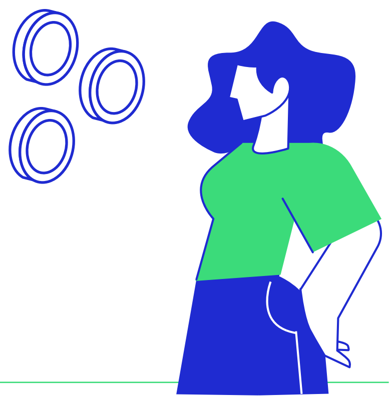
The French economy has recovered best of all European economies from successive lockdowns. In post-pandemic 2021, France recorded an impressive rebound of 6.8%, with positive consequences the following year as well. However, the country on the Seine is not an island in its own right, but Europe's second economy, linked to numerous foreign suppliers. Rising inflation and energy costs have done their part. A clear drop in demand and a deceleration of the French economy occurred in the last quarter of last year, when GDP grew by only 0.1%. Counting all of 2022, however, the French economy can count this year as a pretty good one - all things considered.The health of our economy is slightly better than our collective mood - commented the head of France's central bank, François Villeroy de Galhau, shortly after the economic growth figures for the previous year were announced. Although growth was 2.6%, economists are predicting a recession, albeit not a deep one, over the Seine in 2023.

Despite strong demand due to the recovery of supply chains after the pandemic, diesel costs have not risen as much over the Seine as in Germany, for example. (Besides, the main source of the rapid increase in fuel prices was the outbreak of war in Ukraine). The prosperity of the economy for at least the first half of 2020 and the competitive cost of diesel to Germany have resulted in a steady increase in freight rates - at times above the European average. The decline in freight and freight prices in the last quarter was also smaller than in the rest of the European Union.



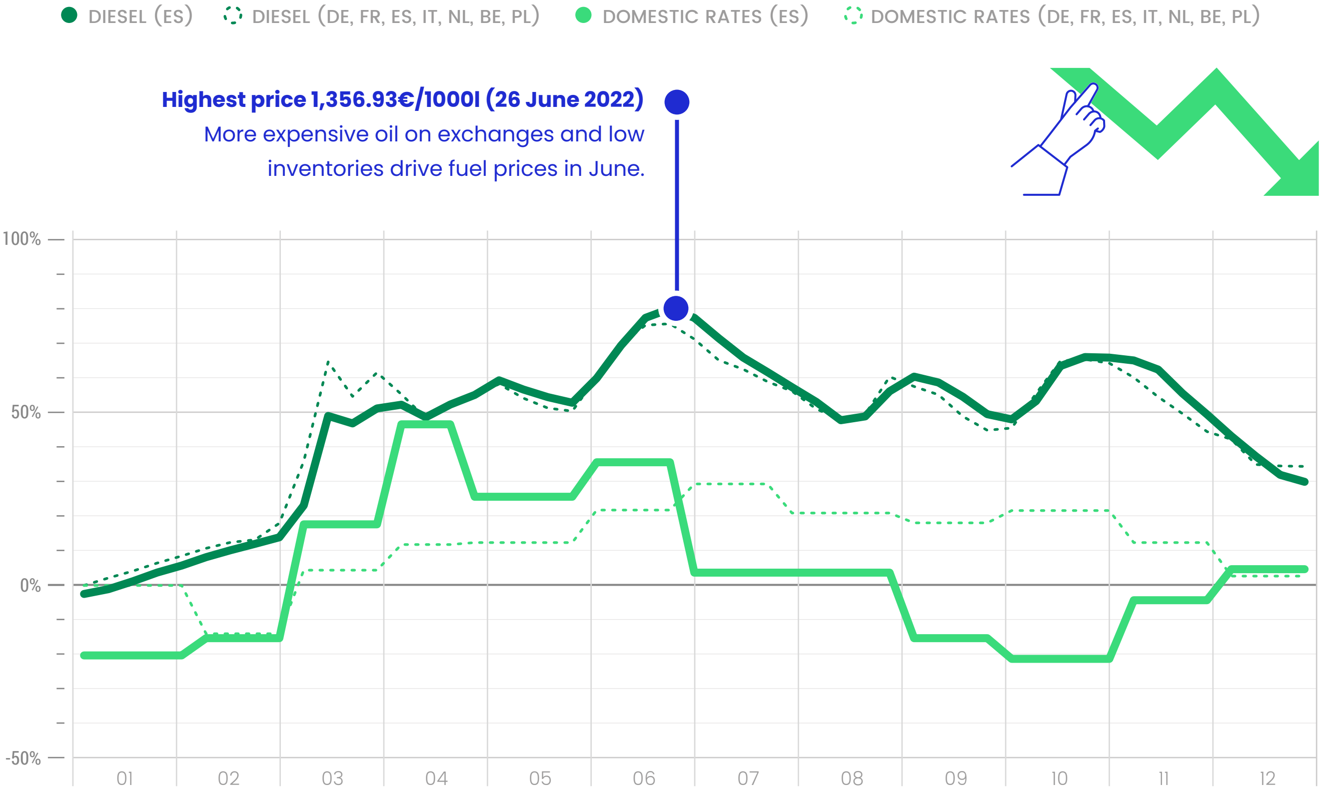
WHAT NEXT?

01 Experts estimate that inflation will fall to 4.4% in 2023 and that economic growth will slow to 0.4% per annum. A return to economic expansion is anticipated in 2024.

02 All indications are that shippers will pay slightly more for freight than last year. This is nonetheless on the provision that the EU energy embargo does not result in spikes in diesel. Unless there is a drastic increase - and at the same time freight demand continues to fall - prices for transport services may even fall slightly.

Spain: lower rates, old problems

FUEL AND FREIGHT RATES AGAINST EUROPEAN AVERAGE FROM SELECTED COUNTRIES (2022)



Source: CargoON platform, Trans.eu, Weekly Oil Bulletin, European Commission

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Weekly consumer diesel prices excluding duties and taxes (averages DE, FR, ES, IT, NL, BE, PL)
Reference: EU average, 3 January 2022

Diesel prices in Spain were close to the EU average and the freight price list - in line with the rest of the European Union - followed diesel prices. Freight prices were slightly different compared to the spot prices of the major carrier countries. Almost until the end of June, Spanish carriers' freight prices were above the European average, only to be below it in the second half of the year and equal to the European average in December (Germany, France, Spain, Italy, the Netherlands, Belgium, Poland). The maximum price of diesel in Spain was EUR 1,356.93/ thousand litres, with a price change of 70.4% over the year, which was felt most by small and medium-sized carriers.

