

Prepared by the New Zealand Embassies in Berlin, Brussels and The Hague

Summary

- Continental Europe is experiencing unprecedented supply chain disruption. Containers are scarce, costly and are often arriving late at ports, where further delays and additional costs are incurred. The continent is also facing a shortage of truck drivers.
- Current issues could last well into 2022. While shipping costs may soften again, a return to pre-COVID levels seems unlikely.
- Against this backdrop, New Zealand exporters should: expect higher transport costs to Europe (placing particular pressure on lower value exports); invest in good relations with their freight forwarders; and consider more warehousing in Europe.

Report

Supply chain issues in New Zealand, China, the US and UK have been in the spotlight recently, but continental Europe is also facing unprecedented disruption. This report looks at the situation at the main European ports - Rotterdam, Antwerp/Zeebrugge (set to merge next year) and Hamburg, and the consequences for New Zealand exporters.

Exports to continental Europe are arriving late and at higher cost

Like elsewhere, the logistical challenges experienced on the European continent are linked to the COVID-19 pandemic which has impacted the economy as well as public health. Demand, including for shipping capacity, initially dropped markedly, then returned more quickly than anticipated. However, pulling shipping capacity and then putting it back takes time. In the meantime, scarce capacity has allowed shipping companies to increase their prices significantly after a number of difficult years. They can now choose what ports to serve, and when. Furthermore, the differing pace of the pandemic and economic recovery has triggered an imbalance with empty containers globally, and scarcity and higher shipping costs affecting container routes. These issues have been aggravated when important ports elsewhere (e.g. in China) or routes (e.g. the Suez Canal) close temporarily and then reopen suddenly. In addition, ports in Europe have been dealing with Brexit-related changes.

As a result, European ports have experienced delays in the arrival of container vessels of up to two weeks, due to delays en route and/or because vessels need to anchor before the destination port has capacity to unload them. Consequently, New Zealand exporters and their European importers have found it increasingly hard to get their products to a European port on time and at reasonable cost, although experiences vary depending on the port or type of product. Chilled meat exports to Hamburg, for instance, have reportedly been affected more than fruit exports to Zeebrugge.

Congested ports triggering further cost

The challenges and delays continue at the ports. Container throughput has been increasing during the year, with volumes back to pre-pandemic levels at the Port of Antwerp, and even exceeding these at the Port of Rotterdam. Ports such as Rotterdam and Hamburg confirm that they are very busy and have full container yards but remain confident that they can still handle the situation thanks to 24/7 services (unlike the US), automatic processes or extra capacity. Freight forwarders paint a gloomier picture, citing long unloading times, increasing waiting times at depots or delays in unpacking 'Less than Full' Container Loads (LCL) at container freight stations and with customs clearances.

Dissatisfaction has also been growing because time windows for delivery/pick-up keep changing, and the delayed arrival of many vessels are apparently not always communicated. Containers then pile up, often in an order that further impedes

their swift forwarding. At the same time, route diversion to avoid or reduce congestion – such as from Antwerp to Zeebrugge, Hamburg to Bremerhaven, or from Rotterdam to Wilhelmshaven (Germany) – is creating its own challenges. While freight forwarders, exporters and importers may be suffering, the ports themselves benefit – at least commercially – from the high demand on their services, and increased revenue.

Further challenges (and costs) in the hinterland

Importers have responded with various measures to the delays and congestion, but this can trigger further side effects. To make up for the time lost, freight forwarders are reportedly shifting from inland waterways and railways to faster trucks. Truck transport orders are now exceeding the level prior to the pandemic; combined with a growing shortage of truck drivers this has triggered increased road transport costs. A shortage of truck drivers in the UK and continental Europe existed even before the global pandemic but has been aggravated as a result. The shortage of drivers is affecting countries as diverse as Spain, Germany and Poland. As a result, some freight forwarders are reportedly reducing their fleet, and recruiters are now looking to countries such as Russia or Ukraine.

Implications for New Zealand exporters going forward

Dealing directly and on a day-to-day basis with their freight forwarders and European importers, New Zealand exporters will be well aware of these issues, but they may be wondering whether and when they can expect a return to normal. Unfortunately, current logistical challenges and global imbalances are expected to last well into 2022, and contacts in market do not expect a return to the very low freight rates of the past. Whilst shipping costs are expected to soften again once capacity demand and supply realign and newly-ordered vessels come into service, shipping companies will try to maintain their increased market power, and some new vessels will simply replace older ones.

Against this backdrop, New Zealand exporters may wish to consider the following observations and recommendations distilled from in-market intelligence:

With transportation prices up sharply and unlikely to return to pre-Covid levels, exporters with a 'lower-value' business model are going to experience more challenge trading into Europe. The long distances may be more of a factor than it was in the past.

Exporters should invest in longer-term, trusted relationships with their freight forwarding partners, be aware of their capabilities and expand the network where possible, instead of focusing just on comparative cost.

Together with their importers/customers, exporters should consider building up and holding greater inventory levels in market to accommodate challenges with shipping scheduling. More warehousing is clearly becoming a trend in Europe (see here for a report on logistical hubs).

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