

Natural Health Products NZ

10th November 2021



The challenges in front of us today

equipment imbalance
schedule reliability data integrity
airfreight capacity air carrier mix
productivity
port congestion
cost to operate suez canal
covid-19 lithium ion batteries
road and rail challenges

Current sea market situation



COVID-19 Volume impact – high volumes



- Following the initial (and relatively short) dip at the beginning of the pandemic (Q1 2020), export and import volumes have risen during the past 18 months
- This unexpected growth (literally a boom in certain key trade routes) and the ongoing impact of the pandemic have severely impacted ports and caused unprecedented and cascading congestion across the industry

Port congestions and disruptions



- Operational challenges and volume growth resulted in heavy congestion in terminals across the globe, resulting in vessel delays, sliding departures, lost sailings and all time low schedule reliability
- Port staying increased from the usual +/- 4 days to current +/- 15 days with unseen delays in asset cycle (vessel and equipment turnaround)
- Same heavy congested development is seen for intermodal and trucking

Lack of equipment and container imbalance



- Unexpectedly rapid increase in volumes has created serious empty repositioning issues which resulted in severe deterioration of equipment availability across all Asia
- New built containers can be bought only at sky high price and with slow deliveries
- Due to trade imbalance and volume surges we expect that securing equipment will remain an issue

Rising freight rates & loading priorities



- Key Asia exports trade freight rates have dramatically increased due to many routes hitting record levels
- Carriers started to assign priority to cargo based on freight rate revenues as well as to their “premium” (higher pricing!) products

