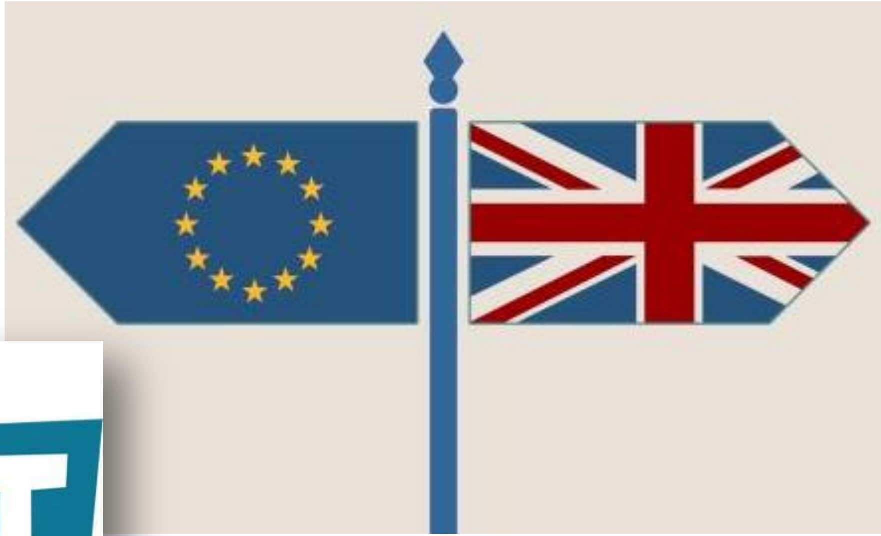

PREMIERE
ERA
June 2019

Brexit: Opportunity or Threat?



The UK leaving the European Union is no longer an uncertainty. Brexit is a reality that businesses around the world have to face and prepare for.

While the specific mechanics of Brexit separation remain unclear, what is clear is that it will impact EU and UK logistics workers; regulatory issues will create new production, packaging, and distribution standards/norms; potential trade tariffs will impact the bottom line due to tax structures and duties; and challenges to the free movement of goods, along with demand and supply issues, will arise.

In addition, potential areas that will be affected by Brexit include:

Tariffs—shippers may pay more on raw materials or finished/intermediate goods, based on EU and UK negotiations.

Forex currency—any depreciation of the pound due to Brexit will create more opportunity for exports from the UK. But, import costs will go up.

Supply chain delays—the imposition of new customs requirements and additional documentation will likely cause clearance delays and additional labeling.

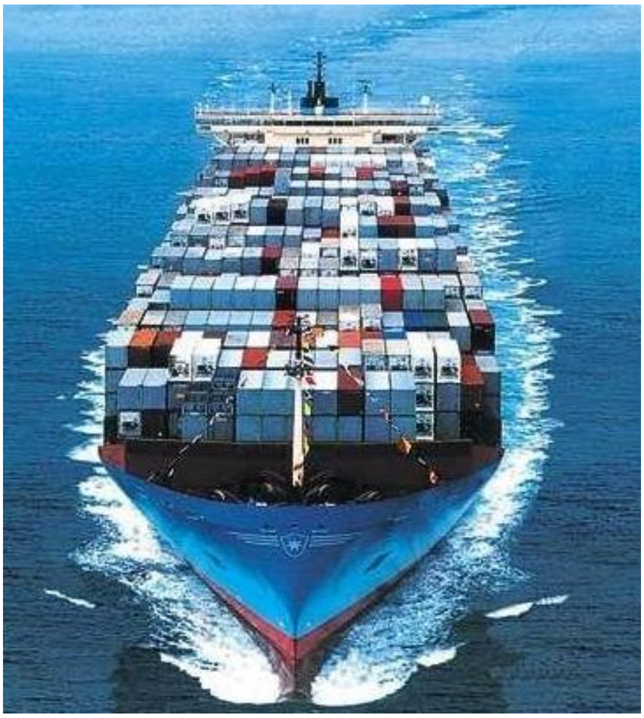
Taxation—the UK could reduce corporate taxation to maintain and grow its share in trading activity, leading to enhanced logistics needs.

Trade Tensions Worry Ship Operators

The U.S.-China tariff row is casting clouds over the container shipping outlook just when carriers usually start girding for the profit-fueling summer rush

Global ship operators that normally begin the summer preparing for peak shipping season instead are bracing for a surge in tariffs.

Several of the big container lines that carry the household products, furniture, electronics and other consumer goods that fill retail stores have slimmed their capacity in recent weeks. Executives say they are concerned that recent weakness in shipping rates sends an ominous signal just as some major economies are starting to stumble and trade tensions are rising.



The escalating trade tensions couldn't have come at a worse time. June is the start of a three-month peak season in which shipping companies make most of their annual profits as retailers stock up Asian exports for the year-end holidays and freight rates often jump.

But rates on container shipping's spot market are falling. Logistics data provider Freightos said its separate index showed shipping rates late last month from China to the U.S. West Coast at a 48-week low.

Continued: A Down Spiral In demand

"It's a whole big mess. Volumes are falling and we have to redeploy ships to ports outside China where cargo is not taxed."
–Chief operating officer of a large Asian shipping line

"This year started off with trans–Pacific rates 60% higher than this time last year. That gap has been in a free–fall ever since because of carrier oversupply, combined with a flurry of tariffs."
–Eytan Buchman, chief marketing officer at Freightos

"The silver lining is that it will at least stop more orders of mega–container ships. But there will still be substantial overcapacity this year and next.
– A container shipping analyst from London–based Braemar ACM

Shipping executives fear the trade fight will spread to Europe and add to a troubling global view that includes weakening manufacturing activity and faltering economic growth in major economies.

That could trigger a downward spiral in demand for shipping operators still seeking stability as they recover from a downturn that reshaped industry ranks.

Maersk Chief Executive Soren Skou said in an interview last month that he expects the tariff-filled trans-Pacific dispute to cut container demand by up to a third this year and expects the trade tension will spread to Europe.

To be sure, the shipping industry is more prepared to face trade headwinds than carriers were a few years ago. The number of large liners has fallen to seven from 20 over the past four years after a wave of consolidation, and they control a combined three-quarters of all box capacity.

The carriers have also grouped into three shipping alliances that share vessels and port calls to save operating costs. Overall, the three alliances have cut their capacity from Asia to the U.S. West Coast by 6.7% and by 1.3% from Asia to Europe since last summer, according to Cosco officials.

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