Uncovering and minimising the impacts of COVID-19 logistics disruption

Short-term logistics disruption report

August 2021

AgriFutures Australia
## Project scope and objectives

### Project objectives

<table>
<thead>
<tr>
<th>Objective</th>
<th>Details</th>
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<tbody>
<tr>
<td>Minimise the impact of COVID-19 logistics disruption on agricultural</td>
<td>Minimise the impact of COVID-19 logistics disruption on agricultural</td>
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<tr>
<td>export supply chains.</td>
<td>supply chains.</td>
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<tr>
<td>Conduct ongoing analysis of logistics disruption by assessing market</td>
<td>Conduct ongoing analysis of logistics disruption by assessing market</td>
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<td>impacts and providing timely and accurate information to select rural</td>
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<td>industries.</td>
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<td>Improve the resilience of rural industries to logistics disruption, by</td>
<td>Improve the resilience of rural industries to logistics disruption, by</td>
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<td>providing information to support businesses to make strategic decisions.</td>
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### Project scope

<table>
<thead>
<tr>
<th>Scope</th>
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<tbody>
<tr>
<td>Develop short-term logistics disruption assessment reports on a</td>
<td>Develop short-term logistics disruption assessment reports on a monthly</td>
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<tr>
<td>monthly basis, including general agriculture logistics information</td>
<td>monthly basis, including general agriculture logistics information and</td>
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<td>and three industry case studies.</td>
<td>industry case studies.</td>
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<td>Develop medium-to-long-term logistics assessment reports on a</td>
<td>Develop medium-to-long-term logistics assessment reports on a quarterly</td>
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<td>quarterly basis, to investigate longer-term factors such as geopolitical impacts, customs and market access regulations.</td>
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Cross-industry insights
A summary of the August 2021 key logistics disruption insights with the potential to impact producers

August 2021 logistics disruption insights may be used to guide industry participants in their supply chain strategic decision-making over the short and medium term.

Expert views that the global shipping crisis will experience some relief following the 2021 Christmas period have again been re-shaped by the COVID-19 Delta variant’s impact on the global shipping industry. Snap lockdowns at many key ports under ‘zero tolerance’ policies, particularly in China, pose a constant challenge to the efficient clearing of cargo. These disruptions continue to increase shipping prices; maritime consultant Drewry estimates that the price of a 40-foot container from China to the US has hit record levels, rising to above US$10,000.1

Disruptions continue to be more lucrative for international shipping companies as they leverage limited vessel numbers to ship full containers across key freight routes rather than returning empty ones to countries like Australia. This creates an imbalance that contributes to container stockpiles in major global ports. This pattern is expected to increase in line with consumption levels in the lead up to Christmas.

Extreme weather events are also causing sudden port closures with little warning, disrupting already stretched supply chains. A large number of typhoons are forecast to form in the Northwest Pacific and South China Sea regions from August to December 2021, the impacts of which will lead to further increases in lead times for Australian exporters.

To offset higher transportation costs, many of the major global food and beverage conglomerates have passed on price increases to customers. Many organisations fear that large shipping companies will make decisions to omit port calls through Australia in the coming months to fulfill demand associated with more lucrative freight routes. This will threaten the efficient and competitive export of key Australian products, putting pressure on bottom lines as well as trade partnerships.

Announcements about the extension of the International Freight Assistance Mechanism (IFAM) until mid-2022 will continue to provide relief for Australian exporters reliant on air freight. However, global air freight capacity has seen little change in recent months and is not anticipated to provide a competitive export pathway until global passenger air travel resumes.

While Australian port activity has not been impacted by recent lockdown restrictions across Victoria or NSW, select stevedores at the Port of Botany have introduced mandatory vaccination protocols, which may impact labour availability. New Western Australian protocols on global shipping from high-risk COVID-19 nations may also threaten key agricultural imports and exports.

1 China Typhoons Pose Latest Supply-Chain Threat as Ports Shut | Bloomberg
Industry fears Delta variant outbreaks could cause a repeat of shipping disruptions at a similar level as 2020

Key insights

• The sporadic closure of global port terminals due to COVID-19 is starting to happen repeatedly, posing major risks to global trade flows, particularly in China.