Current situation

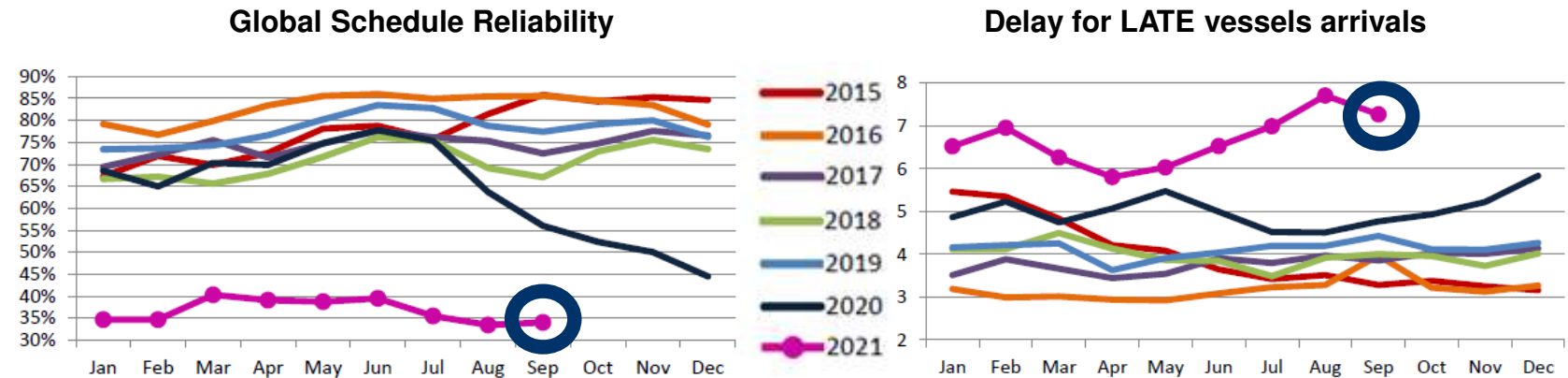
Live from seaexplorer
November 01st



Carrier schedule reliability

Record low-performances

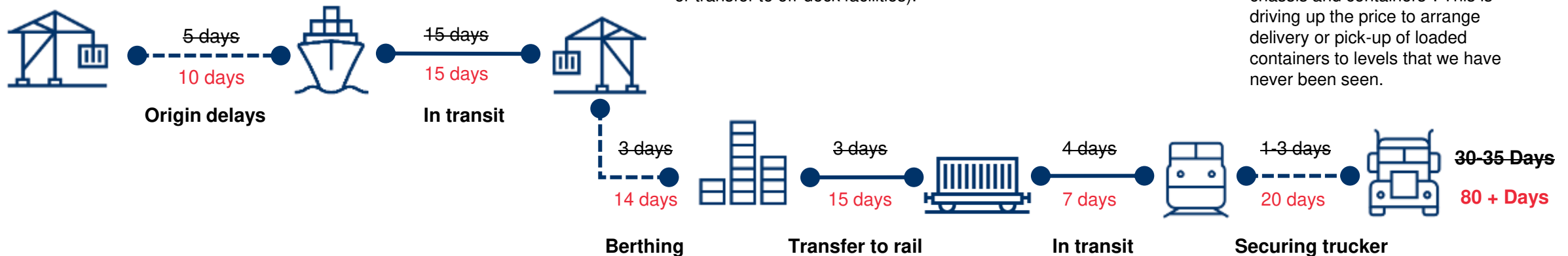
- Global schedule reliability remains stagnant on “new normal” levels around 35%
- In August 2021, the global on-time index went slightly up to 34%, recording a variation vs. last year by -22.0%
- The delay for late vessel arrivals also recorded a slight improvement, decreasing to 7.27 days.
- In both graphs, the levels of year 2021 keep on being the worst across each month compared to the previous years



Lead times in the current climate

Example:

Shanghai – Los Angeles
– Chicago



Origin delays

Severe operational challenges and volume growths resulted in severe congestion in terminals across the globe, vessel delays, sliding departures, lost sailings and schedule unreliability.

Destination port congestion

Vessels are spending up to 2 weeks days at anchor waiting to berth. Limited trucker availability in the LA area resulting in boxes waiting significantly longer before being retrieved (LA local moves or transfer to off-dock facilities).

Rail connection at port

Rail car availability is the main driver behind delays. There are insufficient rail cars to support the ongoing high volumes.

Inland delays

Much like marine ports and inland terminals, warehouses and distribution centers are struggling to handle the volume of inbound cargo, which slows the unloading of that freight and the return of chassis and containers*. This is driving up the price to arrange delivery or pick-up of loaded containers to levels that we have never been seen.

Source: *JOC.com, Kuehne+Nagel

What further impacts are to be considered?



Rates and fuel

- Congestion, space and equipment shortages coupled with high demand are likely to drive rates further up this year
- Spot market rates are expected to remain volatile
- Increases in global oil prices seen on Platts are likely to result in higher bunker and low Sulphur components



Transit times

- Longer transit times and more blank sailings as carriers try to recover schedule reliability
- Schedule reliability hit its lowest ever performance



Volume forecasting is critical

- Carriers main goal switched from market share to ROI
- Priority is only one: asset utilisation
- Carriers will prioritise reliable and stable volumes, therefore accurate forecasting is critical to secure space and equipment



Carrier service level

- Due to constant network adjustments, blank sailings and service changes will be the new norm
- Very strict customer allocation management by carriers: less/no flexibility



Origin out ports and carrier inland moves

- To improve equipment turn time, carriers are supporting more cargo from base ports, so expect the out port costs to increase
- Carriers are less interested in moving freight to inland locations due to equipment imbalances and desire to turn boxes quickly



Surcharges and free time

- Peak Season Surcharges are expected to be implemented
- Reductions in number of free days granted and increased fees to encourage faster return of empties are expected

COVID-19 - Capacity Impact – Air Logistics

Current situation – developments / impacts

- **International air cargo capacity was down - 7% between Oct 18-31** compared to the same weeks in 2019. Intra-Asia air cargo capacity recovered to within 10% of 2019 levels in recent weeks.
- Intra-Asia air cargo **capacity increased +10%** as (freighter) capacity rebounded after China's Golden Week. Widebody passenger aircraft account for all international air cargo capacity growth in recent months, with freighter capacity flat since March.
- NZ Air **capacity remains unchanged -54%** as compared to 2019 levels. There is no sign of recovery.



