The Official Journal of The Logistics & Supply Chain Management Society

The Logistics & Supply Chain Management Society
The Regional Professional Body for Logistics Practitioners

LogiSYM

The Magazine for Supply Chain Executives

JULY/AUGUST 2016

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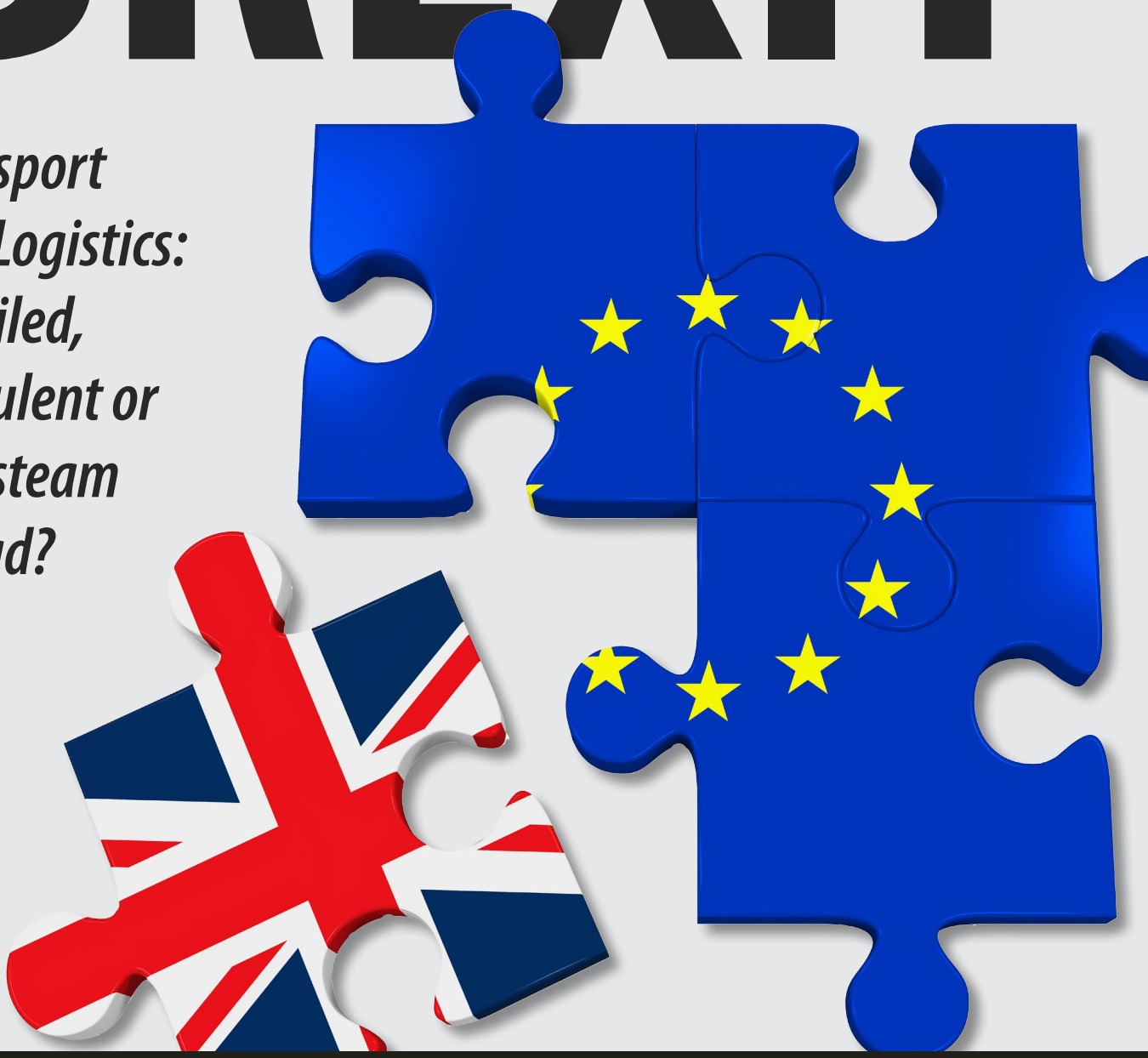

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IDEAS THAT ADVANCE

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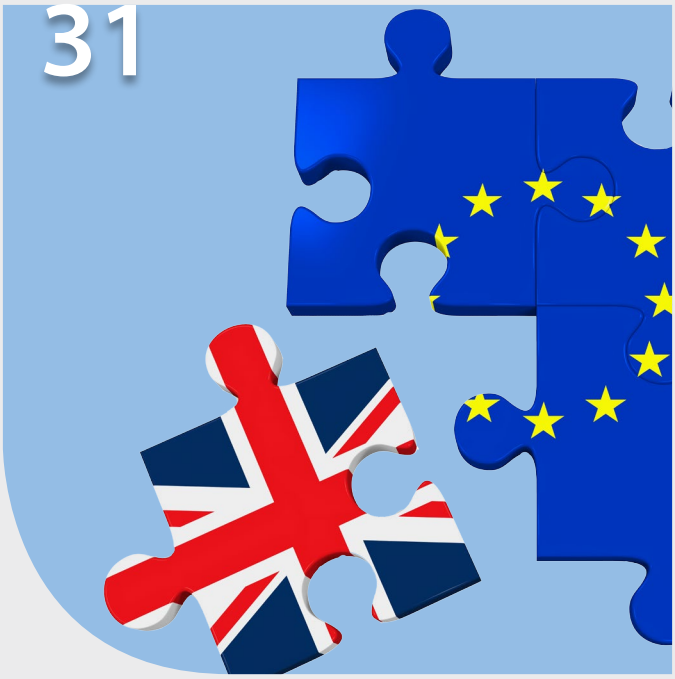

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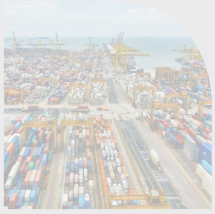

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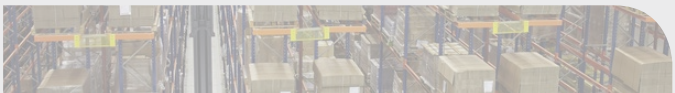

from the editor

.....Will We Ever Know the Full Impact of BREXIT?

Dear Readers,

While many of us had some idea that BREXIT would impact the status quo, not many realised how wide reaching the challenges of such a reality would be. There is no question the changes that BREXIT will bring are important ones for those whose business and supply chains are linked to the European Union (EU), as well as to the United Kingdom (UK).

We have seen the big moves on currency exchanges and stock market values. The global interdependencies are very evident when such big events occur. Nevertheless, it is also at such times that we can all see the resilience of markets and businesses. It is also a good time to brush up on our knowledge of WTO rules vs FTA's.

At a time when there are several FTA's being negotiated or nearing implementation stage between the EU and several countries, several questions beckon. Will the EU go full steam ahead to implement what is in the pipeline, or will it pause for a while? Even if the EU decides to go ahead, will the related party put a hold to their FTA with the EU, considering the uncertainty and impact of the UK leaving the EU?

Such questions are important but should not be show stoppers anytime soon. The EU may be criticised for many things but it is also very cautious. The exiting process will be managed very carefully and diligently to avoid any destabilisation of trading interests, both within the Union but also with global partners.

We know that BREXIT will bring some big changes and we know that we need to change but the time horizon of all this happening will be a question for some years. Unbundling over 40 years of trading, social and political structures between the EU and the UK will need a lot of thought and hard work. We also know that the UK is still pushing very hard to keep the trading relationship unchanged. But based on current rhetoric from the EU, this seems unlikely - but one never knows!