• Experts predict the Delta variant will lead to more global port shutdowns in the months leading up to the 2021 Christmas period, pushing shipping prices and container shortages to new levels.

• In China, the Government’s strict ‘zero COVID’ policy means that pandemic mitigation is prioritised beyond any business or trade concerns, with port terminals frequently shut down after single-digit case numbers.

• China is seeing the highest COVID-19 cases since the country’s initial outbreak in 2020. Lockdown continues to damage consumption growth and slow exports amid existing floods and supply issues. Not only are port closures straining already stretched global supply networks, they may contribute to a further decrease in China’s appetite for Australian goods in the short-to-medium term.

• Any forecasts on the return of the global shipping industry to pre-COVID circumstances are now closely tied to national vaccination timelines, given the risk of sudden disruptions frequently caused by testing or snap lockdowns. Global commodity prices are expected to also increase as a result.

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**Ningbo, China**

- The Ningbo-Zhoushan port, the world’s third-largest cargo port, closed its key Meishan terminal due to a single COVID-19 case in a dockworker. This cut the port’s capacity for container cargo by about one-quarter with the swift suspension of container pick-up services.

- The terminal re-opened on 25 August 2021 following a two-week shutdown, however shipping analysts estimate that it will take up to 60 days before operations at the port return to normal as workers and maritime pilots return from quarantine.

- Experts predict that this will further inhibit the surge in global trade, as retailers in the EU and North America race to stock up ahead of the Christmas period.

- Industry fears the ramifications of the Ningbo shut-down could be similar to that seen at Yantian in June 2021, when wait time for processing shipments tripled from three to nine days and exports were slashed by about 70%. If a similar situation arises, substantial, long-term impacts on exports are predicted that will affect the holiday shopping season and cause price inflation.

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**Shanghai, China**

- Shanghai ports, where many vessels are being re-routed in response to challenges at Ningbo and previously Yantian, are reported by Reuters to be experiencing the worst port congestion in three years.

- In response to the Ningbo outbreak, Shanghai ports have tightened disinfection and quarantine measures and have asked workers to stay over at port. No operational disruption has yet been reported.

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1 Ningbo: Global supply fears as China partly shuts major port | BBC News
2 A COVID-19 shutdown at one of the world’s busiest ports threatens to worsen shipping delays and send prices even higher | Business Insider Australia
3 China’s new Covid outbreak puts recovery at risk | Eco Week | Bloomberg
4 The US shipping crisis is not going away as 33 cargo ships float off the coast of LA waiting to dock | Business Insider Australia
5 China’s zero-Covid policy is so strict that it shut down a whole shipping terminal after just one case | CNBC
6 Port shipping firms divert vessels after a Ningbo terminal shuts | Reuters
7 The world’s third busiest container port is back but the shipping crisis isn’t over yet | CNN Business
Extreme weather is expected to add further stress to already stretched global supply chains

Key insights

• Heavy rain, strong winds and flooding throughout the 2021 Northern Hemisphere summer have added another risk factor to exports, impacting the efficient travel of cargo along supply chains.

• According to the Meteorological Administration, 16-18 typhoons are forecast to form in the Northwest Pacific and South China Sea regions from August to December 2021. Four to six of these are expected to make landfall in China and affect the country.2

• Hurricane season in the Northern Hemisphere is well underway, posing constant threats to shipping flows through key Transatlantic regions. Delays have largely culminated within key US ports like Los Angeles (LA), a major Australian trading partner, particularly for red meat exports.

• Key Northern Hemisphere markets said to be most vulnerable to weather-induced trade disruption include agricultural products, like oranges from Florida or sweet potatoes from North Carolina. Supply shocks may expand short-term export opportunities for Australia, pending freight availability.1

• Exporters and shipping companies worldwide are integrating weather analytics insights into supply chain planning to strengthen logistics systems.

China and South Korea

• The Yantian port of Shenzhen temporarily stopped drop-off container services due to typhoon warnings in early August 2021.

• Shanghai’s Yangshan mega-terminal facility and nearby ports also evacuated ships in response to Typhoon In-Fa, which brought widespread flooding and toppled containers stowed on a bulk carrier traveling to the US.

• Further disruptions are expected to continue, and coupled with the threat of snap COVID-19 lockdowns, container pile-up in key Chinese ports is expected to worsen.

