



ITLS Webinar, Wednesday 17 June 2020

The Future of Global Logistics post-COVID-19

Questions and Answers

Panelist Specific Responses:

Anisa Makalic:

- **Are you and other companies in the industry looking to source more goods locally or domestically? Was this happening pre-COVID19 and how important is price in light of this?**
Retailers consider several factors when sourcing goods. Source of supply risk is certainly one consideration and where it makes sense commercially but also from other aspects like quality, lead time, service etc. retailers and consumer goods companies will be taking another critical look through international and national sources of supply (especially given the impact of COVID19). Good sourcing strategy will also consider supplier's supply chain risks as well. And yes, price is always a consideration but not the only one.

Greg Johnson

- **How do you see the market rates for airfreight developing in 2020? Current rate levels are very high compared to pre-COVID 19 levels.**
Moving forward, airfreight/market rate levels will not be at the levels that they were prior to COVID-19. This is because demand will not be there, primarily due to the economic impact that COVID-19 has had on businesses and economies. As carriers start to activate their passenger aircraft back into service but carrying cargo only, all of a sudden cargo has changed from a fixed overhead to a contribution, and in some cases, will be the only source of revenue for many airlines.
- **Have full freighters been doing well as an individual business unit in light of global constraints financially? (Prices are now 4-5x the cost) What has consumer demand been like since the onset of COVID19? Is demand outstripping supply?**
Yes, at Emirates our B777F aircraft are operating at maximum capacity and we are utilising these aircraft for both charter flights and on dedicated scheduled freighter sectors. Demand is extremely high for air cargo, we now have in excess of 77 B777-300ER aircraft operating with cargo only loads, at Emirates we are utilising the option to also load cargo in-cabin which equates to an additional 20 tonnes of cargo per aircraft.
- **Are there any emerging Platforms addressing this lack of e-documentation problem?**
IATA is continuing to drive e-airway bill / e-freight but other industry associations and Ground/Cargo Handling service providers also need to actively drive this change.
- **Do you think that Emirates will be better prepared if ever we experience another pandemic? How will Emirates maintain their preparedness?**

In air cargo, we consistently work in the area of crisis management – that is when air cargo comes into its own. The impact of COVID-19 on the Aviation Industry has been catastrophic with the global suspension of passenger flights. The commissioning of our passenger aircraft for the uplift of cargo – thus keeping supply chains active is a good example of Emirates innovation and our flexibility to adapt to change – this will continue into the future.

Ron Koehler

- **How to digitalise and modernise the ports in Australia after COVID-19 pandemic era?**
IoT and API data can work together to create blockchain-based cargo visibility and chain of custody management.
- **Ron can your solution work as a phone app to scan boxes at a depot/warehouse and deliver to consumers?**
Trackster software can run on any device.

Rico Merkert

- **Firstly, the first graph from Rico showing financial losses of airlines. What contributed to the losses in 2008? Secondly as uncertainties are swinging between extremes currently what are some of the advises you can give to SMES particularly mitigation strategies for them since they are already financially disadvantaged?**
The losses in 2008, were mainly due/related to the global financial crisis. Drop in demand (both pax and cargo), aircraft grounded while still having fixed cost attached to them, losses from financial hedges and many other contributing factors.
During the current unprecedented times of uncertainty, I would recommend SMEs to a) watch and carefully manage their cash flows, b) be very cautious in terms of anticipating revenues and managing cost and c) most importantly, innovate and disrupt your industry whenever and wherever you can.

General Responses

1. **Is the e-commerce and online last mile delivery boom that started during COVID-19 going to last (answered during webinar as a strong yes; e-commerce and automation are the future)**

Greg: Yes, e-commerce pre COVID-19, was showing a 20% increase per year and this increase will continue as more commodities are transported by air. I believe that e-commerce will continue to be the driving force of the air cargo industry and will continue to grow by 20-30% per year.

Ron: Yes, the boom will continue, along with the consistent growth of local e-commerce merchants filling the gap of global supply chains.

2. **Is WFH reducing congestion and hence cost of freight distribution (only partially answered during webinar)**

Greg: No. the cost of freight distribution is governed by the many partners within the supply chain and as an impact of COVID-19, we are seeing new costings coming into play as a result. To utilise passenger aircraft for the movement of cargo only, is an expensive exercise and is only viable when supply is high and demand is low.