As there are still many unknowns which will prevail for some time to come, there is no need for anyone to lose too much sleep. However, it would be prudent to initiate an impact assessment of your business that will include your corporate strategy, financial model and supply chain. This process will highlight your areas of exposure and where defensive actions may be necessary. This will give ample time to plan the necessary changes when clarity of the EU vs the UK divorce is visible.

An impact assessment workshop is planned later in 2016 and we invite readers to register for this event closer to the time.

As usual, I look forward to receiving your feedback at **info@lscms.org** and even publishing an article of yours.

Joe Lombardo
International Editor

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a word from the president

Commercial Fortitude

It's been an interesting 60 days. Firstly, one of my constant gripes was confirmed in a report I read recently. A number of listed companies have faced declining returns on assets and invested capital over the last decade.

This raises the question of whether these companies may be destroying value rather than creating it. The compression of returns on invested capital has now reached a stage where a number of companies are generating returns below their weighted-average cost of capital. Surprisingly though this is not just a trend with US based companies – who are renowned for focussing quarter to quarter – but with listed companies in Asia and elsewhere. The 'disease' has spread.

Traditional businesses are struggling to eke out profits whereas "new economy" sectors such as data technologies, e-commerce, fintech and the sharing economy are fast capturing the market's attention.

My perspective is that a lot of management teams and boards fail to understand how disruption will continue to evolve. This is not an easy task by any measure but even worse than this, many teams and boards are just not able to focus on a couple of key areas and add focus and the resources around this to carve out a viable niche that will allow continued long term sustainability and the returns that investors want.

To add to the conundrum, many corporations have been focused on finding ways to keep costs down, as opposed to investing in the revenue line to drive businesses forward. Again, not an easy thing to do as many teams do not want to invest in the topline because they do not see any economic growth but how can there be economic growth if nobody invests in the topline?

The second thing that has been happening these last couple of months is that I have had the benefit of learning more about these "new economy" sectors (and what I consider 'nuisance disruptors' like the recent SOLAS requirements that came into effect on 1st July). From blockchain technology to the enhanced digitisation of the Supply Chain and developments around e-commerce and omni-channel Supply Chain's.

With the plethora of options available, a crystal ball would help but for us lesser mortals getting a better understanding of what is actually happening in the global marketplace and an in-depth understanding of these new economy sectors is what we will have to settle for. Better knowledge around what is actually happening will help provide that commercial fortitude and vision to take any organisation to the next level.

LogiSYM helps Logisticans do this with our Magazine and Symposiums and over the next three quarters we will also have a webinar, sponsored by Quintiq that will address some of these issues. You can read more about this in the main section of the magazine and I strongly encourage you to sign up for this. Keeping the dialogue going and ideas flowing is needed in this fast paced environment and everyone's perspective is relevant.

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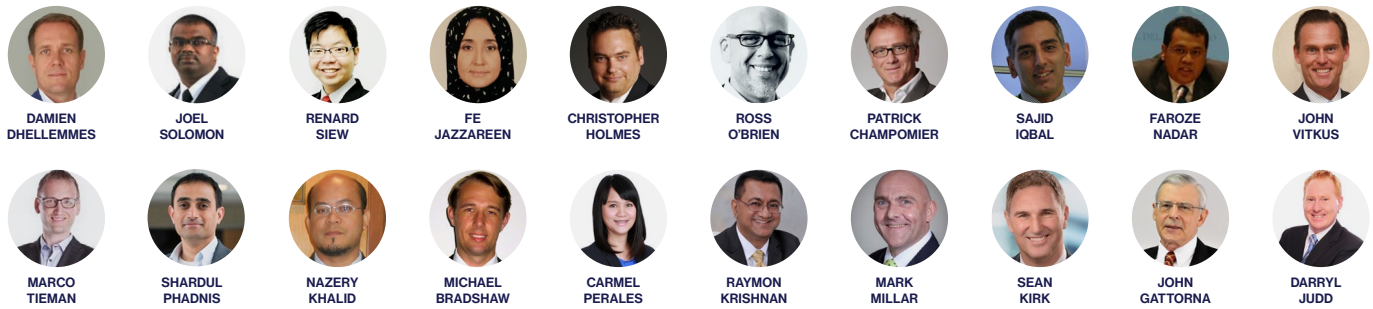

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Qatar Plans Push Into New Air Cargo Markets

Qatar Airways cargo chief Ulrich Ogiermann said that the airline plans to become a major player in three new markets - the transpacific, Australia and South America - in the next nine months.

The chief officer cargo at the world's third largest international carrier told a press conference on the opening day of Air Cargo China 2016 in Shanghai that major expansion would be made possible by three new additions to its freighter fleet, which now includes nine Boeing 777F, eight Airbus 3330F and two B747F aircraft, as well as the opening of its new European hub in Luxembourg.

Ogiermann also predicted that Qatar's pure cargo fleet will grow to 22 aircraft by 2017 and from July 1, it will double its flights into and out of Luxembourg. It will also add Halifax (Canada) and New York (JFK) to its freighter network from July.

He told the conference: "Last year, we succeeded in becoming the world's third largest international cargo carrier, but there are still areas we have not yet targeted to their full potential. "In 2017, we will target areas such as transpacific, Australia and South America – do not be surprised if you see us becoming a strong player in all these markets in the next nine months."

Ogiermann also took the opportunity to officially launch the carrier's QR Live service for animals.

QR Live provides stress-free and comfortable transportation of horses, pets, exotic animals and livestock including transit through the 4,200 sq m air-conditioned live animal facility at Hamad International Airport.

It also has eight stalls for horses a round-the-clock animal health care service, 300 sq m paddock, a soft walk area and hydraulic loading and unloading docks.

Photo: Courtesy of Chris Edwards

New Cargo Airline to Launch in Guangzhou, China

The city of Guangzhou, in southern China's Guangdong Province, will soon have a local cargo airline operator. The country's aviation authorities recently cleared the launch of new startup carrier.

According to a statement, the Civil Aviation Administration of China has granted initial approval for the launch of Longhao Air, a new private carrier being financed by a local company. The new venture is wholly owned by Guangdong Longhao Group. The airline's parent company announced the acquisition last year of 50 EV-55 aircraft which can carry a cargo of 1.8 tons each from Czech aircraft manufacturer Evector. Guangdong Longhao Group provides transportation and logistics services as well as highway, infrastructure, and public works investment and construction. Based at Guangzhou Baiyun International Airport, Longhao Air plans to fly domestic and international cargo and mail services—including Hong Kong, Taiwan and Macau—using a fleet of Boeing 737 jets.

Longhao Air has so far enrolled five captains, six pilots, nine maintenance staff, and four flight dispatchers for its initial operations.

IATA Urges UK and EU Leaders to Maintain "Safe, Secure and Efficient" Air Connectivity

IATA has said the UK's future relationship with Europe must ensure "safe, secure, efficient and sustainable air connectivity." However, in their recent report on the Brexit impact, they warned that airfreight volumes would be affected by lower trade.

IATA Director General and Chief Executive Tony Tyler said: "As leaders in the UK and the EU work to establish a new framework for their relationship, one certainty to guide them is the need and desire of people on both sides of that relationship to travel and trade. Air transport plays a major role in making that possible. Air links facilitate business, support jobs and build prosperity. It is critical that whatever form the new UK-EU relationship takes, it must continue to ensure the common interests of safe, secure, efficient and sustainable air connectivity."