• A typhoon on 24 August 2021 also diverted dozens of ships from the world’s sixth-busiest container terminal at Port Busan in South Korea. The port has since re-opened, however shipping delays in the area are expected to continue as a result.4 Given South Korea is a key trading partner for Australian red meat products, this may impact exports in coming months.

Southern California, United States

• As of 11 August 2021, 38 container ships were anchored off the coast (pre-COVID levels are zero to one) waiting for a free spot to unload at LA and Long Beach ports, driven at times by weather issues such as extreme heat impacting the productivity of port workers.5

• The Port of LA has reported that it is already preparing for another decline in import volumes due to the Ningbo-Zhoushan COVID-19-related shutdown,2 likely to be followed by increased congestion as backlog clears at Ningbo.5

• Chief of the Port of LA reports that every sector of the Southern California supply chain is currently at capacity, and conditions are likely to worsen just two weeks into peak shipping season.3

• Given Californian ports account for one-third of US imports, this will continue to hinder Australia’s US-bound exports.4
Recent COVID-19 outbreaks are impacting operations of key Australian ports, as is the threat of industrial action

### Key insights

- **A 24-hour national strike** involving thousands of Transport Worker Union (TWU) truck drivers took place on 27 August 2021. Only **minor delays** in Sydney were experienced and extra services were run the following day to clear backlog. In contrast to other TWU industrial action in recent months, this was a minimal disruptive outcome, boding well for the **likelihood of future transport worker strikes** and subsequent potential impacts on shipping.

- **Mandatory vaccinations for port workers** have been put in place by select stevedores at the **Port of Botany**, potentially impacting labour availability. There is potential for this to occur at other key Australian ports in coming months as national case numbers rise.

- WA’s strict **new protocols on international ship arrivals** are reported to be creating major logistics challenges and potential threats to short-term trade.

- Inconsistency in regulations across state borders in the management of supply chains has been flagged as a concern for Australian trade.

### State-by-state breakdown

**NSW**

- Essential port and logistics workers in Sydney’s south-western suburbs have been exempt from lockdown restrictions, with confirmation they are part of ‘critical’ national infrastructure, enabling continued servicing of imports and exports through the Port of Botany.  

- The Port Authority of New South Wales will continue to follow the advice set by the Australian and state governments in relation to the entry of commercial vessels to NSW ports.

- Hutchinson Ports and DP World have introduced mandatory vaccinations for wharf workers starting from 30 August 2021. This requirement could impact labour availability and overall productivity of these terminals in the immediate term.

**VIC**

- Lockdowns are not currently impacting activity at the Port of Melbourne, however exporters are advised to monitor the situation closely in case any outbreaks occur that may disrupt the clearing of cargo.

**WA**

- The recent imposition by the Western Australian Government of new protocols and standards on international ship arrivals, with rights reserved to turn vessels away due to threats of COVID-19 infection, pose significant risks to the delivery of key imports into WA, as well as the supply of containers and bulk freight for exports. Processing vessels according to the new regulations is a major logistical challenge.

- Ports Australia has called for the Western Australian Government and shipping companies to collaborate to prevent circumstances where ships are disadvantaged for having passed through high-risk COVID-19 nations, and thus not deter key trade customers from passing through WA.

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1. Workers in south-west, Western Sydney exempt from toughest COVID-19 restrictions part of ‘critical’ national infrastructure | ABC News
2. Coronavirus WA: Premier Mark McGowan announces new plan to turn away COVID ships | The West Australian
3. Ports Australia calls for calm in WA | Ports Australia
4. Linfox and Bevchain next in TWU Industrial Action Line
5. Sydney stevedores to block unvaccinated workers from terminals | Australian Financial Review
6. Transport for NSW response to COVID-19 for the freight industry | Transport for NSW
Australian air freight exporters welcome the extension of IFAM, yet global air freight movements remain volatile

Key insights
- IFAM has been **extended to mid-2022** as of 27 August 2021.¹
- Despite lockdowns, **NSW and Victoria airports remain open for freight** imports and exports.³
- The **temporary closure** of key freight terminals at the **Shanghai Pudong International Airport** due to a COVID-19 outbreak is worsening trade disruption in the region, creating some **global uncertainty in the reliability of air freight shipments**.