WHAT NEXT?

01

According to Transport Intelligence forecasts, international transport in Europe will only grow by 1.1% in 2023. Emerging markets (e.g. Croatia, Bulgaria) will be above average, while the 'old' EU countries, which also include Spain, will develop more slowly (e.g. a decline is expected in Germany). An even weaker rate is expected for domestic traffic (0.7%).

02

Pressure from freight forwarders and Spanish shippers is moving in the direction of keeping rates at the level of the end of last year. Spanish carriers have found themselves in a difficult situation. Experts predict that their costs will increase by 10-12% this year, and this is not counting possible fuel price increases. However, it will be difficult for carriers - with a decrease in demand for capacity - to pass on all new costs to the production or distribution company.

03

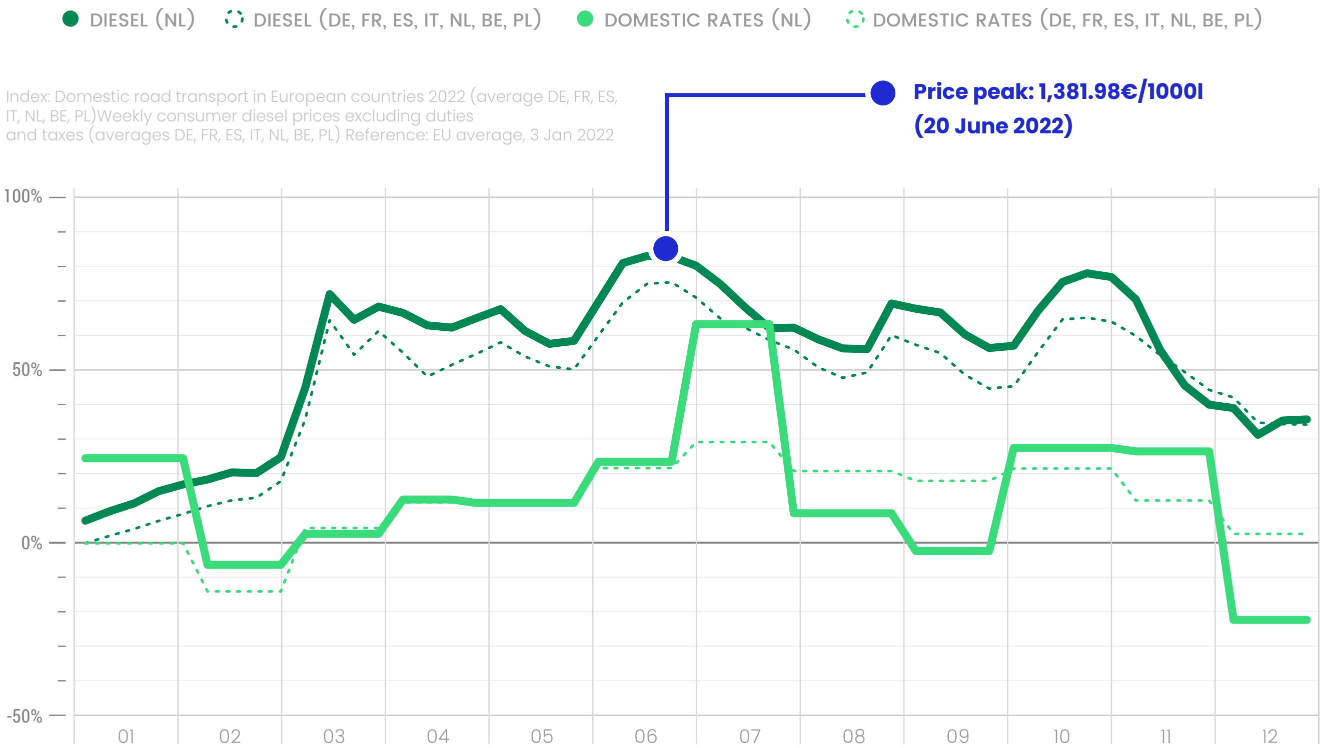
Last year's drastic increase in fuel prices and rising inflation resulted in an equally drastic fall in the margins of carriers - especially small and medium-sized ones - and often the performance of services at dumped prices. However, the Ministry of Transport, Mobility and Urban Agenda has approved the National Road Transport Control Plan for 2023, which aims to prevent such practices and verify the work of carriers more frequently. However, this may result in the bankruptcy of smaller companies and ultimately further reduce the availability of transport capacity on the market.

04

But there are also positive economic signals coming out of Spain. The country is getting better and better at managing inflation. Back in the summer of 2022, it was close to 11%, only to fall regularly from August onwards to stand at 6.8% in November. As a result, transport and logistics costs along the supply chain will also be under less inflationary pressure.

The Netherlands is counting the costs

FUEL AND FREIGHT RATES AGAINST EUROPEAN AVERAGE FROM SELECTED COUNTRIES (2022)



Source: CargoON platform, Trans.eu, Weekly Oil Bulletin, European Commission

The cost of fuel in the Netherlands was among the highest in Europe, which to some extent translated into lower competitiveness of Dutch carriers on European routes. (In order to stay in the market, they were forced to reduce freight rates or give up part of their margin). At the price peak, the maximum price was close to EUR 1,382 per thousand litres of diesel. Meanwhile, in Poland, for example, the highest price reached EUR 1,274.82.

The price of diesel began to rise sharply after the outbreak of the war in Ukraine, and then fell or rose in line with the European trend (only at a higher level). In the last few months of last year, the price of diesel started to decrease and freight rates remained at an even level. This only lasted so long, as transport rates fell sharply in December, which does not seem to be directly related to the declining demand for transport or diesel prices, which were stable at the time. The spike in transport rates, however, came earlier - just after the fuel peak, in June/July 2020.

WHAT NEXT?

