Finished vehicle logistics industry ‘staring into the abyss’

Stuart Todd | Thursday, 09 December 2021

Logistics service providers face record losses, putting investments and recovery at risk, as further material shortages threaten production schedules that are already volatile

The Association of European Vehicle Logistics (ECG) has warned that the industry is “staring into the abyss” as further material shortages threaten production schedules that are already volatile.

It claimed logistics service providers (LSPs) are facing record losses, putting investments and recovery at risk, with a lack of partnership or visibility from manufacturers adding to the strain on finished vehicle logistics providers.

The Brussels-based trade body represents the interests of more than 140 member companies who own or operate more than 380 car-carrying ships, 14,900 purpose-built railway wagons, 28 river barges and more than 27,800 road transporters.

In a statement, it said: “The Finished Vehicle Logistics (FVL) industry continues to be decimated by the massive reductions in volume resulting from material supplies that appear completely unpredictable. Many manufacturers have been unable or unwilling to issue production volume forecasts since the start of the year.

"Few are able to predict with any certainty when the situation will improve. In part, this is no longer simply because of the well-documented global shortage of semi-conductors as further material shortages, ranging from aluminium and magnesium to leather, are now overhanging the industry."

'Unsustainable' reductions in capacity

As has become usual in the sector, the carriers are left with all of the utilisation risk as a result of unbalanced service contracts for delivery of new cars, according to ECG President, Wolfgang Göbel.

"This is not just about the reduced volumes. The unpredictability makes meaningful planning impossible," Göbel said. "Efficiency in transport operations has fallen significantly and we are implementing all possible solutions to protect the business including capacity reduction or even reduced days of operation on compounds. All of this is happening at a time when most of our costs are rising rapidly and inflation is rocketing."

Volume commitments needed

ECG is therefore calling for a contractual commitment to minimum volumes by the industry. It also highlighted concerns that the current circumstances are resulting in "unsustainable" reductions in capacity as assets are laid up or disposed of, adding that in the road sector, drivers are being lost to other industries and will likely never return to vehicle logistics which will compound the existing driver shortage and make the restoration of capacity almost impossible.

"Many operators are registering significant losses and will be unable to invest in increased capacity when volumes eventually return. Indeed, pre-determined rates in longer contracts may no longer be financially viable with such rapid increases in operating costs," the statement underlined.

'One-sided relationship'

ECG executive director Mike Sturgeon commented: "The outbound logistics sector is treated completely differently from suppliers in inbound logistics. The OEMs have for years taken advantage of their finished vehicle logistics suppliers with overstated tender volumes, no volume guarantees and with LSPs expected to absorb whatever market fluctuations may occur while still achieving demanding service levels."

He added: "I cannot think of any other industry where such a one-sided relationship exists. In my experience the manufacturers work in a true spirit of partnership with inbound suppliers and yet the same people are happy to abuse their relationships with outbound suppliers. It is really quite extraordinary."

In the short-term, viability of carriers is at significant risk while, in the medium-term, the industry will be left unable to respond to the eventual recovery in volume or to invest in decarbonisation and the other challenges that the industry is facing, ECG's statement concluded.

ECG members have an aggregate turnover of around €24.5 billion and are based across the EU, as well as in Norway, Switzerland, the UK, Turkey, Russia, Ukraine and beyond.

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