In the short term, the airline association said the vote would affect the relative price of imports and exports into the UK. The impact of this on the country's airfreight was uncertain. In the longer term, the UK's exit was likely to have an impact on international trade "and this, in turn, will affect airfreight", IATA said.

> "As leaders in the UK and the EU work to establish a new framework for their relationship, one certainty to guide them is the need and desire of people on both sides of that relationship to travel and trade.
>
> **Tony Tyler**
> **Director General and Chief Executive**
> **IATA**

"The Organisation for Economic Co-operation and Development estimates that UK trade volumes could fall by 10%-20% over the long run (to 2030), relative to the baseline. In part, the international trade impacts will depend on the nature and timing of trade agreements and relationships negotiated by the UK and this remains highly uncertain at this stage. The OECD also notes that regulatory divergence could increase over time, increasing trade costs." IATA pointed out that it could take years for the UK to negotiate trade deals with the EU and other countries. As well as trade deals, the UK could have to re-negotiate aviation agreements if the exit also affects the country's participation in Europe's single aviation market. "Membership of the European Common Aviation Area (ECAA) would provide the most straightforward avenue for continued access to the Single Aviation Market, which extends access to the single market to a range of non-EU members.

"However, membership of the ECAA requires acceptance of EU aviation law across all areas, thus severely limiting the UK's policy freedom. Beyond Europe, other air services agreements would need to be negotiated to ensure continued access to markets as important as the US and Canada among others."

"However, ECAA members Norway and Iceland are both parties to the EU-US agreement despite not being in the EU, so this would likely be a scenario that the UK could look to replicate." IATA said that bespoke agreements could be negotiated to provide the UK with policy freedom, but would come at the cost of more limited market access.

Up to 800 Jobs To Go at Lufthansa Cargo

On the cover of its first-quarter report, the Lufthansa Group lists five key points concerning the company's performance. Four of them are positive. And then there is this: "All operating segments except for Lufthansa Cargo are developing in line with forecasts."

Perhaps, with a clue as blatant as that, and the dismal first-quarter financial and operational performance numbers shown in the chart at right, today's announcement of job cuts and a new strategy aimed at bringing Lufthansa Cargo back to profitability should not come as a surprise. In an announcement to its staff, Lufthansa Cargo said between 700 and 800 jobs, 500 of them in Germany, would be cut. This is between 15% and 17% of the workforce – a huge cut. In addition to the job cuts, and as part of the C40 cost reduction plan announced earlier this year, Lufthansa Cargo said it would

- introduce new products and services in order to reach new customer groups
- expand the metal-neutral partnerships it has entered with carriers such as All Nippon Airways, United Airlines, and Cathay Pacific
- continue the "digitalisation of all our main business processes in our eCargo program."

The goal is to reduce costs by €80 million annually, with €55 million coming from the staff reduction. Lufthansa, like Air France-KLM, IAG, and some of the big Asian carriers, has lost market share in recent years to carriers based in the Gulf Region, Turkey, Russia, and Luxembourg. Obviously, cutting costs is important for survival in this highly competitive environment, but whether cutting costs, by €80 million or any other amount, will be enough is another matter. Following through on the three aspects of the C40 program will also be crucial.

Brexit Triggers EasyJet to Seek Another AOC

UK budget carrier easyJet is formally seeking another air operator's certificate (AOC) outside of the UK following the June 23 vote to exit the European Union (EU), or Brexit.

"As part of easyJet's contingency planning before the referendum, we had informal discussions with a number of European aviation regulators about the establishment of an AOC in a European country to enable easyJet to fly across Europe as we do today. EasyJet has now started a formal process to acquire an AOC," the airline said in a statement.

EasyJet holds two AOCs, one in the UK and one for easyJet Switzerland. Seeking an AOC in another EU country could protect its business, should the UK go ahead with plans to leave the Bloc.

"Until the outcome of the UK/EU negotiations are clearer, easyJet does not need to make any other structural or operational changes. We have no plans to move from Luton where we have been based for 20 years," it said.

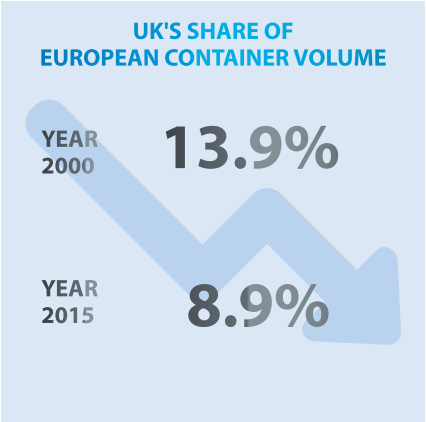
In the meantime, the budget carrier is lobbying the UK and EU to maintain access to the single EU aviation market. IATA has said UK air passengers could decline 3%-5% by 2020 as a result of Brexit, following an expected economic downturn and predicted drop in the value of the UK pound.

Aviation policy will be a major challenge for the coming negotiations.

Brexit to Have Minimal Impact on Container Shipping, Alphaliner Says

The U.K.'s vote to leave the European Union is expected to have "little direct impact" on the container shipping industry, according to Alphaliner.

U.K. ports' share of global container traffic shrank to 1.2 percent in 2013 from 3 percent in 2000, though they staged a small recovery in 2015 with throughput of 9.7 million twenty-foot-equivalent units, the industry analyst said. The country's share of European container volume also declined over the same period, dropping to 8.9 percent in 2015 from 13.9 percent in 2000.



The U.K.'s decline as a container shipping hub started long before the Brexit vote last week, with British flagged vessels accounting for 3.7 percent of global capacity and U.K.-controlled ships making up just 2.2 percent of the world fleet measured in TEUs. The steep slide of the pound sterling against key currencies following the vote is expected to reduce U.K. imports in the short term, especially from Asia, which will intensify pressure on the "fragile" recovery on the Asia-Europe container trade.

Container volumes from Asia to North Europe grew by 2.7 percent in the first four months of the year, according to Container Trade Statistics, with the U.K. accounting for less than 15 percent of the market.

The risk of an economic downturn in Europe likely will have a bigger impact on container shipping "and a corresponding fall in global container trade volumes could only worsen the current supply-demand gap further," according to Alphaliner.

Container supply will grow by 3.6 percent this year, outpacing global demand growth of only 1.3 percent, the analyst forecasts.

The Brexit vote could bring further market uncertainties and raise the cost of capital for container ship owners, particularly European companies, which account for 54 percent of global capacity.

Zim Could Reportedly Join 2M

Zim Integrated Shipping Services might join the 2M Alliance between Maersk Line and Mediterranean Shipping Co., according to Alphaliner.

The Israeli carrier could be "roped" into an enlarged 2M alongside Hyundai Merchant Marine, according to the industry analyst's sources "although the carriers involved have not confirmed the potential inclusion of a fourth carrier."

South Korea's Hyundai Merchant Marine, currently a member of the G6 Alliance, last week announced it was in negotiations to join the 2M partnership in the wake of finalizing a debt restructuring. The 2M's possible motivations behind partnering with HMM are murky.

Discussions with the 2M carriers are mainly focused on the trans-Pacific route where HMM has around 4.4 percent of capacity while Zim has a 3.3 percent share, Alphaliner said.

This would add to the current 15.3 percent combined capacity of Maersk and MSC, which would boost the share of an enlarged four carrier 2M to around 23 percent. This compares with 40 percent for the future Ocean Alliance and 34 percent for THE Alliance, which will launch in early 2017.

Zim is the only major global container ship operator that has not officially joined any of the existing alliances or the new groupings that will begin next year, but it does cooperate with other container lines on certain routes.