COVID-19 – Carrier Impact

Current situation – Maintaining International Air Connectivity

- **The effects of the COVID-19 global pandemic** continue to impact international aviation and New Zealand's international connectivity has been drastically curtailed.
- The MIAC (**Maintaining International Air Connectivity**) has been extended to March 2022.
- The **Ministry of Transport** is leading the **MIAC scheme**, and works closely with MBIE, MPI, NZTE, MFAT and Customs to understand the demand on different routes. All of the Government agencies regularly engage with the private sector to better understand their needs. The scheme is not intended to satisfy all the demand that exists for air services and there will continue to be a large number of services which operate outside of the MIAC. Businesses will need to plan for the conclusion of the MIAC scheme on 31 March 2022.



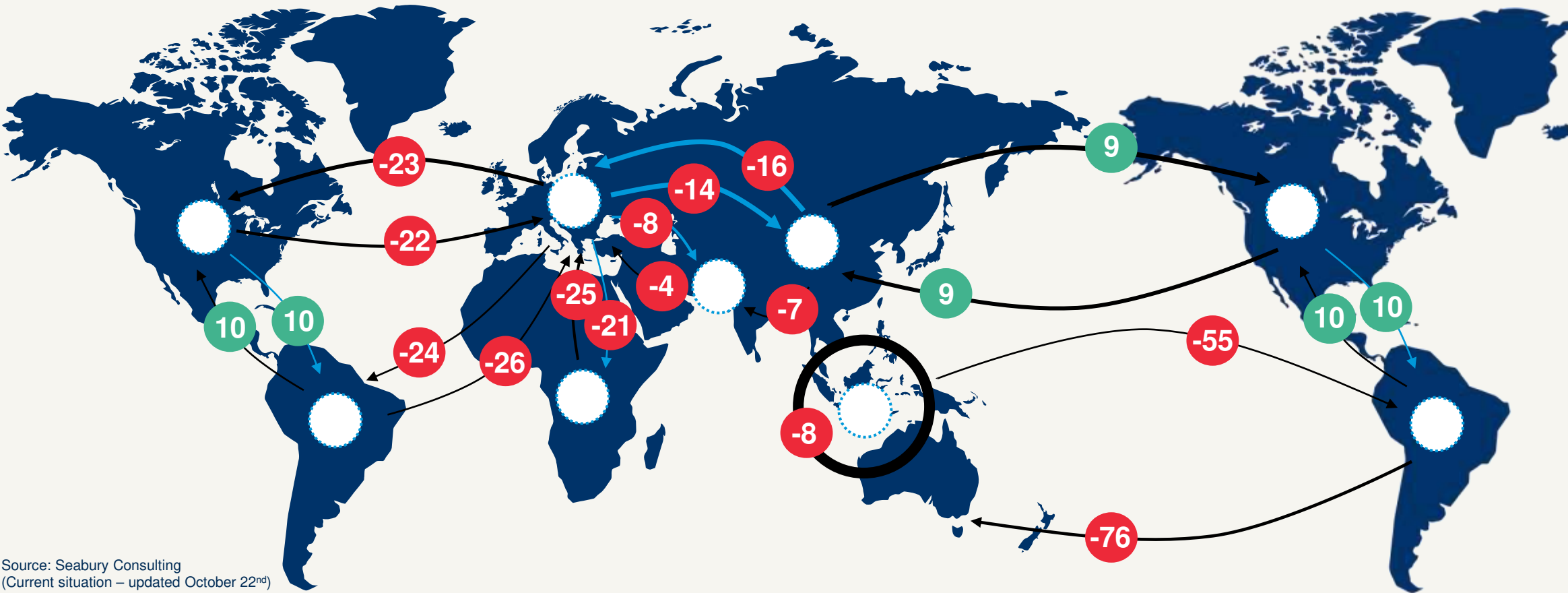


Carrier Updates

- Eleven (11) carriers have not returned to our NZ airports.
- Air Canada (loss of 4 services per week) new service option (now a service via SYD on Day 1, 2)
- Air New Zealand announce Vancouver services starting 16th November – 3 per week
- Air New Zealand additional Los Angeles, Narita flights for peak season
- Air New Zealand continue to complete multiple charter flights per month (12 in September 2021)
- Thai Airways 3 ADHOC services in November
- Korean 1 per week until December