01

The transport and logistics sector in the Netherlands has entered another year with great concerns. According to the Netherlands Bureau of Statistics (CBS), inflation in 2022 reached a record high of 11.6% - and this is the highest rate in the Netherlands since 1975. The high inflation was caused by record prices for energy, motor fuels and food. The expected decline in industrial production will at the same time result in a decrease in demand for for transport capacity, and in haulage companies, an increase in operating costs.

02

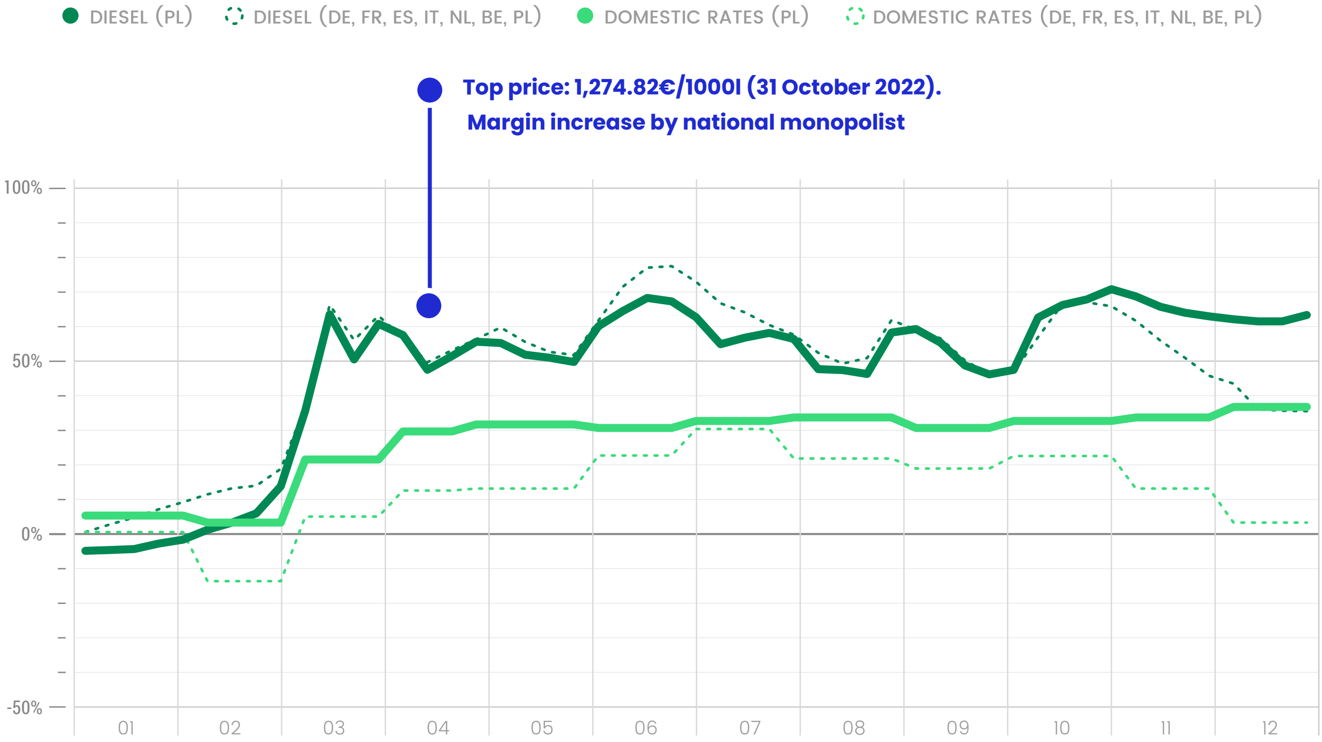
Shippers and carriers also have to deal with the new collective labour agreement in the Netherlands and a 10% increase in the minimum wage. As calculated by research agency Panteia, road transport costs will increase in the Netherlands in 2023 by 8 - 11.3%. For example, depreciation costs will increase by 8% and insurance costs by 8.8%. The projected level of cost increase does not include the price of diesel, Ad-Blue and LNG. This is because it is not known what the outlook will be for the upcoming months of market response to the embargo on Russian energy commodities.

03

Producers and distribution companies can expect small jumps in the transport rate - provided the fuel market stabilises. The increase in the cost of transport operations will be shared to some extent by the transport sector with customers - shippers. However, there are no indications of significant freight increases in international transport for the time being.

Poland: Europe's largest carrier

FUEL AND FREIGHT RATES AGAINST EUROPEAN AVERAGE FROM SELECTED COUNTRIES (2022)



Index: Domestic road transport in European countries 2022 (average DE, FR, ES, IT, NL, BE, PL) Weekly consumer diesel prices excluding duties and taxes (averages DE, FR, ES, IT, NL, BE, PL)
Reference: EU average, 3 January 2022

Source: CargoON platform, Trans.eu, Weekly Oil Bulletin, European Commission

Polish carriers have been leaders in European road transport for several years, but currently they carry no more than 20% (it is said to be 25-33%) of the European volume. The relationship between fuel prices and freight rate increases is not so clear-cut in the case of Poland. Although prices for haulage services increased after the outbreak of war in Ukraine (a significant increase in diesel prices), rates quickly stabilised at one level. Despite changes in fuel prices, road rates remained almost unchanged until the end of the year.

The average price for diesel remained slightly below the European average for many months. (The largest difference was recorded in the summer months). In November and December, the situation was reversed as fuel costs turned out to be well above the EU average as a result of a margin increase by Orlen, the state-owned company with a monopoly on the market.

WHAT NEXT?

01

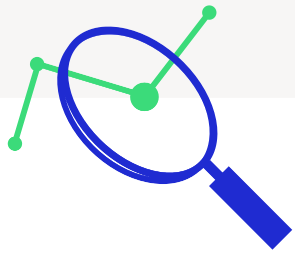
Contrary to earlier predictions, the Polish economy is doing better than expected. Although, in terms of inflation, Poland is one of the European record-holders (according to the Central Statistical Office (CSO), average annual inflation was 14.4% in 2022), economic growth slightly exceeded 4%, which is a surprisingly good result compared to the EU average.