Liebherr Launches SmartApp to Optimise Cargo Handling

Liebherr Maritime Cranes is extending its product range of IT tools and services with the LiDAT smartApp telematic system to optimise the cargo handling performance of cranes and related processes.

Big data analytics examines large amounts of data to uncover hidden trends, anomalies and other insights, turning statistics is about turning these numbers into useful information on which action can taken.

With the LiDAT smartApp, it's possible to analyse crane (operating and performance) data and get answers from it almost immediately, giving ports a competitive edge they didn't have before. Big data analytics helps to detect bottle necks and to identify new opportunities, leading to smarter more efficient operations, higher profits and happier customers.

LiDAT combines crane technology and data transfer logic. The online work cycle detection on the crane records specific values during the crane operation are transmitted in real time to the LiDAT server centre, where the analysis is taking place.

With LiDAT smartApp all relevant data/variables are displayed as key performance indicators (KPIs) on any device (PC, tablet, smartphone), and the result of the analysis can be fed back to the crane/driver via LiDAT®. The results are shown on the operators display.

LiDAT smartApp gets all relevant people throughout your port/terminal connected directly to the relevant data. At the end of the day this leads to immediate decisions and gives customers the ability to get added value out of their data.

Logistics Managers Take On Brexit

by Maria Judd

Keeping calm and carrying on with Logistics during Brexit

Financial markets hate surprises. Media fueled fear has been whipped up with headlines like "crisis" and "chaos" due to Brexit. The pound has plummeted and trillions of dollars have been wiped off global share markets overnight. However, this isn't the first time that this has happened. Many of us still grit our teeth at the mention of the recent Global Financial Crisis, the dotcom crash, the Asian Financial Crisis – get the picture? It is worth noting, as I write this that major publications seem to be outlining business as usual in the Supply Chain and Logistics Sectors. The Wall Street Journal, for example, outlines some positives which indicates that there are still great things happening, despite all the doom and gloom.

- Brompton Bicycling has benefited from the plunging pound as they can now be more competitive in international markets.
- Honeywell International have just invested $1.5 Billion in warehouse automation specialist Intelligrated. In fact, this purchase comes of the back of a global trend towards of growing demand in the logistics, warehouse and fulfillment solutions sector with a staggering $8.6 Billion being the combined value of three big acquisitions in this sector in the past two months!

We have been here before. Brexit is just the latest bump in the road of international markets, similar to other volatile markers that we have experienced in the last thirty years. The best way to tackle these extremes is by not rushing into anything by following some basic steps:

1. DON'T PANIC

Yes we have all been taken by surprise by what has happened. No one actually expected the UK to leave but the one thing we have learnt by watching markets over the years is that they overreact in a crisis. The better approach therefore is to hold your position and keep a close eye on things until things settle down in the weeks ahead.

2. THINK LONG-TERM

Once again, let's go back to our history lessons which show that markets move in cycles. Those who stick it out will benefit in a recovering market.

3. REVIEW YOUR LOGISTICS STRATEGY

Times like these can through up new challenges and opportunities. They therefore provide a great time to review your strategy and whether it is meeting your company needs. Is your risk strategy still adequate? Are you on track to still meet your goals despite the setback? How are your competitors reacting?

4. PREPARE

It is also a good time to think about how you will cope if there are future downturns with the aim of assessing and protecting your supply and customer base.

5. TAKE ADVANTAGE OF LOWER PRICES AND OTHER OPPORTUNITIES

A fall can be an opportunity to gain market ground and procure greater value, if you have the appetite for it.

6. SEEK ADVICE

No doubt in the weeks ahead as governments meet to discuss the issues there will be various changes that fall out of the Brexit result that will directly implicate areas such as trade and investment. If after keeping a close eye on developments you are not sure of how to proceed, it's a good idea to reach out for advice from local government or professional bodies on what the various changes that no doubt shake out of this will be and how they are going to implicate your business.

It is hard to say how things will unfold until the EU and UK have gone through the process of extensive negotiations that is expected to take a lengthy and cautious period of two years. While uncertainty is never a good thing for financial markets, the very nature of global logistics and supply chain markets is that they are diversified enough to absorb risks in any one region. In past crises like the Global Financial Crisis and Dot.com Crash we have seen the Logistics and Supply Chain sectors rise to meet new challenges, evolve and emerge stronger than before.

This ingenuity and problem solving continuum is part and parcel of what successful logisticians and supply chain professionals do. Brexit is therefore just another opportunity to find solutions for customers, in other words, just another day in the life of a logistics and supply chain professional. Let's put our entrepreneurial hats on and see where it takes us.

RSA Logistics Breaks Ground on RSA Cold Chain Facility in Dubai South

Photo: Officials at the ground-breaking ceremony.

RSA Cold Chain (RCC) is the newest venture of RSA Logistics. The parent company broke ground on the new facility on June 19th in the presence of a delegation headed by Mr. Ahmed Al Ansari, Acting CEO of Dubai World Central Corporation, also known as "Dubai South."

RCC, which will house a total capacity of 21,000 pallets, will start phase 1 of its operations in March 2017. Initially, it will offer a capacity of 10,800 pallets and end-to-end 3PL services for packaged food, fresh fruit and vegetables, dairy products, and frozen food. The warehouse will comprise of 8 independent chambers, including an ammonia-based chilling system. Each chamber will accommodate temperatures as low as -25 degrees. With global temperatures on the rise and the growing demand for food due to an increased population, there is a critical need for reliable cold storage solutions. The brand new entity was conceived to meet these needs, particularly in the lead up to Expo 2020 when Dubai will see a spike in its population.

The site for the new facility is strategically located just outside the bonded zone in Dubai South to maximize ease of access and minimize time lags in movements of goods. RCC will provide temperature controlled transportation with a holistic solution that meets the stringent compliance requirements for food storage and transportation, while focusing on quality and scalability.

Mr. Abhishek Ajay Shah, Co-Founder & Managing Director of RSA Logistics said, "We take pride in the launch of our latest project which increases the scope of niche services we can offer to our customers. The cold chain is an under-served sector in the UAE and the Middle East and we're excited to be part of the journey that will see a change in this equation. We look forward to offering a high-growth and scalable solution to quality-focused food companies."

Mr. Ahmed Alansari, Acting CEO, Dubai World Central Corporation "Dubai South", said: "It gives me great pleasure to witness this strategic expansion of RSA today. Our platform offers unparalleled speed, connectivity and efficiency and sets a new global standard when handling freight, allowing for goods to be transferred from sea to air in only 4 hours. RSA stands out as a prime example of a successful business that has capitalized on these possibilities to grow and expand, and we are incredibly proud and honored to have facilitated this success story through our offering."

Tightened Up: Armstrong's Third-Party Logistics Market Results

For third-party logistics, 2015 was a year dominated by mergers and acquisitions, ample carrier capacity, and sagging fuel prices. That's how the 3PL year was characterized in a recent report from Armstrong & Associates.

3PL net revenues grew 4.5 percent in 2015 to $71.9 billion. Overall gross revenues had a muted 2.2 percent increase, primarily due to reduced fuel prices in 2015 versus 2014 and the resulting reduction in fuel surcharge revenue for non-asset domestic and international transportation managers. The total U.S. 3PL Market expanded to $161.2 billion.

Big M&A deals changed third-party logistics from mid-2014 through 2015. XPO Logistics helped make 2015 the largest 3PL M&A year (with purchases including Con-way and

Norbert Dentressangle) for deals over $100 million at 11, since Armstrong & Associates began tracking activity in 1999. The resulting integration of operations have increased concentration on efficiency and profitability.

