

US TRAVEL BAN TO CURB TRANSATLANTIC AIR CARGO CAPACITY

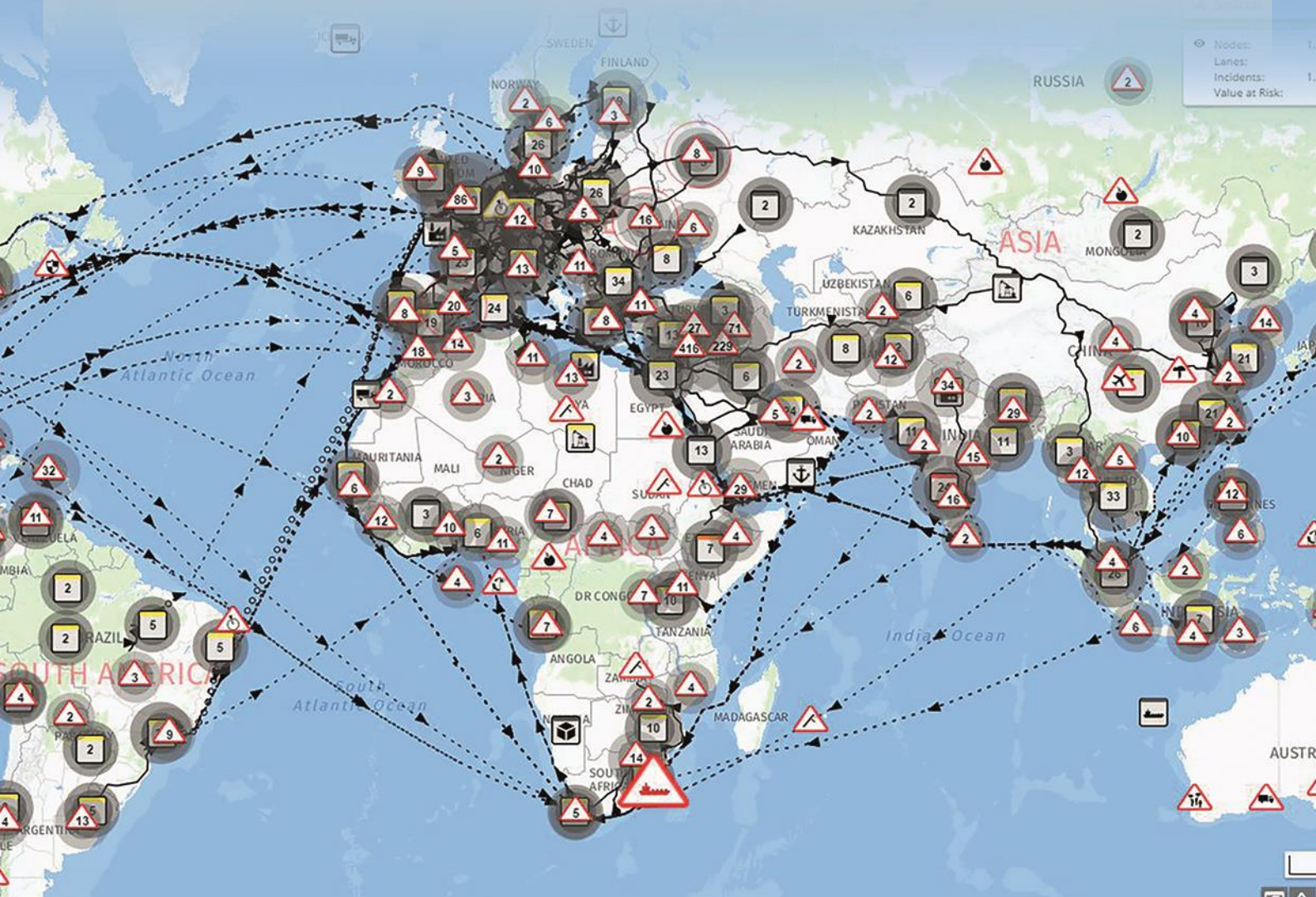
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Resilience360 Special Report

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ABOUT RESILIENCE360



Resilience360 enables companies to visualize, track, and mitigate risks in their supply chain. The Resilience360 suite of solutions enables intuitive visualization of supplier networks, tracks shipments across different modes and lanes, and permits near real-time monitoring of incidents capable of disrupting supply chains. Resilience360 provides companies a first mover advantage in detecting and verifying risks using both Artificial Intelligence and a human network of DHL employees in 220 countries and territories. Customers trust Resilience360 to ensure business continuity, identify critical hotspots to mitigate risks, and turn potential disruptions into a competitive advantage.



