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1. Background

- Crisis after crisis – since early 2020 we have seen:
 - Low and very unpredictable volumes
 - Absence of forecasts due to this unpredictability
 - Consequent low efficiency in operations
 - Significant financial losses by most LSPs
 - Reduction in capacity and resources generally
 - Labour shortages
 - Material shortages
 - Significant cost increases in many areas, especially raw materials such as steel driving asset costs up
 - Consequent halt in most investments

And so to war...

- Massive cost increases - not just in fuel and energy
 - Inflation, and now interest rates, rising fast
 - Costs in FVL mostly rising far faster than headline inflation rates in the press
 - Driver shortage hugely exacerbated by Ukrainians and others leaving – many trucks are parked up
 - Any contract signed before the war is certainly now loss making
- Despite this background and the risk of recession, volumes are expected to start slowly recovering – but confidence in the market is extremely low

2. Mode by mode

2.1 Road Transport

- Most large fleets have disposed of hundreds of trucks since 2020
 - A straw poll of 6 larger operators shows that between them they have reduced by **1,500** trucks which equates to a **27%** loss of capacity
 - In most cases these transporters have been scrapped and not sold, so the capacity is lost completely
- An additional 5-10% of trucks are now parked up on any given day due to the driver shortage
- Many small operators that historically worked as sub-contractors have exited the market and turned to general haulage – an undocumented capacity loss
- Driver shortage is global and has existed for decades, but is now becoming truly critical
 - FVL finding it harder than ever to persuade drivers to drive transporters – in comparison with general haulage the job is hard, dangerous, thankless and, for many, involves extensive roaming in trucks with small cabs
 - According to the IRU, up to 425,000 truck driver positions in Europe, 10% of the total, remained unfilled in 2021. They forecast this will jump to 14% by the end of 2022 – an incredible 600,000 jobs!
- OEMs have disrupted the market in trying to secure capacity
 - Some have contracted dedicated trucks which reduces industry efficiency and further reduces capacity

- Some have turned directly to the spot market which has vastly inflated rates and disrupted the normal working of the industry - larger LSPs contracted to OEMs can no longer get sub-contractors and operate their networks efficiently
- Some have changed their distribution networks and contributed to less efficient operations in the sector

2.2 Short Sea Shipping

- Capacity has been reduced generally
- Older vessels scrapped or sold to the Far East – more will follow
- Many ships deployed outside Europe (Asia) to meet demand - **estimates put this at more than 15 vessels already, with 4 or 5 more expected to join them in Q4**
- Order book for new vessels at a historic low – last mid-size vessel on order will deliver soon, though deep sea ships are being built
- Lead times are at historic highs – order now for 2026/27 delivery!
- Shortage of dock labour persists
- Congestion in some key ports continues to significantly impact on efficiency with thousands of 'lost' ship days in the first half of 2022 equating to 10-15% of capacity

2.3 Rail Transport

- Some older wagons have been scrapped
- Capacity in traction has also reduced
- Plus - huge infrastructure problems, especially in Germany
 - More than 1,000 major construction works
 - Many other smaller ones that result in short notice track closures
 - Track closures mean diversion over longer routes which effectively means more resource is needed. On average 20-30% more!
 - Disruption will last a minimum of 10 years
- Combination of these 2 factors means 35-40% shortage of capacity – at least for the German market
- Traction does not want to work for FVL – unpredictable sector
- Train driver shortage – full employment
- In Germany shipments of war materiel and energy (e.g. coal) are prioritised over other freight
- Shortages equate to hundreds of trains per day across the industry, estimated at **500+!**
- FVL has become much less reliable as a result

3. How do we rebuild the industry?

3.1 General

- Restore confidence
 - Long-term partnership approach with more balanced contracts and sharing of risk
 - Change is already being seen but needs to be industry wide
 - Contractual relationships need to address issues such as:
 - Minimum volume guarantees
 - Better planning/forecasting/communication
 - Respecting payment terms (especially as interest rates rise)

3.2 Road and shipping

- Investment is needed but no-one will invest without confidence in future volumes and the reasonable expectation of profitability
- Unpredictability remains with material and supply chain shortages
- Factors impacting confidence include:
 - Ongoing war
 - Looming recession
 - Continuing semi-conductor shortage (VDA quotes "at least 2025")
 - Potential closure of German plants due to gas shortages (warned by VDA)
 - China/Taiwan situation could have enormous impact on semi-conductor supply
- Even if confidence returns today it will take:
 - 15 months to put a new transporter on the road – and you will still have to find a driver for it!
 - 4-5 years (!) to put a new vessel on the water

3.3 Rail

- Will not be solved by investment from LSPs
- Issues are mostly a result of (very) long-term lack of investment in rail infrastructure across Europe
- European Commission very good at promoting use of rail / modal shift, e.g. Shift2Rail, but have almost completely failed to deliver on infrastructure and progress towards a single market for rail

There is not even light at the end of the tunnel!

3.4 And do it sustainably.....

Against this challenging background the industry still needs to decarbonise

- This again is largely an issue of investment
- Some shipping lines investing heavily in greener assets
- Some OEMs already pushing hard for 'green' road transport, but....
 - Electric trucks are 3+ x price of ICE
 - There is no infrastructure in place...
 - and no green power to charge/fuel them

4. Summary

This is not a short-term problem, and potential solutions are few.

Some, such as the driver shortage, will require political and social change that will take many years.

Genuine partnership between shippers and carriers is essential.

ECG predicts that unbalanced demand vs supply in the FVL sector will continue for the foreseeable future.