For 2015, the domestic transportation management (DTM) 3PL—also known as freight brokerage—segment lead the way with net revenue growth of 12.4 percent, Armstrong reported. International transportation management (ITM) rebounded with 4.8 percent net revenue growth. Dedicated contract carriage (DCC) net revenue saw muted growth of 4.0 percent due to ample carrier capacity in the market. While many 3PL warehouses were full in 2014 and 2015, pricing pressure has dominated the competitive landscape. Value-added warehousing and distribution (VAWD) had a meager 2.2-percent increase in net revenue for the year.

The big story in warehousing, according to Armstrong, was Amazon's sequential growth in its fulfillment center operations. If all of Amazon's warehouses, accounting for 100.6 million square feet of space were counted as 3PL VAWD space, it would be the third largest global VAWD 3PL behind DHL Supply Chain & Global Forwarding with 248 million square feet and XPO Logistics with 151 million square feet. "Amazon is also growing its internal freight forwarding and domestic transportation management skills," said the Armstrong report, "so we are awaiting the day when it truly goes to market as an integrated 3PL. It has already described itself as a transportation service provider in a recent 10-K filing."

Kerry Logistics Acquires US-Based NVOCC

The third-party logistics provider closed on its purchase of Apex Maritime, a top three non-vessel operating common carrier in terms of Asia-U.S. import volumes, according to trade data firm Datamyne.

Kerry Logistics Network Limited has officially closed on its acquisition of South San Francisco, Calif.-based non-vessel operating common carrier (NVOCC) Apex Maritime, the company said in a statement. The Hong Kong-based third-party logistics provider said the purchase would allow it to expand in the U.S. market and is part of Kerry Logistics' long-term international freight forwarding strategy. Financial terms of the deal were not disclosed.

Founded in 1990, APEX is ranked as a top three NVOCC in terms of Asia-U.S. import volumes, according to trade data firm Datamyne. The transpacific specialist offers a full suite of services from ocean and air freight, customs brokerage, to logistics solutions and door-to-door delivery in the U.S. with a focus on consumables and perishables, handling more than 270,000 TEUs in 2015.

Kerry Logistics said integration with APEX, which is already underway, will allow it to provide international shippers with a dedicated sales team in the U.S. market, as well as complete supply chain visibility from origin to destination. Likewise, the company will be able to provide former Apex customers with access to a global network with enhanced service offerings and logistics support across Asia.

"The acquisition of APEX is a major leap forward in our global expansion plan," Kerry Logistics Group Managing Director William Ma said. "The Asia-US trade plays an important role in our IFF growth strategy and APEX will form an important business arm that further strengthens our global network, enabling us to tap into new opportunities from trans-Pacific trades. It will also bring mutual benefits to both companies, with enriched service offerings and extensive marketing network in the US to Kerry Logistics' customers as well as strong Pan-Asia logistics support to APEX's customers."

"The APEX team is excited to join the Kerry Logistics family," APEX CEO VIC Cheung added. "We are ready to take full advantage in realizing vast cross-selling opportunities from the integration. Our customers will gain global scale and best practices in supply chain management, while maintaining their relationship with the same team that has served them for years.

Recent Australian Election Results and the Manufacturing Industry

by Maria Judd

From London to Whyalla there is a call for more Government intervention

This has been strongly evidenced in the recent Australian election results were minority parties like the Nick Xenophon Team have shocked the two major Australian political parties to capture several key seats in the Senate and Lower House. As I write this they are narrowly contesting the seat of Grey, which is a traditionally staunch conservative Liberal seat. The fight in Grey hinges on Government funding to keep the steelworks industry alive there, which employs 6000 people.

According to Australian Senator, Nick Xenophon, his political aim, as an independent is to "drag both parties back to the center." The growing popularity of minor political parties follows a global trend of popular disillusionment with the establishment that has spawned the likes of Brexit, Trump, Sanders and now the election of minority parties in Australian politics. It is clear that people are worried about their jobs and the future.

In Australia, the manufacturing sector has been a key focus of this concern. While the country had a robust manufacturing sector in the past, recently Australia has slipped behind Luxembourg to take the last place in the OECD nations in terms of manufacturing jobs as a share of total employment, according to a report from the new Centre for Future Work. The report, released in June 2016, identified policy settings that have contributed to the dramatic and unusual decline in Australian manufacturing and made some key recommendations.

"What is inevitable, is that any developed country which opts out of manufacturing will be opting out of over two-thirds of world merchandise trade," said Jim Stanford, Director of the Centre for Future Work.

"There is abundant international evidence that smart, pro-active government engagement, aimed at deliberately enhancing strategic, high-value, export-oriented manufacturing, is not only possible – it is essential for modern industrial success."

Prophetically, Mr Stanford added that "Governments are not powerless in this area. There are clear policy options to encourage manufacturing, and there is strong community support for politicians to take them up."

The Future Work report makes a good argument for the promotion of manufacturing and its importance to the Australian economy. It puts forward a case for a more focused and interventionist contribution by Government to further develop this sector.

It will be interesting to see how the new Government in Australia shapes up and whether the lessons have been learned. It is hoped we will see a major policy shift and investment in the Manufacturing and Supply Chain sectors. A staunching of the "Brain Drain" of Australian Professionals in Supply Chain, Logistics, Manufacturing and Innovation disciplines who, due to the decline of their sector, have been moving off-shore for career opportunities. While this has been of enormous advantage for emerging economies around the world, it will eventually lead to a decline in-country if it proceeds.

Brexit Wins – What's Next for the Procurement Industry?

Milan Panchmatia, Managing Partner at 4C Associates has commented on the shock of Brexit and the impact on the Procurement Industry, "Leave campaigners claimed that import costs will be significantly reduced (by as much as 8 percent) as we move to being a zero tariff regime. Possible. However, import costs are equally likely to rise or stay the same. Much of our imports come from the EU and these are unlikely to change. It's unlikely that the UK will immediately move away from the international agreements that the EU has. It's also likely that the administration of imports (everything from VAT to duty deferment) will become much more complex.

"What is certain to add more costs to business following this decision will be the decrease in migration and the increase in administration and regulation associated with business travel. There will be an increase in costs for products and services that depend on low-skilled, migrant labour (everything from contract cleaning to logistics and construction).

"This decision goes against the views of a large percentage of the procurement industry. Our recent monthly poll of 500 global procurement professionals found that three quarters (79.5 percent) said they'd rather stay part of the European Union. 78.6 percent said they thought the procurement industry would be a harder sector to work in and 98 percent felt that leaving the EU would have a negative impact on procurement career opportunities in the UK.

"What is clear from our poll and from conversations we have been having with clients and procurement professionals is that leaving the EU presents new and unknown changes to business. It is likely that procurement functions will certainly see differences. Brexit will be the beginning of a long and unclear process and certainly not the end. It provides the possibility for the UK to run its own economy more closely in line with its own national interest but it does not guarantee success," he concluded.

DHL Uses Order Picking Robots

DHL has successfully run a pilot test including robot technology for collaborative automated order picking in a DHL Supply Chain warehouse in Unna, Germany. The robot - called EffiBOT from the French start-up Effidence - is a new, fully automated trolley that follows pickers through the warehouse and takes care of most of the physical work.

It is specifically designed to work safely with and around people. During the test, two robots supported the pickers by carrying the weight and automatically dropping off the orders once fully loaded. The warehousing staff highly appreciated the option to work hands-free and not having to push or pull heavy carts.