### IFAM extended to mid-2022

- On 27 August 2021, the Australian Government announced a further $260.9 million in funding to extend IFAM to mid-2022, ensuring Australian businesses reliant on air freight have additional time to adapt to the continually changing international trade environment.¹

### Shanghai Pudong International Airport freight suspension due to COVID-19 outbreak

- Freighter suspensions at Shanghai Pudong International Airport due to a COVID-19 outbreak are worsening trade disruption in China, with cancelled flights and delays of five to seven days for freight shipments, with freight capacity down by about 33%.⁴
- Suspensions implemented on 20 August 2021 will remain in place until cases reach zero, with no current view on when flights will operate again.² Reports on 25 August 2021 indicated that it remains unknown when flight schedules will return to full capacity, however the situation is expected to ease in early September.⁴
- As a result of air freight backlog, some exporters are turning to shipping via sea freight to Singapore and then flying freight from the Singapore Changi Airport. As a major transhipment hub for many Australian exporters, this increased use could impact the supply chain connecting Australia to a number of key Southeast Asian trading partners.

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¹ [International Freight Assistance Mechanism | Australian Trade and Investment Commission](#)
² [Shanghai airport terminal closure leads logistics firms to expect cargo delays | Supply Chain Dive](#)
³ [Transport for NSW response to COVID-19 for the freight industry | Transport for NSW](#)
⁴ [Delays of seven days for Shanghai cargo while 'super peak' approach | Air Cargo News](#)
New weekly connecting flights to Los Angeles may provide some relief to ongoing congestion for sea freight exports

Key insights

- **New weekly inbound and outbound flights** connecting Sydney, Brisbane and Melbourne to Los Angeles may create freight opportunities for exporters currently challenged by the ongoing congestion at Southern Californian ports, as is the case for high-value red meat exports.
- The end of flights to Tokyo on 30 August 2021 may impact Australian red meat exporters selling into the Japanese market. Returning to container shipments may not yet be viable given on-water shipping delays.
- While an expansion of flights to the US may assist Australian agricultural industries in servicing rising global demand ahead of Christmas, given air freight accounts for minor volumes of perishable exports, any reduction in the impacts of global trade congestion are expected to be minor.

### New weekly inbound flights starting in August 2021

<table>
<thead>
<tr>
<th>Origin</th>
<th>Destination</th>
<th>Start date</th>
<th>End date</th>
<th>Freight rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>Sydney (via Brisbane)</td>
<td>27 August 2021</td>
<td>24 October 2021</td>
<td>Not applicable</td>
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### New weekly outbound flights starting in August 2021

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<tr>
<th>Origin</th>
<th>Destination</th>
<th>Start date</th>
<th>End date</th>
<th>Freight rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney (via Melbourne)</td>
<td>Los Angeles</td>
<td>26 August 2021</td>
<td>28 October 2021</td>
<td>A$1,995 AKE min charge^ A$4,845 PMC min charge^ A$2.90 per kg loose 1000+ kgs QGoFresh^ A$5.00 per kg loose 1000+ kgs live seafood^</td>
</tr>
</tbody>
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### New weekly outbound flights ending in August 2021

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<tbody>
<tr>
<td>Sydney</td>
<td>Narita</td>
<td>24 May 2021</td>
<td>30 August 2021</td>
<td>A$1.60 per kg</td>
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1 International Freight Assistance Mechanism – Inbound Flight Schedule as at 23 August
2 International Freight Assistance Mechanism – Outbound Flight Schedule as at 23 August

^IFAM is the International Freight Assistance Mechanism, a targeted support measure put in place by the Australian Government to keep global air links open in response to the ongoing effects of the pandemic
Global airfreight volumes have not changed compared with July 2021 levels, container movements remain delayed

Key insights
- **Minimal change in global air freight volumes** suggests the need for **continued reliance on containers for red meat exports**, which will continue to experience a global shortage and elevated shipping prices well into 2022.
- Flow of containers through the **Port of Singapore** remain relatively balanced, while Los Angeles is seeing the worst backlog.