02

According to a report by the Institute for Economic Forecasting and Analysis, GDP growth will decline to around 1.5% in 2023, which is also not a bad result compared to Europe. Much depends on the condition of the German economy, which is strongly linked to Poland. (Germany receives 25% of Polish exports). However, there does not appear to be a huge collapse in the haulage market, although rising costs may cause the industry to consolidate more quickly.

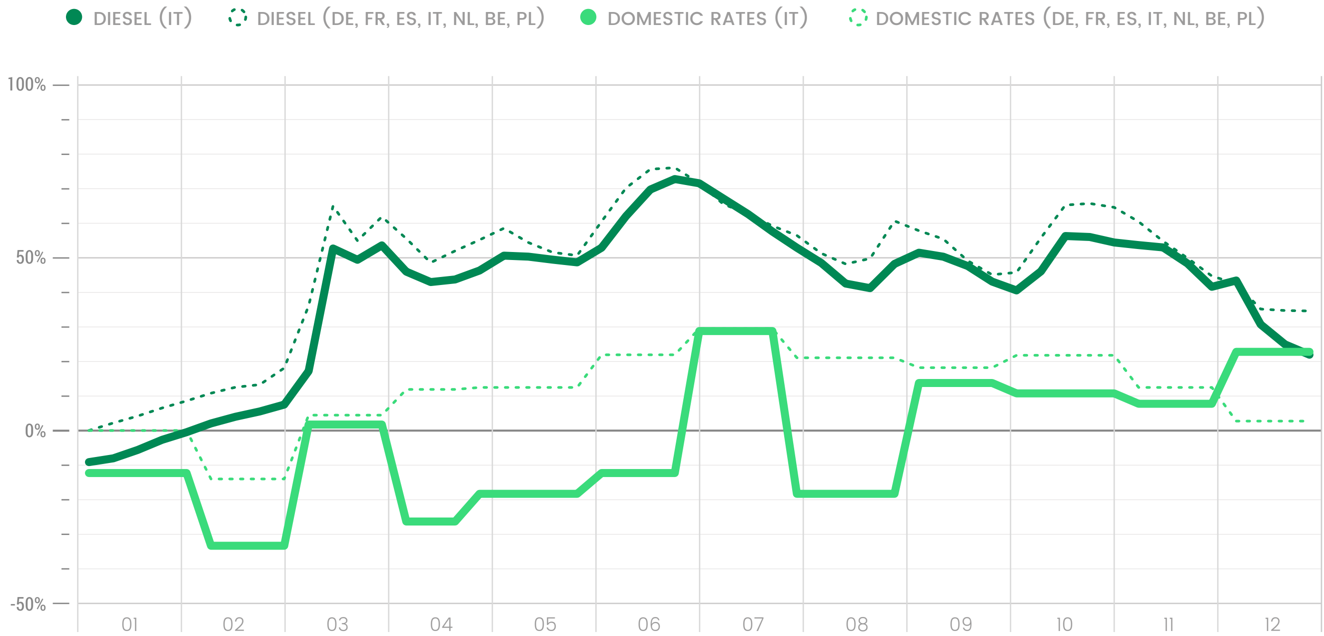
03

Freight rates are likely to remain stable, and if they increase, it will not be by much. What remains to be seen, however, is the ultimate impact of the EU embargo on Russian energy resources introduced on 5 February. The price of diesel will depend not so much on the level of fuel reserves, but on the availability of the raw material.



Italy heading for recession?

FUEL AND FREIGHT RATES AGAINST EUROPEAN AVERAGE FROM SELECTED COUNTRIES (2022)



Source: CargoON platform, Trans.eu, Weekly Oil Bulletin, European Commission

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As in most European markets, freight rates in Italian international transport were strongly linked to the cost of diesel. Fuel costs turned out to be slightly below the European average in 2022, which also allowed lower freight prices to be maintained and thus made Italian carriers more competitive. (Although, of course, it was not only diesel prices that had an impact on the rising costs of hauliers, but it was the dominant factor. Indeed, fuel costs currently amount to around 40-50% of all costs incurred by transport companies).

A major constraint on the development of Italian delivery networks is the waiting time for loading and unloading goods, which, according to the Centro Studi di Federtrasporti, averages four hours. As a result of Austria's restrictive Brenner Pass regulations, Italian hauliers also have less capacity. This is because they limit traffic towards Germany, which is an important trading partner for Italians. Italy, like other EU countries, is also facing a shortage of drivers (currently around 20,000).

WHAT NEXT?

01

According to research agency Transport Intelligence, transport volume growth in Italy will be one of the lowest in Europe, at around 0.3% in 2023. The main reasons for this situation are identified to be high inflation, rising interest rates and high energy costs. On the one hand, consumer demand is falling, while on the other hand, costs are rising for businesses, which are forced to increase the prices of products and services as a result of rampant energy prices.

02

Forecasts for economic growth are contradictory. According to the International Monetary Fund, Italy (along with Germany) will suffer a shallow recession. Both countries are, according to the IMF, most vulnerable to being cut off from Russian gas. Italy is trying to bail itself out by importing more gas from Algeria, as it is connected by an offshore pipeline. By contrast, according to EY Italian Macroeconomic Bulletin, the Italian economy will grow by 0.6% in 2023.

03

The Italian government is trying to save the transport sector through public support. However, the flow of money has been blocked for months by bureaucratic procedures, which is met with criticism from transport associations. The idea is to compensate for diesel expenditure, for which, among other things, 200 million euros were allocated in the Budget Act and a further 85 in the Aiuti ter Decree. Increasing public debt by supporting vulnerable sectors of the economy, on the other hand, can further feed the inflationary spiral.

04

A positive boost that raises hope for supply chains is the truck sales results for 2022. Although van sales declined (against expected declines in domestic transport), heavy vehicle sales (over 16 tonnes GVW) increased by 4.1%.

DIGITALISATION IS GROWING IN IMPORTANCE

Damiano Frosi

director of the Observatory of Contract Logistics at the Politecnico di Milano (Department of Management, Economics and Industrial Engineering)
shares insights from the Italian market. The Observatory conducts regular research on the Italian contract logistics market, which is close to European trends.

01

Already during the Covid-19 pandemic, supply chains showed great resilience, allowing business to continue. After a strong recovery in 2021, freight volumes stabilised in the second half of 2022, which I see as a positive signal in the logistics services market. However, there are a number of challenges facing the providers of these services, primarily related to rising operating costs.

