

MFAT – Monitoring Global Supply Chains: July – September 2021

To ensure New Zealand maintains global supply chain connectivity during the COVID-19 pandemic, MFAT's network of Posts is monitoring the operation of New Zealand's international sea and air freight connectivity. This report provides a snapshot of how global supply chains are functioning offshore, significant international initiatives affecting supply chains, and other issues of interest to New Zealand exporters and importers.

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Developments in international air freight

Although global air cargo capacity was higher in August 2021 than during the same month in 2020, it is still lower than pre-pandemic levels. With many COVID-19 travel restrictions being relaxed in the Northern Hemisphere air traffic has started to increase, but as airlines re-focus on busy passenger routes we may see a reduction in available air freight capacity on Asia-Pacific routes where traveller restrictions remain.

Many airlines, including Air New Zealand, have used COVID-19 to retire the older fleet and focus on more fuel-efficient aircraft (e.g. a shift from Boeing 777s to 787s on some routes) This may see a reduction in available air freight capacity servicing New Zealand (compared to before the pandemic) as given the smaller belly hold capacity on 787 aircraft. Other short term global disruptions such as the temporary closure of the Shanghai Pudong International Airport Cargo Terminal, the world's third largest cargo airport, in late August contributed further to added pressure on global air freight capacity, particularly into China. The data below provides a snapshot of the current global market:

Data source	Update
International Air Transport Association	Demand for global air cargo (measured in cargo tonne-kilometres) was 9.9% higher in June 2021 compared to the same month in 2019. However, overall capacity continues to be limited to 10.8% below pre-COVID levels as passenger aircraft continue to be grounded.
International Civil Aviation Organisation (Air Transport Monitor)	World passenger traffic fell by 60.1% in June 2021 (compared to the same month in 2019), whereas in the same month world air freight traffic grew by 9.9% (compared to 2019 levels).
Baltic Exchange Air Freight Index	Has recorded growing air freight rates for routes originating from Asia following disruption caused Typhoon Chanthu and in

anticipation of the Golden Week holiday in China (beginning 1 October).

Developments in international sea freight

International sea freight congestion continues to take a toll on global trade, with the effects of COVID-19 restrictions exacerbating more long-standing problems in global maritime supply chains. Ongoing pressure on global sea freight is expected to continue as consumer demand remains elevated (compared to before the pandemic), but as leisure travel returns in 2022 we may see consumer demand drop and demand-side pressure on sea freight reduce. Supply side pressures on ports may reduce as governments shift from using lockdowns as the primary response to control COVID-19 and to focusing on vaccine coverage. The long-standing cargo delays at the U.S. West Coast ports of Long Beach and Los Angeles are expected to persist as the holiday season approaches. Risk-modelling has estimated the delays could cause the disruption of up to \$90 billion worth of goods if it continues through October. In response, companies that usually ship to the West Coast of the US have shifted cargo to ports along the East Coast, Gulf and Pacific Northwest.

Data source	Update
Drewry World Container Index	Is forecasting that surging spot rates will lead to the container shipping industry earning a record US\$80 billion in profits. DWCI's spot rates have steadied in September 2021, partially due to an announcement by CMA-CGM and Hapag-Lloyd to halt increments in spot rates.
Shanghai Containerised Freight Index	This index for sea freight prices for container transport from major Chinese ports reached record levels in July, crossing 4,000 points in July due to the combined effect of surging demand in the United States and worldwide sea freight disruption. This is part of a broader pattern during COVID-19 of historically high spot rates for container shipping, and is quadruple the historical average.
Mainfreight	Reporting continued high demand for space and equipment for New Zealand import and export cargo allocations. Sea freight congestion and unpredictable scheduling are most likely to affect south-bound bookings from Asian ports. Noted that regional power cuts in China and

industrial action announced at Patrick's Melbourne terminal will likely cause delays.

Ministry of Transport FIGS (Freight Information Gathering System) data (Freight Can be accessed here: [Freight and logistics | Ministry of Transport](#))

Other international supply chain developments

- During a visit to Singapore over 22 – 24 August, United States Vice President Kamala Harris announced the establishment of a U.S.-Singapore Dialogue on Supply Chains. This high-level dialogue will include efforts by the U.S. and Singaporean Governments and private sectors to promote greater supply chain resilience.
- The third series of APEC Senior Officials' meetings, held from 9 August to 3 September, saw progress in realising the 2020 Ministers' Responsible for Trade Declaration on Facilitating the Movement of Essential Goods. This involved work on facilitating the cross-border flow of COVID-19 vaccines and related goods and services, as well as medical supplies and digital trade.
- The global shortage in semiconductors is continuing to cause strain for manufacturers, particularly in the automotive sector. In anticipation of COVID-19 lockdowns causing lower car sales, many car manufacturers cancelled orders for semiconductor chips that had been placed with chipmakers. However, demand for these chips did not abate as sales in consumer electronics spiked during lockdowns, followed by an increase in demand for new vehicles as economies have reopened. In response, General Motors, the largest auto manufacturer in the United States, has reduced production at eight of its North American assembly plants. Meanwhile, Toyota has slashed its production rates and is anticipated to make 330,000 fewer vehicles this October, even though global demand for new cars is continuing to push up prices.
- Carmakers, along with other manufacturers, have also been affected by COVID-induced factory lockdowns in Viet Nam and Malaysia. The ongoing disruptions that these lockdowns are causing, triggered by a surge in cases in South East Asia, has affected the availability of a broad swathe of consumer products, including clothing, sportswear and shoes. These shortages are expected to be felt acutely by consumers in New Zealand, the United States, Australia and the United Kingdom ahead of the peak shopping season preceding Christmas, as well as by Chinese consumers in advance of the 2022 Lunar New Year.
- The causes and possible policy responses to global sea freight congestion were discussed when officials from the United States, China and the European Union met virtually on 7 September for the fifth biennial Global Regulatory Summit. The Summit, addressed competition issues in the global shipping industry, canvassed the responses to date of different jurisdictions and covered prospective actions to bolster resilience in the maritime freight sector.

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