A common challenge for today's logistics sector is the high frequency of picking processes in smaller entities due to reduced inventories and increased online shopping. In a non-automated setting manual pickers are confronted with heavy carts and high payloads restricting the picker to single order picking while forcing them to walk longer distances.

"The picking cart follows the picker through the rack system. Once it reaches full capacity, the picker simply sends it to the designated drop-off location, while another picking cart joins. This solution makes moving from single to multi-order picking a more efficient and ergonomic process", explains Michael Artinger, Site Manager DHL Supply Chain, who was responsible for the test.

In addition to EffiBOT, collaborative robots for value-added services such as co-packing as well as mobile piece picking robots autonomously navigating through warehouse shelves are being tested. "In the following weeks, DHL will continuously perform tests with different robot types and systems", says Markus Kückelhaus, VP Innovation & Trend Research, DHL Customer Solutions & Innovation.

Brexit Impact Yet to be Measured by US Logistics Managers

While the regulatory implications for US shippers remain unclear, many Economists and Trade Analysts suggest that the UK vote to terminate its membership in the European Union after more than 40years could be disruptive.

The results prompted Prime Minster David Cameron to resign and sent shock waves through financial markets. The pound dropped to the lowest level in nearly thirty years and European stocks tumbled. Safe havens, on the other hand, such as the yen, the dollar and gold surged.

Lindsey Piegza, Chief Economist with Stifel Fixed Income, believes the U.K. will now wait until a new Prime Minister is in place before executing exit talks and invoking Article 50 of the Lisbon Treaty. "But several questions remain," he says. "What is the impact of a Brexit for example? We are already seeing much of the impact span across financial markets as nervous investors flee from the region."

Thomas J. Donohue, President and CEO of the U.S. Chamber of Commerce, maintained that it is too early for U.S. shippers to panic, however. "Britain has a proud history of leadership in free enterprise and free trade and as a leader of the Atlantic Alliance. Redoubling this commitment to openness in trade and investment, prudent but not overbearing regulation, and close cooperation with friends and allies abroad will be essential in the months ahead," he said.

Donahue noted that investments in Britain are worth more than half a trillion dollars, and many of those investments were made to reach not just British consumers but those on the European mainland as well.

Omani State Firm Set Up to Handle Logistics Investments

Oman has announced the establishment of a new government holding company to manage its investments in ports, free zones, rail, maritime and land transport.

Dr Ahmed bin Mohammed al-Futaisi, Minister of Transport and Communications, said Oman Global Logistics Group would synchronise investment and development objectives to maximise the return on investment.

The Group will act as the government's development arm and will play a "pivotal role in creating major growth opportunities", UAE news agency WAM reported.
A key mandate for the group will be the implementation of the National Logistics Strategy, under the direct supervision of the Ministry of Transport and Communication, it said, adding that a key part of this is to activate the role of the private sector.

The establishment of the new holding company comes as the sultanate seeks to develop the logistics sector through massive infrastructure investments in a number of specialised industrial zones and ports.

Oman has also just completed the preliminary design of its entire planned rail network, which aims to link the ports, economic, industrial and commercial areas and also areas with potential urban growth so these assets can yield their full economic potential.

The Only Dedicated Transport and Logistics Event in Indonesia

Indonesia Transport, Supply Chain and Logistics (ITSCL) is "The leading gateway to transport and logistics users in Southeast Asia's largest economy – Indonesia", with the aim of being a key partner of industry and the Indonesian government, showcasing the government's aspirations of efficient infrastructure and helping it to achieve its objectives of the Blueprint of National Logistics System Development.

ITCSL 2016 that is co-located with ILI (Intra Logistic Indonesia) will bring government, international and domestic participants of the complete supply chain and industry all together in one place, with opportunities to build networks and strengthen market position. ITSCL and ILI are helping to increase efficiency and reduce the cost of transport and logistics. ITSCL will be held at JI-EXPO Kemayoran Jakarta from 19 until 21 October 2016.

WHY INDONESIA ITSCL & ILI HELD IN INDONESIA?

1. Indonesia is the world's largest archipelago with an unique geographical challenge of 17,000 islands
2. Indonesia is the 16th largest economy in the world
3. 53% of the population in the cities produce 74% of the GDP
4. Indonesia is in the midst of Asia Pacific's fastest economic growing region with a projected growth of 6.8% in 2015
5. The Indonesian government has released the blueprint for the National Logistics System Development, to strengthen national connectivity, through the development of economic corridors
6. With rapid urbanization and the development of the country, logistic performance has become vital to provide an efficient distribution and supply chain

REASONS TO EXHIBIT

1. Participate and benefit from the only integrated and international logistics event held in Indonesia
2. Generate business opportunities through business meeting
3. Network with potential clients in a conducive environment
4. Launch new products and services
5. Leverage on our multi-channel marketing programs and special buyer program

Walmart and JD.com Announce Strategic Alliance to Serve Consumers Across China

Walmart and JD.com, China's largest e-commerce company by revenue, have formed a strategic alliance to serve consumers across China through a combination of ecommerce and retail. They will work together to leverage their supply chains to increase the product selection for customers across China, including broadening the range of imported goods.

Walmart will acquire five percent of the total shares outstanding in JD.com and JD.com will take ownership of the Yihaodian's marketplace platform assets, including the Yihaodian brand, website, and app. Yihaodian is an ecommerce website serving eastern and southern China which Walmart first invested in 2011 and of which it acquired 100-percent ownership in 2015. Walmart will continue to operate the Yihaodian direct sales business and will be a seller on the Yihaodian marketplace. JD.com and Walmart will work together on growing the Yihaodian brand and business under its current name and market position.

The alliance will expand Walmart's opportunity in China for ecommerce and provide its stores and Sam's Clubs with potential traffic from JD.com's base of online customers and same-day delivery network. In turn, JD.com will leverage Yihaodian's strong brand and business in eastern and southern China and in key product categories such as high-quality grocery and household goods, both of which complement its own geographical and product strengths. JD.com's customers will also gain access to a wide range of new and imported items from Walmart and Sam's Club.

Sam's Club China will open a flagship store on JD.com, offering same and next-day delivery through JD.com's nationwide warehousing and delivery network, which covers a population of 600 million consumers.

Walmart's China stores will be listed as a preferred retailer on JD.com's O2O JV Dada, China's largest crowd-sourced delivery platform. The impact will drive online traffic to Walmart stores and allowing customers to order fresh food and items from Walmart stores for two-hour home delivery. It will broaden the product selection available to Dada's customers while Walmart will continue to operate its own physical stores.

"We thank the Yihaodian associates for creating a strong brand and business that has helped lead to this opportunity with JD.com," said Doug McMillon, president and CEO of Walmart. "JD.com shares similar values in making the lives of customers better. We also look forward to offering customers a tremendous number of quality imported products not previously widely available in China through Walmart and Sam's Club."

"We believe that this tie-up will increase both product selection and overall user experience," said Richard Liu, CEO of JD.com. "We look forward to further developing Yihaodian, which has tremendous strength in important regions of eastern and southern China," he concluded.

DHL eCommerce Strengthens Presence in China

DHL eCommerce, a division of Deutsche Post DHL Group, opened its DHL eCommerce Shenzhen Distribution Center and will expand its existing distribution centers in Shanghai and Hong Kong as part of its plans to grow its presence in China by over 50 percent. Once these distribution centers are expanded they will be able to handle 48 million and 71 million shipments, respectively, on an annual basis. The new DHL eCommerce Shenzhen Distribution Center, which supports the booming manufacturing sector in Shenzhen and the growing base of Chinese online retailers, has a capacity to handle up to 18 million shipments a year. According to DHL, this will allow for faster, more streamlined shipment and clearance of e-commerce exports to the rest of the world.

