Special Report

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By Patrick Burnson, Executive Editor

Freight forwarders have been trying to remain confident during the rocky economic rebound. However, industry analysts report that demand has recovered at a remarkable rate in 2010, signaling a whole new set of challenges for forwarders and shippers alike.

Volumes RETURN

The global trading system is experiencing "extraordinary volatility," and this is being reflected in the performance of the freight forwarding industry, says Jon Manners-Bell of Transport Intelligence, Ltd. (Ti), a London-based logistics and transportation think tank. Demand, capacity, and profitability have all shown huge unpredictability both in the air and sea freight sectors over the past two years, he says, with shipper confidence still being tested.

"In some respects, the past 12 months have been a good time for the sector with demand recovering at a remarkable rate in a number of key routes," notes Manners-Bell. "The crash in volumes experienced in 2008 and early 2009 appeared to herald a long-term slump in global trade and logistics in 2010. However this slump has not occurred…rather the reverse."

According to Ti's *Global Freight Forwarding 2010* research report released last month, the freight forwarding market indicates that the current lack of capacity for both air and ocean freight shippers may well continue to be the central problem, however. According to Manners-Bell, the sector was caught in the "perfect storm" of falling volumes and rates in 2008—a storm that is now clearing.

Tighter markets

Freight forwarding volumes in all regions of the world are growing, industry sources acknowledge, although most agree that the losses in market size in 2009 will not wholly be made up in 2010. According to Ti analysts, Europe is still lagging behind both North

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America and Asia Pacific.

That hasn't prevented some major players from investing in the EU, however. FedEx subsidiary FedEx Trade Networks, the company's global trade arm, recently announced it has opened offices in Rotterdam, Hamburg, and Frankfurt.

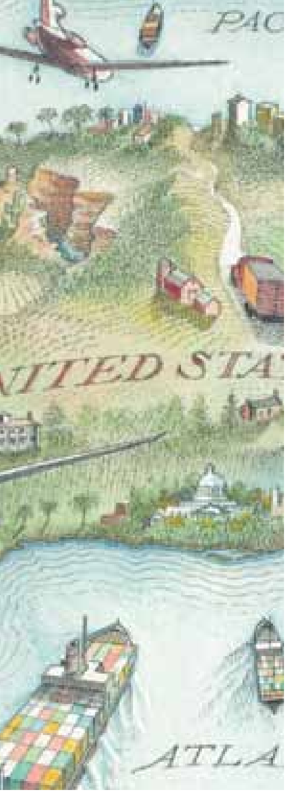
"Rotterdam and Hamburg are two of Europe's largest seaports, and Frankfurt serves as an important air cargo gateway to Central Europe," says Fred Schardt, president and CEO of FedEx Trade Networks. He also notes that Germany is the largest trading partner of each nation comprising the EU.

Meanwhile, market consolidation seems to be good for other major forwarders as well. Ti analysts say consolidation "pre-dates the recession," although the recession may have accelerated the process. "In particular the largest forwarders appear to have been able to use their buying power both to sustain a wider gap between purchased services and the prices charged to customers during this downturn," says Manners-Bell.

He adds that the big players have also been able to gain access to more capacity, and with greater reliability than the smaller forwarders, during the recovery.

According to Manners-Bell, China has seen substantial recovery in container shipping volumes, but air freight is where the increase has been "most violent." Indeed, he adds, the problems with Chinese-based supply chains have driven much of the shortage of capacity.

"China has obviously been a major source of volume growth over the past year or more," says Manners-Bell.



"This is both in terms of imports—largely from Japan, Korea, and other Asia Pacific nations—as well as exports to the U.S. and Europe."

Ti researchers maintain that there is evidence from the electronics sector in particular, pointing to severe under capacity among Chinese component assembly operations. This, they say, has caused issues with inventory management and "knock-on" problems with emergency shipments.

"The situation in North America is much more nuanced," says Manners-Bell. "Volumes are certainly up, but the capacity situation in air freight is not as severe as in China. The most notable development in Europe has been the rapid recovery of German export activity. Both capital goods and automotive related traffic has increased by around 30 percent over the past three or four quarters."

Exports out of Germany, however, do not seem to have suffered from the over-heating in rates to the degree seen in China. And it's important to remember that Europe is the most important freight forwarding region—slightly larger than Asia Pacific.

There are two main reasons for this, say Ti researchers. "First, the intra-European market is important in its own right," says Manners-Bell. "Second, although much of the freight shipped by EU forwarders emanates in Asia, it's actually paid for in Europe, which means that it is reported in European companies' revenues rather than those in Asia."

This trend is also reflected in the U.S. and is due to Chinese manufacturers tending to take a passive role in supply chains, analysts observe. "They manufacture goods and move them to the ports, but at that point the risk transfers to the buyer," adds Manners-Bell.

Top 10 global freight forwarders

Euros (millions)	
DHL Global Forwarding	7,891
Kuehne+Nagel-Sea/air freight	7,808
DB Schenker Logistics-Air/ocean freight	4,987
Panalpina-Air/ocean freight	3,799
Expeditors	3,236
Sinotrans-Freight forwarding	2,633
Agility-Freight forwarding	2,500
CEVA-Freight management	2,355
Nippon Express-Air & sea freight	2,263
DSV-Air & sea freight	1,886

SOURCE: TRANSPORT INTELLIGENCE

***Note:** For 2009 DHL Global Forwarding (including Project fowarding), Kuehne+Nagel, Panalpina, Expeditors, Sinotrans, CEVA, Nippon Express, and DSV are all from 2009 Report & Accounts. All other totals are estimated by Transport Intelligence. Exchange rates as of June 2010.*

Modal issues

The next two years will not mean blue skies for airlines despite an encouraging recovery in the freight market since last fall, according to David Hoppin, managing director of MergeGlobal, a Washington, D.C.-based transportation and logistics consultancy.