02

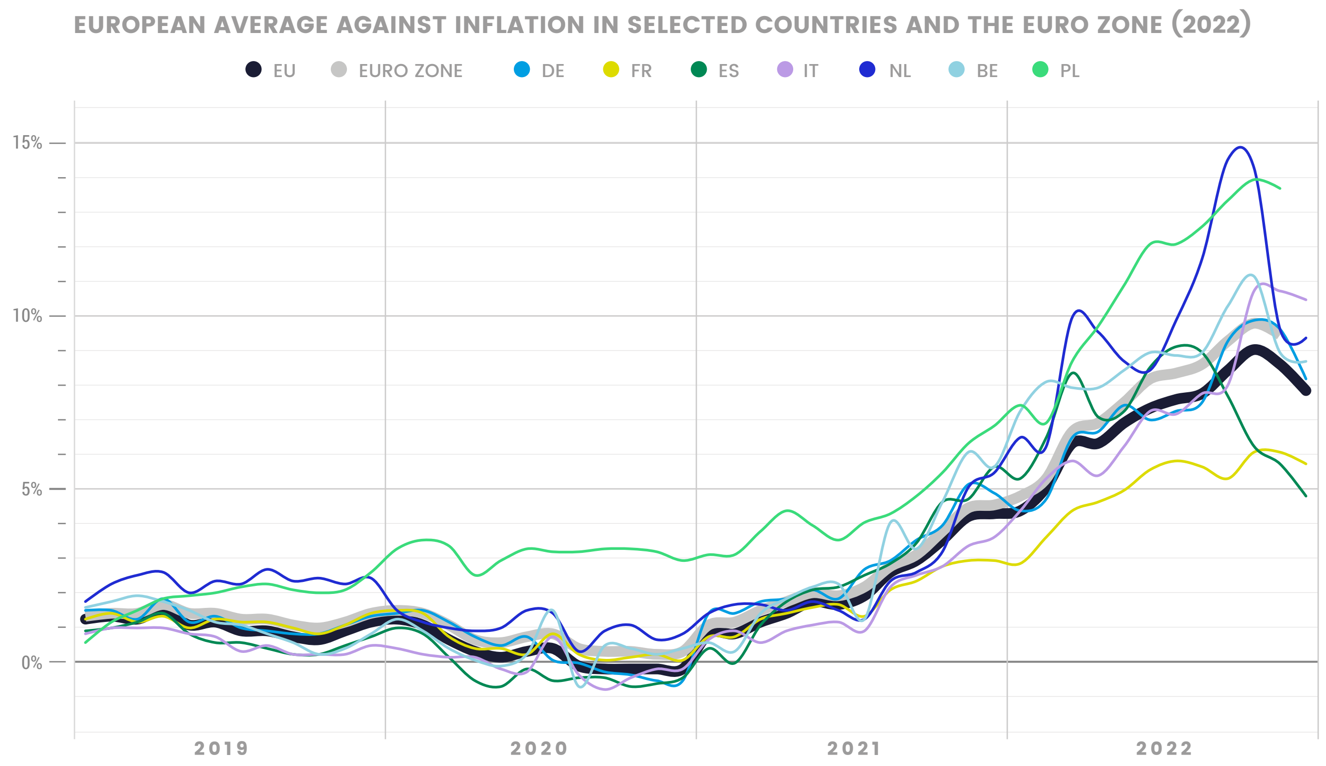
An increasing number of mergers and acquisitions are taking place, resulting in the emergence of large players on an international scale characterised by a high level of integration and greater expansiveness. As a result, CAPEX (capital expenditures) - the level of investment relative to current expenditure - is increasing in these companies. Most companies have also changed their approach to transport, focusing more on building collaboration between shipper, consignee and logistics provider.

03

Logistics 4.0, i.e. a greater focus on automation and digitalisation in the supply chain, is becoming increasingly ubiquitous in corporate realities. Italian companies are particularly focused on solutions in the digitalisation sector, i.e. the implementation of technologies to collect and manage digital data. They are also investing in systems to automate warehouse processes and in data analytics tools such as Big Data.

Inflation in reverse?

In terms of HICP inflation figures, October turned out to be the black month of last year. Among the countries presented (+ average in Eurozone countries), the highest inflation among the countries analysed was recorded in Poland, which has been the case since the beginning of the year. In the unlucky month of October, inflation reached 16.4% in Poland, while at the same time the rate in the European Union was 11.5% and in the Euro Zone even lower at 10.6%. Throughout last year, the Euro Zone countries enjoyed lower inflation than the rest of the Community. The high rising inflation in Europe has, of course, been strongly influenced by the energy crisis, including the drastic increase in diesel prices, which have in turn risen in transport costs. Moreover transport - as you know - has a high share of GDP in every country. To some extent, the Euro Zone has proved to be a shield against the even more severe impact of the inflationary sword. Germany is an example. Although the German economy was hit by the highest diesel prices, inflation did not reach the same level as in Poland, the Czech Republic or Romania. (In the latter country, it reached 16.8% at the end of the year).



Source: own elaboration

WHAT NEXT?

01

However, the last two months of last year brought some hope, as inflation in all countries of the European Union began to slowly fall. Whether the downward trend will prove sustainable, we will find out no sooner than early spring. Indeed, on 5 February this year, the embargo on energy resources from Russia came into force, and its ultimate effects are as yet unpredictable. Other important criteria will be the level of consumer demand, food prices and business sentiment, which will ultimately translate into investment.

02

According to the European Commission's forecasts, European market inflation will fall to 7% in 2023 and 3% the following year. In central and eastern European countries, these figures may be a few percentage points higher.

Data used in the material comes from the Trans.eu Platform

02

Comments and forecasts

Many trends will overlap in 2023.

Never before in the post-war history of European economies have we found ourselves in a similar situation.

Crazy supply chains

Never before in the post-war history of the European economies have we found ourselves in a similar situation. A true armageddon has swept through Europe and the world in the last two years. The COVID-19 pandemic, the war in Ukraine, gigantic increases in the price of energy commodities, inflation gaining momentum. And here we are in 2023, about which economic experts often have divergent opinions. And supply chain managers are asking themselves: when will this madness end? Unfortunately, no one has a good answer so far.