Ron: There is still capacity for optimising freight volumes with carriers, congestion could be complemented with greater volume.

3. Given how the entire world has realised that all their "eggs are in one manufacturing basket" - are you seeing any trend starting wherein orders or even cargo are coming from alternate manufacturing countries?

Greg: Yes, taking PPE for example, initially the majority of all PPE was coming out of China but within a few weeks we saw alternate supply points emerge in other points of South and South East Asia including Vietnam, Malaysia, Sri-Lanka etc. China continues to be an important producer but right now it is not the only one.

Anisa: I am not sure about broader trends, but I would expect businesses would be re-examining their sourcing strategies and their supply chain and testing the strength of their risk management and business continuity plans that may involve a diversification strategy, inventories, alternative sources of supply etc.

Ron: This is the beginning of d globalisation and the emergence of the micro supply chain.

4. How are the unions likely to react in these tough times if we are removing jobs by automation even if creates a new set of jobs?

Anisa: I think that will depend on how all parties evolve the dialogue. I thought we have seen some more constructive government engagement with the union representative body in recent months.

Ron: Unions are not against progress; they are in support of fair work practice and safety.

5. We have heard Cybersecurity is a massive risk for the proper deployment of technologies. Why would companies trust industry leaders in that area to care for their data? Why do we go to Logistics providers for Logistics Services, but tend to try and do inhouse fixes for software, data security, data transmission and communications? How to change that mindset?

Anisa: Every business organisation will decide what competencies and capabilities they build in house, partner on, or outsource. I am afraid there is not one right answer or practice, it will be based on an organisation's core competencies, risks and needs as well as availability/quality of viable partners outside the organisation.

Ron: Maritime freight operations are setting the benchmarks for cyber security measures; this should translate into multiple modes of transport.

6. The issue is not digitisation.... the issue is overcoming. Overcoming the proprietary system providers holding the data to themselves. How do you overcome the silo effect? The value proposition for sharing data is very immature (in international supply chains) and needs to be explored in greater detail. The proclivity to hoard is still the dominant paradigm, but the intention and motivation to share is slowly changing. In our business, we have overcome this issue through interfacing and integration.

Greg: Airlines must become DISRUPTORS to survive post COVID-19. Airlines that chase volume and not value will struggle to be profitable in an era with fewer passengers. Therefore, carriers need to re-think their core businesses and remove the legacy systems that prohibit a common

platform for airlines and handling agents. Airlines need to look at the business model that the integrators use in terms of technology, efficiencies and the ability for a transparent supply chain.

Ron: Governments, trade organisations and third parties are overcoming this issue with the sharing of data for the betterment of industry operations and security.

7. What advice would you give to new graduates going into the industry?

Greg: Logistics, Supply Chain despite the model (AIR, SEA, ROAD, RAIL) is a very rewarding and exciting industry to be a part of.

Ron: Be prepared for the last mile disruption of local supply chain fulfilment.

8. Logistics and supply chain security; how can we guarantee security for logistics and supply chain in any crisis (natural or human-made crisis) in the future? Is there a role for Government in establishing security?

Anisa: There are no guarantees, but we should be working towards further improvements in risk identification and management processes/capabilities and giving risk and business continuity planning appropriate consideration in operating model development.

Yes, government can play a role in supporting appropriate sectors with prioritizing access to resources, energy and transport infrastructure are a few examples. Regulatory support is another area that can add to constraints but designed and targeted in the right way can unlock productivity.

Ron: There is a huge role for government to integrate with industry to create security measures via customs processing and the use of freight provenance to process and assess freight risk profiling.

9. The international shipping industry was not in good health even before COVID-19 with appalling rates of return on very large amounts of K investment. How likely is it that a global shipping company or two might go bust and we have a repeat of the Hanjin bankruptcy scenario that was "the result of numerous interrelated factors such as weak global GDP, overcapacity on container vessels, "bloated" US retail inventories, changing consumer spending patterns, Chinese economic slowdown, and muted growth in demand for container shipping."

Ron: Micro and domestic supply chain changes will affect international logistics operations, there may be an emergence of sea freight with the changes in air freight costs.

10. EDIs and APIs?

Ron: A number of 3rd parties are now integrating the public maritime and air freight data; this may become a potential for road and rail to offer the same systems.