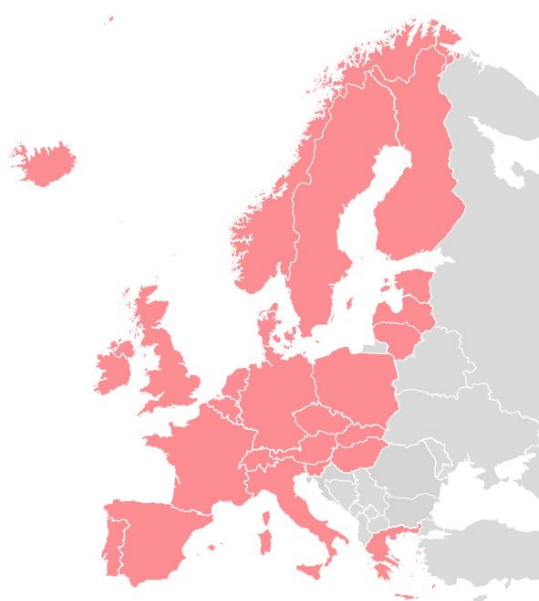
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BACKGROUND

A 30-day travel ban on passengers from dozens of European countries issued by the U.S. government came into effect on March 14. The move is likely to have a significant impact on the movement of trans-Atlantic cargo, most of which is transported in the bellies of passenger planes. The initial plan left out non-Schengen European countries such as the United Kingdom¹; however, these countries have now been included in an extension of the ban which will go into effect as of midnight on March 17.

Anyone who has been in these countries in the last 14 days will not be allowed to travel to the U.S., except for U.S. citizens and permanent residents. The travel ban does not apply to cargo carried on passenger or cargo flights between the U.S. and Europe.



*Countries in Europe affected by the U.S. travel ban;
source: Resilience360*

¹The countries affected by the U.S. travel ban include: Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom.

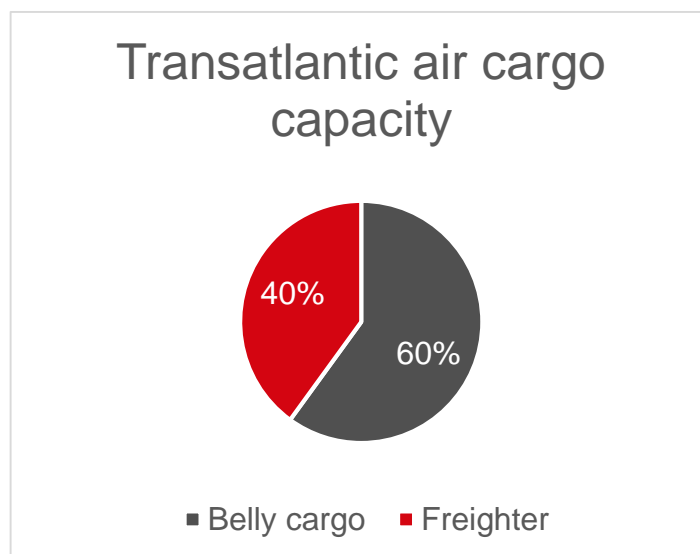
IMPACT ON CARGO

Total air cargo movements between the U.S. and Europe accounted for almost EUR 442 billion (USD 493 billion) in 2019, almost half of U.S. trade with Europe overall. According to data from air cargo data provider WorldACD, more than 60 percent of air freight between Europe and the U.S. is carried on passenger flights – more so than any other trade lane – with the remainder being carried by cargo-only freighters. A steep increase in transatlantic flight cancellations will thus have a significant impact on air cargo capacity, rates, and transit times.

Capacity

The travel ban will affect all 28 transatlantic carriers, which operate around 1,500 flights per week between Europe and the U.S. Some of the major airlines operating transatlantic routes such as American Airlines or Lufthansa Group have already started to suspend or drastically reduce services to and from the affected countries. According to The Loadstar, up to 80 percent of transatlantic air freight capacity could be cut due to COVID-19. Some of the cuts are expected to last until May or June, despite the travel ban only being valid until mid-April for now, indicating that a disrupted air cargo market will persist until possibly the end of the second quarter.