However, it must be acknowledged that the end of last year brought some hope. Inflation in the Euro Zone slowed down to 9.2% at the end of the year and is slowly but steadily falling in most EU countries (with the exception of Hungary). The lowest level of inflation was recorded in Spain at the end of the year, and the result of 5.5% seems to bode well for the rest of Europe. It also puts Spain in a good position as an international (leading in Europe) carrier to compete on the continent's most important routes. Although it must be added that the current year may be a time of truth for most carriers and manufacturing and distribution companies.

Anxiety before chaos

- The biggest challenge for supply networks will be the continuing recession, the still high inflation rate and energy costs, confirms **Guido Kuckartz**, supply chain expert and director of the DACH area at CargoON. A decline in production is being felt in Germany and the rest of the region, with even Amazon expecting a 30-40% drop in deliveries. Some sectors of the economy, such as FMCG, agriculture and construction, for example, have their own fleet of trucks and vans, so they are not dependent on the capacity available on the market, adds Kuckartz.

What prevails in the statements of logistics market experts is, of course, the anxiety of chaos in supply chains, which means for managers another year without planning, acting only in the here and now. And probably until the war in Ukraine is over and oil prices reach a predictable ceiling - it will continue to be a "management madness". Although **Xavier Villetard**, partner at supply chain consultancy bp2r, takes a calm approach to the current situation. - The road haulage market is in a period of transition, with an uncertain outlook for the current year. Transport companies started last year with good results, but demand gradually weakened - he says regarding the French market' situation, which also reflects the trend in most EU countries.

Martin Bulheller

spokesperson for the Federal Association of Road Transport, Logistics and Disposal (BGL)

Delays in warehouses

In Germany, the problem of long waiting times for unloading or loading goods has existed for many years. Many manufacturing and trading companies have reduced their own warehouse staff and often use lorry drivers to assist. On the other hand, however, many shippers are already using digital solutions in the form of online notification systems, for example. The challenge, however, is the frequent traffic jams on the German motorways, which make arrival times unpredictable. The increasing shortage of drivers is also not helping to reduce the problem of on-time deliveries.

Energy costs are holding the economy back

Last year, Italian manufacturing and distribution companies were hit hard by the shortage of haulage space, with medium-sized companies, which generate 30-40 transport orders per day, being the hardest hit. Many companies have therefore adopted technological solutions that optimise the flow of deliveries and help avoid congestion in front of warehouses. In fact, as a recent study by the Politecnico di Milano indicates, the digitalisation of the supply chain is a strong trend towards which most companies are moving. Carriers are also increasingly implementing technological solutions. However, the condition of the economy is a factor to some extent inhibiting this spending. Rising production costs, particularly the price of energy, are taking their toll on the health of companies.

Nicolò Calabrese

Country Manager Italy
at CargoON

The French economy started 2023 on a solid footing. The rate of GDP growth was among the highest in Europe in 2022, and despite inflation and a slowdown in the second half of the year, it managed to end the year with growth of 2.6%.

- Carrier profitability remained decent, as high diesel prices were compensated for by the companies' legal price indexation mechanism and government aid. Inflation, however, continues to push up production costs, yet companies are still investing in digitalisation and decarbonising the business. Despite falling demand for transport services, the balance of power still gives carriers an advantage. For how much longer - that is the question - adds Director Villetard.

A world without coal

The French expert touched on an important point raised by all our interviewees, which can be boiled down to one phrase: chaos is chaos, but entrepreneurs must not forget to continue to digitalise business and prepare for its total decarbonisation. Companies remember well the not-so-distant days of the pandemic and know that it was the automation of management processes that helped them survive the worst of it. Most players in the supply chain are also mindful of the so-called European Green Deal, i.e. achieving climate neutrality by 2050. This is confirmed by **Jordi Espin**, secretary of TRANSPRIME, the Spanish shippers' association. - Reducing carbon emissions is one of this year's top priorities for European industry and distribution companies. It seems more important than current operational efficiency - he argues.

Secretary Espin knows what he is talking about: TRANSPRIME is part of the European Shippers' Council, which has been preparing for global changes in the work of distribution networks for several years. The ESC together with the International Road Transport Union (IRU) and the International Transport Forum (ITF) have jointly prepared a protocol of good practice in supply chains. Part of it is the so-called shipper's good practice certificate, which is currently being implemented in Spain as a pilot country. - The idea is to spread the right relationship between shipper and carrier, for example by improving drivers' working conditions at loading and unloading points - adds Jordi Espin Vallbona.

The European Shippers' Council is leading efforts to create a globally sustainable supply chain. And its most important prerequisite is digitalisation and more digitalisation, the ESC managers reiterate. - The supply chain can only be improved if you know where the bottlenecks are in the flow of goods. This

High inflation and uncertain demand

Although the second half of last year saw a decline in freight volumes, shippers are prepared for new disruptions in supply chains. And they are focusing in advance on securing capacity. The current year is seen as particularly uncertain by the transport and logistics industry. High inflation and uncertain demand are worrisome, and the industry still faces a deep energy and digital transformation. A growing structural challenge is also the increasing shortage of drivers. Supply chains are transforming to become more flexible and resilient to change, with risk managers seeking to diversify suppliers and use technology to manage the logistics network in real time. All this is to avoid interference with the chains.

Ricardo Ochoa de Aspuru
founder and director of the logistics portal Cadena de Suministro (cadenadesuministro.es)

includes, for example, the longest transport downtimes or the scale of fuel consumption - in short, the location of where the most important costs are generated. All this useful data can only be obtained through digitalisation, argue Dutch managers **Machiel van der Kuijl** and **Johan Kerver** on Management Scope, for example.

Transport, the heart of the system

The gradual de-carbonisation of industry and transport and the digitalisation of the supply chain are, moreover, two inextricably linked processes that lead to the achievement of the sustainable development goals (and let's remember that, as part of the adopted Fit for 55 package of legislation, the EU climate target is to reduce emissions to 55% as early as 2035, and vehicles with traditional engines will cease to be registered). The clock is already ticking and progress towards the target is slow in European economies.