### Container Availability Index (CAx) July 2021
- **CAx 0.5** same amount of containers leave and enter the port
- **CAx > 0.5** more containers enter than leave
- **CAx < 0.5** more containers leave than enter

#### Takeaways
- A significant surplus in containers entering over leaving at the Port of Los Angeles is reflected in a high CAx.
- A CAx with no change in July 2021 indicates Singapore continues to have a fairly even balance of containers entering and leaving.
- A slightly lower CAx in Shanghai suggests a slight reduction in their container backlog.

### Inbound and outbound air freight movements June 2021* compared with one-month, one-year, and two-year benchmarks

<table>
<thead>
<tr>
<th>Month</th>
<th>Inbound</th>
<th>Outbound</th>
<th>Change</th>
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<tbody>
<tr>
<td>Jun 21</td>
<td>44</td>
<td>33</td>
<td>-2%</td>
</tr>
<tr>
<td>May 21</td>
<td>43</td>
<td>33</td>
<td>0%</td>
</tr>
<tr>
<td>Apr 21</td>
<td>42</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Jun 20</td>
<td>35</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Jun 19</td>
<td>43</td>
<td>41</td>
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#### Takeaways
- There has been virtually zero change in global airfreight volumes between June and May 2021, with a slight surplus in inbound freight continuing to reflect ongoing challenges of exporters in meeting global demand for goods.
- No change in global air freight capacity is expected over September 2021, given very minimal change in inbound and outbound global freight volumes in recent months.

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1 Bureau of Infrastructure and Transport Research Economics, 2021. International Airline Activity monthly publications, most recent available is June 2021
2 Container Availability Index, 2021
Most major Australian ports experienced an increase in container exports and a decrease in empty containers in July 2021

Key insights

- Reduction in the gap between empty and full containers processed at most Australian ports is indicative of more efficient clearing of cargo, however this will likely be impacted by key global disruptions in recent weeks, such as the Ningbo Port closure and sporadic extreme weather events.
- Overall, the trend of progressive capacity increases is continuing.

[Graphs showing containerised exports and imports at major Australian ports for June and July 2021, with bars representing Export and Import for each port.]
Domestic agricultural production continues to outweigh the availability of supporting freight capacity

Key insights
- The capacity of top Australian freight routes increased from May to June 2021, excluding Sydney to Auckland.
- This is a favourable sign for air freight exports, particularly for red meat exporters delivering product to high-value beef markets in Singapore and Hong Kong. While slow improvements to volumes are encouraging, this will not serve as a viable distribution pathway until international travel resumes.
- Exporters are experiencing difficulty with constantly shifting freight capacity and shipping schedules based on global disruptive events. Grains exporters in particular are finding freight prices highly volatile.

What does this mean for...?

Red meat
- Red meat container exports out of Brisbane are performing particularly well, with 5225 TEU exported in July 2021, a 5% increase on July 2020.

Grains
- Grains exporters continue to turn to bulk freight export due to container shortages. Exporters can expect to continue experiencing challenges in booking freight space, with reduced ability to plan distribution based on agreed freight prices with shippers.

Citrus
- Continued strong container processing out of Port of Melbourne (top port for citrus exports) indicates relative stability for the remainder of the citrus export season. There is potential to avoid impacts of the anticipated increased global container shortage.

Cross-industry
- There is a strong potential for container shortages in Australia in the coming months due to temporary closures at Ningbo-Zhoushan Port in China, the third-largest container port in the world.
- Resulting congestion and delays are expected to impact freight capacity, particularly for containers, in Australia in coming months.
- This impact will be worsened by predictions of incoming extreme weather in the South China Sea.

Comparison of freight quantities carried on top Australian flight routes April to June 2021

- Sydney to Singapore: 8, 7, 8
- Sydney to LA: 4, 5, 5
- Melbourne to Singapore: 5, 6, 6
- Sydney to Auckland: 4, 5, 5
- Sydney to Hong Kong: 0, 3, 4
- Perth to Singapore: 3

1 Bureau of Infrastructure and Transport Research Economics, 2021. International Airline Activity monthly publications, most recent available is May 2021 (published 21 July 2021)
Grains: Industry snapshot
COVID-19 restrictions on domestic and global freight movements are impacting Australian grains exports

**Update**
- New standards for vessels calling to Western Australia from high-risk COVID-19 nations are being monitored closely by industry.
- COVID-19 restrictions are disrupting grains trade across state borders.
- High global prices and ongoing drought continue to create opportunities as well as complexity for Australian grains exporters.