"Cross-border e-commerce already accounts for almost 20 percent of China's foreign trade, and the country's business-to-consumer e-commerce market is expected to grow at a compound annual growth rate of over 30 percent from now till 2020," DHL eCommerce Asia Pacific CEO, Malcolm Monteiro said. "With the ability to scale up its size by 150 percent, the DHL eCommerce Shenzhen Distribution Center is fully capable of supporting this growing in demand over the coming years," he concluded.

A New Balance Between 'The Business' and IT Could Boost Air Cargo

by Niall van de Wouw

The correlation between different types of IT investments and profitability was analysed in a recent benchmark study.

The winning type of investment was "process automation", which had a correlation to higher profits nearly twice as much as investments in analytics/big data. And it was nearly five times as high as investments in general application development.

In short, the studied companies got the biggest bang for their buck when reducing the manual effort of staff and clients – as the authors wrote: "Executives should spend wisely, not necessarily more, on information technologies."

This study focused on US banks, but I would not be surprised if a similar correlation would be applicable to cargo airlines and forwarders. "Going digital", which is much broader than "becoming paperless", is now a common catchphrase at many (cargo) airlines. It is also reflected in some new job titles that I recently came across – "head of digital transformation", and "vice-president digitisation", to name but two.

These titles are not just old wine in new bottles. I believe they represent a paradigm shift in how "business" and IT colleagues work together.

Until very recently, new technology initiatives were mostly driven by IT departments. And, understandably, the available technology solutions were the anchor around which the conversation developed. But that meant that the resulting decisions may well have ended up with a solution that made most sense from a technology point of view, but seldom from a usability or flexibility standpoint. That is now changing, and for the better.

Digitisation initiatives, relative to traditional IT projects, are increasingly driven by "the business". Business managers are more involved – and are making sure that more than ever workable solutions are created.

That may cause some issues during the development phase, as the wider organisation will (frequently) change its mind along the way, and will add stuff which was not originally foreseen. But the most important element is that this process safeguards a buy-in across an organisation. And therefore greatly increases the chance of a successful deployment and actual use, compared to projects that are primarily technology-driven.

Serial entrepreneur Pieter Thiel, one of the PayPal founders, writes in his book From Zero to One that when it comes to automating processes, "the most value of coming decades will be built by entrepreneurs who are trying to empower people rather than try to make them obsolete"

In order to really empower people through technology, organisations need applications that set their staff and clients at centre stage. At our company we call that "Humanised Technology".

By spending IT budgets "more wisely", air cargo companies will improve their returns on such investments. And as the referenced benchmark study suggest, further process automation might be a good area to start with.

MASkargo Opts for Unisys' Logistics Management System

MAB Kargo (MASkargo) has successfully cut over to Unisys' cloud-based Logistics Management System (LMS) to manage its domestic and international cargo services.

All of MASkargo's core system functions from the previous mainframe-based system were transitioned to Unisys' cloud-based LMS. In total MASkargo processes approximately 1.5 million master and house air waybills per year. "Due to the nature of our daily operations, we needed a heavy duty system which was accessible system-wide. Being a cloud-based system, we will be able to access regular updates and enhancements in the future," said Ahmad Luqman Mohd Azmi, chief executive officer of MASkargo.

The Internet-based system provides global access in a direct and cost efficient manner. Featuring a user friendly graphic interface, the system enables users to make reservations anytime and anywhere based on controls built into the system. Christopher Shawdon, vice president Logistics Solutions for Unisys said, "Our cloud-based delivery model allowed MASkargo to transition to our cargo management system much more quickly than it would have been able to transition to a traditional software environment. MASkargo also joins our community of leading air cargo carriers to have input into, and benefit from, ongoing enhancements of common interest."

Unisys LMS is used by leading airlines worldwide to manage their air cargo business. The cloud-based delivery model allows airlines to reduce costs compared to running traditional software systems, and speeds the pace of change as enhancements are deployed each month for all clients. The cloud model also helps members work collaboratively on developments.

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20% increased forecast accuracy, 15% increased sales, 30% inventory reduction, 30% increase productivity – according to Oliver Wight International, sales and operations planning (S&OP) can be a great tool to improve your Return on Investment (ROI). However, in practice, not all companies are achieving such results. What is stopping them?

In this webinar you will learn why S&OP implementations are often not meeting ROI expectations. Root causes are diverse: stakeholders have different interests, processes are complex to follow, visibility is lacking, and each company has its own specific challenges on top of that. During the webinar we will discuss solutions to overcome those challenges. You will discover the best practices you need to follow in order to get the full benefits out of your S&OP process.

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- **Possible solutions to overcome those challenges**
- **For which three issues, many apply the ostrich strategy (and why it is costly)**
- **How to go from a good to a great ROI on S&OP implementations**

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2pm SGT(UTC+8.00) | Tuesday, 30th August, 2016

Supply Chain Strategies for the Asian Century

As the traditional strongholds of consumerism - the developed markets in Europe and the United States - suffer from a range of economic woes including low-growth or no-growth, multinational corporations (MNCs) remain challenged for revenue and profitability.

As a result, companies are increasingly looking to Asia for market expansion, revenue growth, and increased profits. However, as business shifts to Asia, significant supply chain complexities can arise as companies venture into new territories.

CONSUMER MARKET POTENTIAL

By 2030 Asia will represent 66% of the global middle-class population, compared to 28% in 2009.

At the same time, urbanisation is accelerating. China is forecast to create more than 200 new cities with a population greater than 1 million people by 2025. During the next decade, some 500 million households across Asia will have access to electricity for the first time, which will drive massive increases in demand for a whole range of consumer household products. Demand for fast-moving consumer goods (FMCG) is forecast to rise exponentially.

As MNCs rush to capitalise on this enormous consumer market potential, they soon discover that the most attractive opportunities are frequently fraught with complications.

COMPLEXITY OF ASIA

Inevitably, unlocking Asia's opportunity presents its own challenges – especially when it comes to logistics networks and supply chain ecosystems. Asia is highly diverse and formidably complex. The region's dynamic economies span the full spectrum of developed, developing and emerging markets – all at different stages of maturity and sophistication.

The nuances can be difficult to read and expensive to ignore.

SUPPLY CHAIN STRATEGIES FOR ASIA

In addition to the opportunities in mainland China, rapidly expanding consumer markets are being established and opened up around the Asia region, notably in India, Vietnam, and Indonesia.

To serve these markets, companies need to develop strategies for multi-modal distribution into the hinterland regions, typically involving business partners with local market knowledge. Different consumer markets may also necessitate product

localisation, adding an extra layer of complexity to supply chain operations. Additionally, Asia's diverse geographies – for example the massive land masses of China and India, or the substantial archipelagoes of Indonesia and the Philippines – together with the heavy traffic congestion in major cities, all add to the complexity of logistics operations, requiring creative strategies that empower effective and efficient supply chain ecosystems.

THE IMPACT OF CHINA'S ECONOMIC SHIFTS

The region's largest market, China, is experiencing shifts in its economy. Multi-national companies first came to China to take advantage of abundant supply of low-cost labour and capitalise on incentives to establish operations in Special Economic Zones.
Nowadays they remain in China to sell products to Chinese consumers in the massive domestic market. Factories and shops are interconnected and converging – "***the Workers have become the Shoppers!***" One development has fuelled the other, increasing economic prosperity right across the nation.