Air Logistics Capacity Development

Global Air Cargo Capacity Decline -7% (Oct 18-31 vs. same weeks in 2019)



Source: Seabury Consulting
(Current situation – updated October 22nd)

Market Outlook - Air Logistics

November 2021 - Outlook for the next 3-6 months

FROM	TO	Europe		North America		Latin America		North Asia		South Asia		Middle East & Africa	
Europe		3M	6M	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M
North America		3M	6M	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M
Latin America		3M	6M	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M
North Asia		3M	6M	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M
South Asia		3M	6M	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M
Middle East & Africa		3M	6M	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M

 No congestion
  Moderate Congestion
  High congestion

Challenges – Road Freight

Unique challenges to NZ market and recent market issues

- NZ Market come with some inherent challenges:
 - Trade/Container imbalance (import/export)
 - Restricted road network with limited alternatives via coastal etc.
 - Port infrastructure
 - Earthquakes/ice & snow/ Cook strait
- Recent events/changes have caused even further challenges:
 - Sea freight congestion flow on effect:
 - Port Omissions – increased road costs to pick up/drop at alternative ports
 - Lumpy arrivals from low schedule reliability = limited road freight capacity
 - Port Issues:
 - Congestion (due to unprecedented demand) – leading to surcharges to cover truck waiting time
 - Labour Shortages - COVID
 - Automation failures - POAL
 - Limited Slot bookings
 - Congestion in Depots:
 - Closure of retail in COVID Lockdown
 - Cook Strait crossing issues:
 - Aging fleet – repairs/dry dock



Outlook

- Congestion issue unlikely to ease until:
 - COVID reopening plan activated
 - International freight issues stabilize
- However, carriers and cargo owners alike are finding ways to manage:
 - Cargo Owners:
 - Moving from 'Just In Time' to 'Just In Case' (local warehousing).
 - Using a variety of modes
 - Carriers
 - Greater use of inland depots
 - Using triangulation and backhaul
 - Some carriers chartering vessels for greater coastal options
 - Greater integration & visibility for decision making
- Longer term solutions include are being worked on by government:
 - Interisland ferry upgrade and increased capacity
 - Recent announcement on intention to spend NZD30 million over three years to support coastal shipping



The 4 essential features of planning for a resilient supply chain

1. Shifting from 'just-in-time' to 'just-in-case'

The shift in focus to 'just-in-case' involves diversifying your supply chain operations by combining and using different modes of transport, routes, ports, and sourcing locations. With proactive, ahead-of-time planning and a wide variety of options to choose from, you can simply switch to the alternate solution that will meet your needs in case of emergencies.

2. Rolling with the punches

Customer awareness and flexibility is indispensable to contingency planning. While logistics providers can give you advice and guidance, you have to be open to trying out non-standardised solutions should the need arise. No one can predict disruptive events like strikes, accidents, downturn of business, etc. However, a willingness to take chances during these times can differentiate you from competition.

3. Enhancing visibility and control

Having end-to-end visibility over your shipments is crucial for your supply chain. This transparency ensures that you can spot potential challenges and respond swiftly. With the click of a button, you can locate where your shipments are and how they're affected. It helps you make informed, data-driven decisions, even in stressful circumstances.

4. Making room for clear communication

A clear communication flow helps promote transparency for all the stakeholders in your supply chain. It helps transition roles and responsibilities smoothly during a disruption. With a communication strategy in place, you can reach out to different partners in the supply chain quickly.

“What is your Grey Rhino?”

What is the one thing that will trample you in the future if you don't deal with it today?

Inspire. Empower. Deliver.

