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MICROCHIP CRISIS – A DISASTER FOR VEHICLE LOGISTICS

Industry Updates RORO by Editor - 9 October 2021



Press Release: ECG (The Association of European Vehicle Logistics) and UECC have issued a joint press release regarding the shortage of materials in the automotive industry and the knock-on effect its having on the supporting logistics industry.

The Finished Vehicle Logistics (FVL) industry is staring into the abyss as volumes continue to decline, demand fluctuates and forecasts are almost non-existent. As the current microchip crisis continues to threaten the very existence of the logistics industry that moves new cars, ECG makes strategies for survival top of the agenda for their annual conference in addition to the planned focus on sustainability.

Material shortages, most notably of chips (semi-conductors), continue to seriously impact the automotive industry as widely reported. The devastating impact on the vehicle logistics sector which supports it is largely unrecognised outside the industry.

ECG will hold its annual conference in Brussels on 14/15th October, an event that will bring more than 300 senior professionals together for the first time in 2 years. While planned discussions on decarbonisation of the supply chain will continue the focus has switched to the survival of the industry. The automotive industry must take all possible steps to support its logistics suppliers. The industry traditionally works with contracts where no volumes are guaranteed and the associated risks are borne entirely by the carriers, however, it is impossible to deliver contracted services that are based on volumes that no longer exist. Cost bases are rising and service levels become impossible to achieve in this environment, a challenge made more difficult by the fact that almost every vehicle is sold which creates more peaks in demand.

Wolfgang Göbel, President of ECG, said "I have never seen such a rapid deterioration of confidence in this industry. Even Lehman Brothers and the ensuing financial crisis did not have anything like the commercial impact on the sector that the current supply issues are causing. Companies have become loss-making almost overnight, cash flow is becoming critical for many and, as a minimum, we need to see the customers paying their invoices promptly."

ECG members report stocks of vehicles in compounds and terminals across Europe at record lows. One consequence is that some operators are already closing operations one or two days a week to match demand, a solution that could ideally be extended across the sector in a uniform way. In some cases, entire



operations are being taken offline. Similarly, the shipping lines are extending rotations and lead times as capacity is taken out but this also should be coordinated with all manufacturers.

All of this is happening at a time when costs are going up fast and the investments necessary in supporting a changing industry are also increasing and yet, ironically, the shortages are simultaneously helping to deliver record profit margins for the manufacturers.

Göbel further suggested that "The future will be seriously impacted. People losing drivers or divesting assets today will not easily replace them. You only have to look at the container market and the massive spike in rates caused by a shortage in capacity to imagine what will happen when volumes do return. Underlying demand is clearly very strong and the industry needs help to survive in order to be ready to meet the upturn. This will only happen if the OEMs work with their suppliers now to minimize the impact and ensure they live to see the recovery."

On 14/15th October the annual ECG Conference will convene at the Tangla Hotel in Brussels.



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