Logistics managers and corporate executives have quite a Gordian knot to untangle in this situation. Why? Because economies are in a downturn, supply volumes and consumer demand are falling, and in the meantime you have to think about the digitalisation of management, which means a lot of spending. But even small investments, for example in time slot management or transport organisation systems, yield quick and measurable results. Because despite the slowdown in European economies, transport will remain the heart of the whole system, and everything suggests that carriers will continue to be highly demanded. Much depends, of course, on the region and the industry.

- Food production is expected to decline in Europe this year, which will undoubtedly lead to a drop in demand for cold chain services, explains **Viet Nguyen**, food logistics analyst at Rabobank Food & Agribusiness. - But a decline in supply is not predicted everywhere. - Although in the case of the meat sector this is already becoming apparent, as the

Investment awaits the industry

We live in very uncertain times and predicting the situation in the transport market is very difficult. The COVID-19 pandemic has entered its next phase, it is not yet fully behind us and global logistics chains are still feeling the effects. In addition, the work of logistics chains is heavily influenced by the conflict in Ukraine, and there are no indications that it will end soon. Carriers and the logistics sector are faced with decisions on where to make strategic investments, and after all, we are facing the implementation of the European Green Deal, the decarbonisation of road transport and the transition to alternative fuel technology.

Raluca Marian
director of the IRU (International Road Transport Union) Delegation to the European Union

amount of pork exported to China, for example, is decreasing. Fresh produce sector production is likely to remain stable in most European countries, he adds.

Freights down? Rather not

However, both Nguyen and many other supply chain analysts question the availability of cargo space. Although demand for transport capacity is declining across the continent, all analyses indicate that there will nevertheless be no shortage of work for carriers and that freight prices are unlikely to fall. Why such predictions? Carriers are up against the wall in terms of their ability to remain profitable - they are cutting margins, carefully passing on some costs to customers, but a reduction in freight rates could mean bankruptcy for many transport companies which could ultimately lead to a loss of transport capacity across the European market. Rebuilding capacity will be extremely expensive.

And the costs in 2023 will be much higher. As recently calculated by the Belgian Institute for Road Transport and Logistics (ITLB), costs in international transport will increase on average 12.0 - 13.5% depending on the country. (Increase in driver salaries, higher purchase prices for the vehicle fleet, higher tolls and insurance premiums, etc.). The analysis does not include a key cost, the price of diesel. This is because no one can predict how fuel producers and global stock exchanges will behave in the long term following the recent (5 February this year) embargo on energy supplies from Russia.

Besides, the transport and logistics market is, after all, facing a major structural problem, namely the shortage of drivers, and this is a rapidly growing problem. The average age of a European driver is around 50, but in Poland, for example, which transports 1/5 of the volume of goods, the average driver is 56 years old. Young people rarely gravitate towards this profession, and the efforts of transport companies, logistics operators and industry associations to improve the quality of the driver's work and change his previous image have so far been unsuccessful. Drivers will rapidly start to decline in number later this year, and the needs are at an all-time high. As the IRU calculates, there could be a shortage of around two million drivers in 2026! This will take its toll on the availability of transport capacity and therefore freight rates.

Digitalisation, digitalisation

How, then, can manufacturing and trading companies cope in this frenzied, chaotic market? **Tomasz Łyszega**, Global Account Manager in charge of the shipper market at CargoON, sees a trend that we have mentioned many times before. - The logistics market is slowly is beginning to adapt to fluctuations in transport rates and to the dynamically changing availability of vehicles. Shipping companies and shippers alike are reaching for new tools that enable a seamless transition between contract and spot cargo ordering. However, I believe that one of the most serious challenges in 2023 will prove to be the improvement of transport organisation processes, as they have a significant impact on increasing the competitiveness of companies, he explains. Although he refers to the Polish market, a similar trend towards the automation of transport orders, increasing digitalisation and the search for missing capacity on the transport exchange is also confirmed by experts in other markets.

However, the ideal is still a long way off; we are not even halfway through the process of fully digitalising the supply chain. Even seemingly advanced markets have a lot of catching up to do. - Transport remains a poorly digitalised sector in France. Many shippers still work by email, phone and even fax. The rate of Transport Management System (TMS) equipment among shippers is around 15%. However, the scarcity of cargo space and rising freight costs are forcing companies to look for new solutions, explains **Xavier Villetard,** supply chain expert from Paris-based consultancy bp2r.

What more can be added? 2023 will be another interesting year. And may it not be a time of deep crisis, but rather a shallow recession.

New rules in supply chains

Reducing carbon emissions is one of this year's top priorities for European industry and distribution companies. It seems to be more important than current operational efficiency. However, decarbonisation will put additional strain on supply chains and change paradigms in logistics. As representatives of shippers, we want to be part of this change and make the supply network work better. We started with the Bill of Cargo Rights, initiated by the Global Shippers' Alliance, which brings together shippers from Europe, Asia and North America. The idea is to remove barriers and introduce rules that will result in a smoother flow of cargo in logistics channels. Also important is the widespread introduction of the Responsible Shipper Certification, which we are currently implementing in Spain.

Jordi Espin Vallbona

Secretary General of TRANSPRIME, Asociación Española De Empresas Cargadoras, which is part of the European Shippers' Council

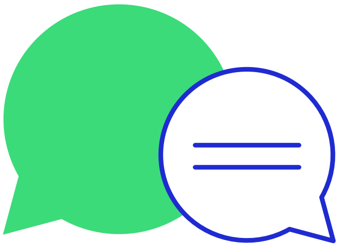
03

Challenges and trends 2023

As European executives and CEOs predict, although the economies and chains are facing many challenges, it does not have to be a year of drastic weakening of trade flows again.

What are managers talking about?

As European executives and CEOs predict, although many challenges await economies and supply chains in the current year, it does not have to be a year of drastic weakening of trade flows again. We have summarised the most common responses from CEOs and logistics managers regarding the challenges in 2023.



Cost optimisation. Never before has increasing efficiency and looking for savings been so important. With ever-increasing business connections and extensive supply chains, this cannot be done without aggressive, rapid digitalisation of the entire supply network to pinpoint places where excessive costs are being generated fast enough.