Airfreight shrank by an unprecedented 26 percent in value terms in 2009, from $60.7 billion to $44.9 billion. By February 2010, volumes were still 9 percent below the peak of two years ago. Hoppin does not think a double-dip recession is inevitable, but says he is "deeply concerned about the macroeconomic picture in the U.S. and parts of the Eurozone."

From double-digit levels of growth in the mid-2000s, the airfreight forwarding market first steadied and then plunged in 2009, the result of falling volumes and, to a lesser extent, falling rates. In 2009 the market contracted by over 20 percent.

The Asian market has the largest share of airfreight, accounting for 36 percent of the total. This is no doubt driven in part by the insular nature of many of the economies in the region. In these markets air is essential for movements of high value, high priority goods in contrast to Europe and North America where road is often a viable alternative.

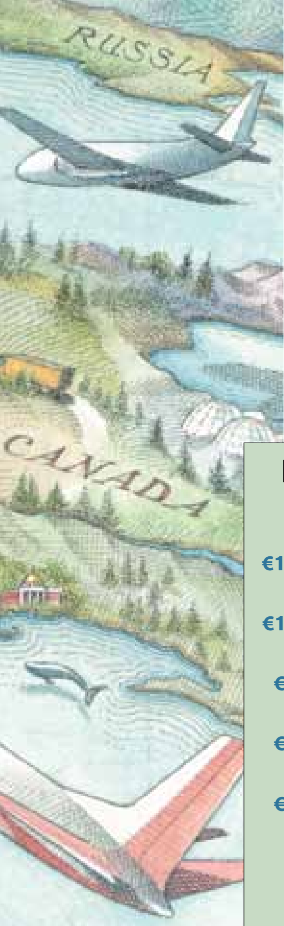
Meanwhile, forwarding giant Kuehne+Nagel reports that its first half net profit was up almost 9 percent from a year ago due to increased airfreight volumes. "The entire logistics industry has capitalized on the economic recovery, resulting in rising transport volumes and increased warehouse utilization," says Richard Lange, CEO of Kuehne+Nagel International AG.

At the same time Kuehne+Nagel says its ocean container traffic increased by 20 percent in the first half, outperforming the market and returning to its "pre-crisis" growth dynamic. The company says it gained market share on all trade lanes, performing particularly well in the export business to South and North America.

Ti estimates the volume of containers shipped yearly amounts to around 154 million. The short-sea shipping trade lanes are among some of the largest. Intra-Asian trade accounts for 19 percent of the total, and intra-European volumes account for 12 percent. The deep-sea shipping routes are dominated by Asia to Europe and Asia to North America (transpacific). These account for 9 percent and 7 percent respectively.

"Among the trade lanes to watch in the future will be Asia to South America and Asia to Africa," says Manners-Bell. "Chinese investment in these markets is stimulating trade, and shipping lines are adding capacity on these lanes at a rapid pace."

Through 2008 and into 2009 the difference between supply and demand in the container shipping market changed. Before 2008, supply of container shipping capacity had roughly kept pace with demand; however 2008 saw a sudden interruption with supply continuing to grow while demand fell substantially. Only in the second half of 2009 did this dynamic change, with a sudden reduction in capacity. Towards the end of 2009,

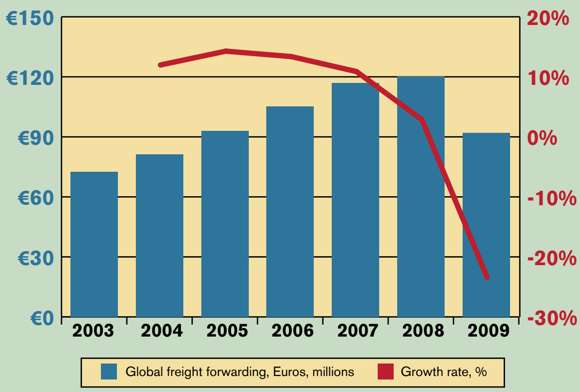


possibly in Q3, demand began to rise once more. The ocean carriers, however, had taken significant steps to reduce capacity.

For example, older vessels were scrapped. These were often smaller "panamax" ships that due to previous demand had remained in service longer than normal. Vessels with expensive operating characteristics were laid up, including both mid-sized vessels and faster or older vessels with higher fuel consumption. At the same time, a further measure of "slow steaming" was adopted.

Falling volumes and rates created a "perfect storm"

(global freight forwarding market size and growth)



Source: Transport Intelligence

"This was initially prompted by a period of rising bunker fuel costs, however it also had the effect of reducing the capacity of container fleets by increasing their sailing/turn-around times," says the Ti report.

A related issue around the numbers of ships on order also had an effect on the market. Around 2007 and 2008 it was assumed that the global container fleet would expand rapidly due to the number of vessels owners and operators had ordered from shipyards. The number suggested at the time was equivalent to 50 percent of the existing container fleet.

"Yet, the number of ships on order has fallen in size implying an extensive cancellation policy," observes Manners-Bell. "It remains unclear if a large overhang of capacity exists in the market. It is possible that owners and operators could be in the process of commissioning new vessels in the near future. This injects a strong level of uncertainty into the market."

—Patrick Burnson is Executive Editor of Logistics Management