**Context**
- The turning away of a vessel destined for Geraldton, WA due to a crew member’s positive COVID-19 test has the Western Australian farming community wary about the impact of the Government’s imposition of new protocols and standards on vessels entering WA’s waters.
- The ship had been sent from Indonesia to collect 50,000 tonnes of wheat. But the decision has disrupted scheduled exports to the region over the coming months.
- Potential future encounters in loading vessels from Indonesia may pose risks to Australia’s ability to engage in efficient trade with key export customers.
- With Australia on high alert for COVID-19 sources, there are fears similar policies could arise at other ports.

**Insight**
- Western Australian exporters are experiencing increased COVID-19-induced pressure on trade relationships due to state-based changes.
- Domestic supply chain complexity is increasing in line with state lockdown restrictions, increasing delays in cross-border shipments.
- Grains supply gaps into Asia look positive for Australian exports, pending ability to mitigate delays and increasing shipping prices due to ongoing port congestion.

1 WA livestock industry warns a ban on cargo ships from Indonesia could have disastrous consequences | ABC News
2 Feedgrain Focus: Northern barley prices ease, firm in south | Beef Central
3 US and Canada heatwave hammers crops, forcing up global grain prices | ABC News
4 Column: Canadian crop debacle may force a reroute of wheat, canola trade | Reuters
Australian grains and livestock industries will continue to feel the impact of record-level demand and high prices

**Key insights**

- Grains export logistics continue to be impacted by an ongoing shift in focus to servicing global demand for feed grains, particularly wheat and feed barley into China. Ongoing delays at key Chinese ports due to snap lockdowns and extreme weather pose significant risks to this situation.
- Exporters are encouraged to consistently monitor port closures and maintain frequent communications with shipping lines to enable swift response to changes in both Australian and global supply chain circumstances.
- The potential impact of state-based port protocols on exporters’ ability to deliver grains exports due to COVID-19 threats is being closely monitored.
- High domestic feed grain prices continue to impact livestock producers throughout herd re-building.

**Flow-on impacts**

**Western Australian shipping protocols**

- Western Australia’s new regulation that any vessel will not be allowed to berth in the state if it has taken on crew in Indonesia is said to have significant potential impacts across the export of WA’s key agricultural exports.
- Western Australian farmers fear that key Indonesian export customers may turn to alternative grain suppliers in the Black Sea if strict measures imposed on vessels continue.¹

**Rising feed grain prices**

- Feed grain prices continue to increase in line with global demand, with reports of appetite for increased availability of higher-protein wheat domestically at moderate prices.³

**Minimising disruption**

- Grains supply chains in the short term will continue to be dictated by exporters’ efforts to clear supply stocks to accommodate for the incoming harvest, creating a need for constant communication with shipping lines and close monitoring of changes.
- Industry members are warned to monitor any change in WA’s new security measures on ports closely in case of change.
- Price and favourable market circumstances continue to allow Australian feed barley exporters to supply a diversified customer base, including Middle Eastern customers, as well as expand trade in Southeast Asia with Vietnam or the Philippines. South America and Africa have also been flagged as export opportunities to diversify export risk, placing emphasis on the planning of new supply chain and logistics capabilities.²
- Some crops, such as sorghum, currently stored on farm are being sold into the Asia-facing containerised and bulk export markets as growers look to make room for new-crop barley, wheat and chickpeas.³
- Canada’s decreased supply to other major canola trading partners Indonesia and Peru may also create opportunities for Australian exporters.⁴

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¹ Metro Mark McGowan risks exports, farmers say | Australian Financial Review
² Australian malting barley ceiling falls, feed floor lifts | Grain Central
³ Feedgrain Focus: Northern barley prices ease, firm in south | Beef Central
⁴ Column: Canadian crop debate may force a reroute of wheat, canola trade | Reuters
Takeaways
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<th>Extreme Weather Events</th>
<th>To Offset Higher Transportation Costs</th>
<th>Announcements About the Extension</th>
<th>While Australian Port Activity</th>
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