High cost of energy and raw materials. The high prices of diesel, gas (including that used in LNG transport), as well as electricity and the AdBlue component, are causing major headaches for businesses, including hauliers. The trouble is that no one can predict what the subsequent scenario of events will be. We are shortly after the final embargo on the supply of energy raw materials from Russia (5 February this year), which may - or may not - cause lasting perturbations on commodity exchanges.

Not only oil, but above all gas, could be in short supply. According to calculations by the prestigious Jagiellonian Institute, the gas deficit in 2023 is expected to be between 25 and 49 billion cubic metres of the "blue fuel". Saving money, as well as making the LNG transmission lines from Spain and Italy deeper into the continent more efficient may be a life saver here. Possible remedies also include the analysis of data by IT systems to make the use of diesel and gas in the supply chain as optimal as possible.

Supply chain management through Big Data. Analysing, processing and drawing conclusions from the increasing amount of digital data is the only possible way forward for companies. Whoever is quicker to implement further technological solutions that enable efficient business decisions will be ahead of the competition and, most importantly, will survive in the market jungle. Importantly, not all technology investments incur huge costs. For example, the use of a suitable platform for permanent cooperation with carriers and the ordering of transport is a small investment that can be implemented quickly. In addition, it will almost immediately result in savings for the shipper.

There is no miracle way to make the supply chain run smoothly. But if you want to act rationally, you should invest in digitalisation.

Inflation and the economic downturn. Inflation in the European Union is set to decline slowly this year, according to the European Central Bank. It will average 6.3% (compared to 8.4% in 2022). The whole of Europe will be on the economic brake; GDP will decline in all countries, although a recession on the continent is by no means certain. According to the European Commission's forecasts, economic growth could be around 0.3 per cent in 2023, but already 3.1 per cent in the Euro Zone. A threat to European supply chains is the serious breathlessness of the German economy, which could slip into a slight recession (if the forecast -0.6% growth figure comes true).

Increasing importance of intermodal transport. With the rising cost of diesel and gas and the trend towards "green logistics", the importance of intermodal transport is increasing. This is all the more so because, despite the war in Ukraine, rail transport along the so-called New Silk Road connecting Chinese provinces with Western European countries is growing.

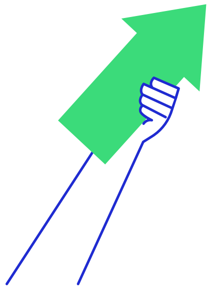
Investments in the "green supply chain" in warehouses. The increase in electricity and heating costs increases the cost of maintaining warehouses (and thus raises rental rates). Investment in alternative energy sources, such as photovoltaic farms, or at least the diversification of energy sources, will be necessary to reduce costs and introduce environmentally friendly solutions. The warehousing market will increasingly favour BREEAM or LEED-certified facilities. This process is already underway and will gain additional momentum in 2023.

12 – 13.5%

This is how much costs will increase on average in international transport in the European Union in 2023. This is made up, among other things, of higher costs related to driver salaries, vehicle fleet purchase prices and leasing costs, as well as increases in tolls and insurance premiums.

The cost level is not definitive, as it does not take into account possible changes in the fuel market. Increased costs will be attempted by carriers to be passed on in part to shippers. After all, they have no other choice if they want to survive in the market.

Source: Institute of Road Transport and Logistics Belgium 2022



CHALLENGES FACING SUPPLY NETWORKS

Comment by Piotr Roczniak

Supply chain expert, Head of Business Consulting at Trans.eu and CargoON.

Undoubtedly, supply chains are in a phase of dynamic change. Managers will face trends allowing them to adapt to economic realities.

01 Flexibility

Purchasing strategies in the area of road transport should take into account market trends and offer the possibility of adapting to the current situation. The ability to make decisions based on data (rates benchmark) therefore seems crucial. This will bring tangible benefits in terms of access to transport (capacity) and enable more efficient management of the transport budget.

02 Contract and Spot

Of separate note related to flexibility is the trend towards rapid transition between capacity-seeking models. Manufacturing and trading companies will be forced to use contractual agreements, but also quick spot market agreements. This model of cooperation with hauliers in road transport has already made its mark in the past year.

03 Transparency & visibility in supply chain

For a manufacturer or distribution company, it seems particularly important to obtain information about suppliers at lower levels with whom they do not have a direct relationship. For road transport, digital connectivity between suppliers and using transport management platforms, will be particularly important. The links on road transport management platforms should go even further. Increasingly, carriers with whom the shipper does not have a direct business relationship, but who deliver or pick up goods on behalf of a third party, are being introduced into the shipper's environment. This full transparency of the entire complex commercial channel allows more effective business decisions to be made.

04 Tenders simplification

Already last year, many shippers were using technology in their purchasing processes, but in 2023 we will see a permanent paradigm shift and a move away from lengthy tendering processes to dynamic tendering for shorter periods. This approach will make it possible to make better use of the market potential and secure the means of transport for order execution. Quick tenders seem to be a solution from which there is no escape: economic circumstances change too often.

05 Sustainability

In 2023, new regulations related to the determination of emissions from road transport came into force. Their purpose is the implementation of the next step in the Greenhouse Gas Protocol (GHG) and so-called Scope 3 emissions. Transport and distribution are covered by the obligation to measure and report CO_2 emissions (carbon footprint) in the supply chain. In addition, large companies are bound by the EU's non-financial reporting standard, which covers sustainability (including environmental protection). In both cases, investment is needed in technology that diagnoses the sources of carbon emissions in the supply chain.

06 Supplier relationships and customers relationships

The construction of a common technological environment in which the shipper, together with suppliers and customers, can use its own and a third party's means of transport, is becoming increasingly important. A platform that facilitates collaboration and promotes transparency in the supply chain also allows transport costs to be optimised and CO_2 emissions to be effectively reduced through better use of transport modes.

Authors

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Head of Business Consulting in Trans.eu

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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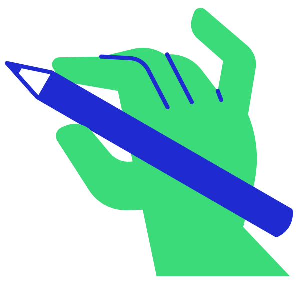
Journalist and Content Manager at Trans.eu

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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