Rates and transit time



Share of transatlantic air cargo capacity by aircraft; source: WorldACD

IMPACT ON CARGO

The reduced capacity has already caused shipping rates to increase to unprecedented levels. Before the extension of the travel ban to the United Kingdom on March 13, forwarders reported rates of EUR 6.50 to EUR 10 (USD 7.24 to USD 11.14) per kg out of the United Kingdom into the U.S., while the normal rate applied would typically be around EUR 0.72 (USD 0.80).

Rates could similarly increase for connections from Europe to Canada or Mexico in the coming days as forwarders explore alternative ways of getting cargo in to the U.S. Due to the constantly evolving situation, carriers may stop existing bookings as applicable rates are likely to change on a daily basis, refuse to take forward bookings, and implement penalties for no-shows. On March 16, freight forwarder Agility noted that space is available, but at premium rates and without transit time guarantees.

Industries

Reduced capacity between the U.S. and Europe is likely to primarily impact shipments of small-volume, high-value products such as electronic consumer goods or medical equipment; perishables, such as food; temperature-controlled goods, such as pharmaceutical products; chemical compounds used to make medicines; as well as cross-border e-commerce shipments. Europe accounts for more than 80 percent of U.S. imports of vaccines, plasma and, other blood fractions, meaning that any capacity constraints on air cargo may impact the availability of such pharmaceutical products.

ALTERNATIVE ROUTING OPTIONS

Since last week, all major airlines operating transatlantic routes have announced significant changes to their flight schedules in the coming months. Most prominently, American Airlines suspended services to all of Europe through May 6, reducing its international capacity to Europe, Asia, and South America year-over-year by 75 percent – more than any other airline. Its only remaining service to Europe will be two flights a day to London. Other airlines that have announced cuts in their transatlantic schedules include Delta Airlines, United Airlines, Lufthansa Group, Norwegian Air, IAG (British Airways), and Air France-KLM. A detailed list of all transatlantic flight cancellations can be found in Appendix I.

Customers should contact their carriers and forwarders to evaluate alternative routing options, which will come at a higher cost, and capacity will likely be allocated on a first come, first served basis. A number of possible options are outlined below.

1. Using remaining flights

While carriers have already started to announce drastic cuts into their transatlantic passenger services, some flights will still operate and others may be readjusted depending on passenger and cargo demand on the specific routes. Lufthansa Group, for instance, stated that it would continue to fly to Chicago, Newark, and Washington. As only 11 gateways in the U.S. have measures in place to allow for extensive screening of passengers, these are likely to remain the only served destinations from the affected European countries. The gateways include Atlanta, Chicago, Dallas, Detroit, Washington Dulles, Los Angeles, Newark, John F. Kennedy, San Francisco, Seattle, and Honolulu. Some airlines have also considered flying passenger planes to the U.S. with only cargo onboard, likely asking a higher price for air cargo space. Reports suggest that only the highest paying cargo is likely to move on those remaining flights, a situation described as “pay to play”.

U.S. airports with enhanced screening facilities for passengers

Atlanta (ATL)

Chicago (ORD)

Dallas/Fort Worth (DFW)

Detroit (DTW)

Los Angeles (LAX)

Newark (EWR)

John F. Kennedy (JFK)

San Francisco (SFO)

Seattle (SEA)

Honolulu (HNL)

Washington Dulles (IAD)

ALTERNATIVE ROUTING OPTIONS

2. Switching to cargo-only freighters

As cargo-only flights only move about 40 percent of air freight between the U.S. and Europe, carriers such as Lufthansa Cargo are unlikely to be able to meet a sharp increase in demand due to the cancellations of passenger flights. The situation is exacerbated by the fact that none of the major U.S. passenger airlines operate cargo-only freighter services to Europe, according to Forbes. In addition to express carriers such as FedEx, UPS, and DHL, the largest freighter-only players on transatlantic routes are Lufthansa Cargo, Cargolux, and Air France-KLM. Lufthansa Cargo usually offers six weekly connections from Frankfurt to John F. Kenney Airport in New York. More full-freighter capacity could be deployed by these airlines, as demand surges over the coming weeks.

3. Exploring charter options

According to the U.S. Airforwarders Association, freight forwarders on both sides of the Atlantic will most likely seek charter arrangements to satisfy customer demand in the coming weeks. At least one forwarder has already announced an expanded charter service from Europe to the United States. Germany-based Dachser will extend its air freight service between Frankfurt and China to the U.S. from March 16. Similarly, Geodis announced that it would launch a four-times-a-week round-trip service this week from Liege, Belgium to Chicago, United States. Other operators are also re-scheduling China-specific charters to U.S.-Europe routes from Liege or Frankfurt-Hahn this week.

4. Routing cargo through Canada, Mexico, or China

Freight forwarders are also likely to explore alternative air-land options via neighboring countries, such as Mexico and Canada, to the United States. Cargo would be moved via passenger flights into air cargo gateways in Mexico (such as Mexico City or Guadalajara) or Canada (such as Toronto or Vancouver) before being trucked overland across the border into the U.S., likely extending lead times resulting from border checks in the U.S. In addition, cargo from Europe could also be transported to Asia via the new China-Europe rail route and then be carried by air to the U.S.

5. Converting air to ocean freight

For shipments which are not time-sensitive, slower but cheaper transatlantic vessel services could also become an option. However, this is likely to be a limited option due to container equipment shortages in Europe as a result of lower volumes coming out of China in the past month.

OUTLOOK

Despite the new shipping arrangements, capacity shortages and logistics bottlenecks may still cause inventory shortages and operational delays in the coming weeks as a result of longer transit times and fewer connections on an airport-to-airport basis. The biggest challenge may arise next week when the backlog of passengers returning to the U.S. clears and airlines cut back on additional flights.

Exacerbating the capacity constraints, other countries in the Americas could implement similar travel bans to curb the spread of COVID-19 from Europe. Argentina has announced a 30-day travel ban for non-residents who have traveled to a country highly affected by COVID-19 in the last two weeks. Similarly, Peru has also closed its borders, suspending sea and air transport into and out of the country, while Honduras, Chile, and Panama restricted travel into the country to only its citizens and permanent residents. As a result, LATAM Airlines, Latin America's largest airline, reduced operations by 70 percent in anticipation of reduced demand.

These measures are likely to reduce flight services from and to these countries, which could lead to a similar increase in air cargo rates. Customers should thus prepare for space limitations and higher freight costs to persist between Europe and the U.S., as well as a select number of Latin and South American countries, at least until May or June this year.

APPENDIX I: TRANSATLANTIC FLIGHT SUSPENSIONS AND CANCELLATIONS DUE TO THE U.S. TRAVEL BAN

Airline	Timeline	Status
Delta Air Lines	As of March 13	<ul style="list-style-type: none"> - Suspension of flights between Paris and Cincinnati, Indianapolis, Raleigh/Durham, and Salt Lake City - Suspension of flights between Amsterdam and Orlando, Portland, and Salt Lake City - Further flight cuts are under evaluation based on travel demand
	As of March 16	<ul style="list-style-type: none"> - Suspension of flights between Detroit and London
	As of March 18	<ul style="list-style-type: none"> - Suspension of flights between New York JFK and Dublin
United Airlines	As of March 16	<ul style="list-style-type: none"> - Suspension of flights between Houston and London - Suspension of flights between Denver and London
	March 20 - end of April	<ul style="list-style-type: none"> - Reduction of flights to European destinations
American Airlines	March 13 - May 6	<ul style="list-style-type: none"> - Suspension of flights to and from Frankfurt, Munich, Madrid, Paris, Barcelona, Amsterdam, Zurich, and London
	March 19 until June 3	<ul style="list-style-type: none"> - Suspension of flights between New York and Madrid - Suspension of flights between Miami and Paris - Delaying of seasonal flights to Rome

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Airline	Timeline	Status
Norwegian Air	March 13 - March 29	- Suspension of flights from Amsterdam, Madrid, Oslo, Stockholm, Barcelona, and Paris to the United States
	March 13 - May 31	- Suspension of all flights between Rome and U.S.
	March 29 - April 30	- Suspension of all flights from Paris, Barcelona, Madrid, Amsterdam, Athens, and Oslo, to the U.S.
Lufthansa Group	As of March 14	Cancellation of all U.S. flights, with the exception of those: <ul style="list-style-type: none"> - from Frankfurt to Chicago and Newark - from Zurich to Chicago and Newark - from Vienna to Chicago - from Brussels to Washington
Air France	March 14 - March 28	<ul style="list-style-type: none"> - Suspension of flights to Houston - To continue flights to and from Atlanta, Chicago, Detroit, Los Angeles, New York JFK, San Francisco, Miami, Boston, and Washington - To ground Airbus A380 planes
KLM	March 14 - March 28	<ul style="list-style-type: none"> - To ground full Boeing 747 fleet - To reduce frequencies of several destinations to the US
British Airways	April - May	- International Airlines Group, owner of BA, to cut capacity by 75 percent