Migrant workers, who moved to the coastal areas to work in the factories, are increasingly returning to their provinces as more work becomes available inland. As they do, the lower cost of living in rural areas results in greater spending power, driving domestic consumption in third, fourth and fifth-tier cities. From the China supply chain perspective, the emphasis is therefore no longer purely on transporting products from factories to the eastern seaboard ocean ports for export to the developed markets in the west. Nowadays there is just as much emphasis on distributing goods within and throughout the domestic China market - in order to reach the increasingly prosperous consumers located throughout this vast country.

ALTERNATIVE PRODUCTION LOCATIONS

As businesses pursue their China-plus-one sourcing strategies – usually seeking additional, rather than purely alternative, low cost manufacturing sources - there are several options to explore within Asia. But each alternative production location has its own supply chain nuances. Companies considering manufacturing in alternative locations should consider the maturity and capability of their chosen market and assess critical supply chain aspects, including three critical dimensions:

1. The Regulatory environment - including bureaucracy and administrative overheads, and the

implications for doing business.

2. Infrastructure – in many Asian markets the transportation infrastructure is underdeveloped which can lead to delays and damage, resulting in costly inefficiencies in the supply chain.

3. Talent shortages—more than seventy per cent of businesses are now affected by ongoing skills shortages across supply chain and logistics sectors.

CONCLUSION

There are huge opportunities in Asia as the middle classes grow exponentially, driving increasing demand for consumer products, especially throughout the region's third and fourth-tier cities. To address Asia's geographic, economic, and political complexities, supply chain strategies need to embrace and address the developing regulatory environments, evolving infrastructure networks and up-and-coming talent pool.

Accessing informed insights that improve understanding of Asia's intricacies will enable better informed decision making, empowering companies to adopt and deploy supply chain strategies that help capitalise on the vast opportunities of "The Asian Century".

Mark Milar
www.markmillar.com

Mark Millar is the author of Global Supply Chain Ecosystems - commissioned and published by Kogan Page - in which he presents detailed and practical insights that help companies capitalise on market opportunities, overcome supply chain challenges and make better informed business decisions. Acknowledged as an engaging presenter who delivers a memorable impact, Mark has completed over 400 speaking engagements at corporate events, client functions and industry conferences across 23 countries. A Visiting Lecturer at Hong Kong Polytechnic University, Mark is recognised in the 'China Supply Chain Top 20', as one of 'Asia's Top 50 Influencers in Supply Chain and Logistics' and in the USA listing of 'Top Pros-to-Know in Supply Chain 2016'.

BREXIT!

Transport and Logistics: derailed, turbulent or full-steam ahead?

On the morning of June 24 it became clear that the UK had voted to leave the European Union (EU), in a move that has come known as 'Brexit'. This article attempts to assess the impact of Brexit on the transport and logistics sector in the UK, Europe and globally. The effects will be looked at through two main lenses: first, the economics, and second, the more direct impacts on transport and logistics. But first, the scene must be set.

WHAT HAS HAPPENED AND WHAT HAPPENS NOW?

In some respects Brexit has already triggered an extraordinary domino effect, not least politically. On the morning of the result UK Prime Minister David Cameron, having campaigned to remain in the EU, announced that he would stand down. This triggered a shorter-than-expected leadership contest which culminated in a victory for Theresa May. Meanwhile, the main opposition political party has been thrown into crisis.

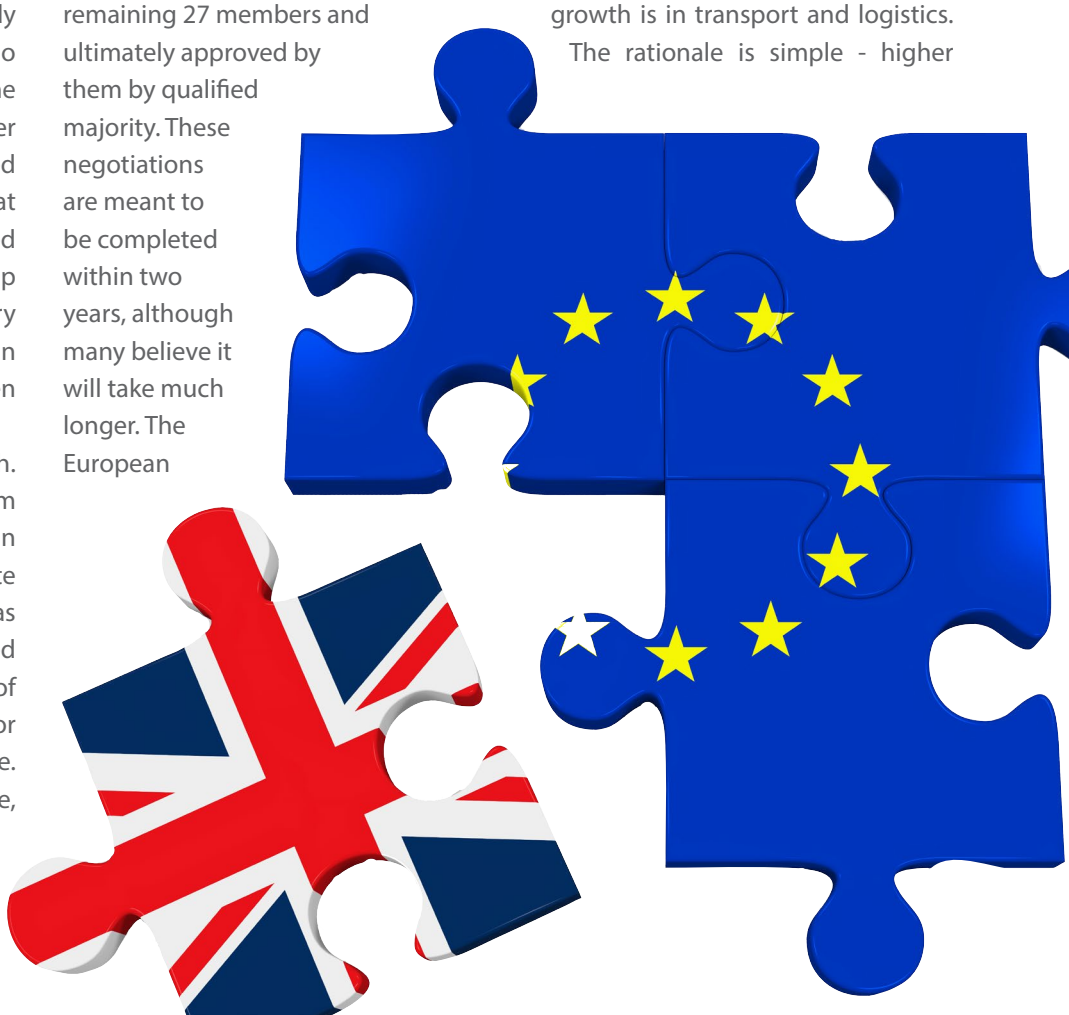
Let's not get hysterical though. Summarising the short-term economic effects of Brexit, Jonathan Portes of the UK's National Institute of Economic and Social Research has written: "First, nothing has changed legally. The UK remains a member of the European Union and will do for some considerable time to come. That means that in terms of trade, regulation, free movement and so on, the UK government and private sector are operating under precisely the same rules as they did last week [before the referendum result]. Any impacts therefore are the result of expectations – or uncertainty – about what will change in the future."

So what process follows from this point? Taking it as given that the UK will actually leave the EU, to begin divorce proceedings the government must invoke Article 50 of the EU's 2009 Lisbon Treaty.

According to the BBC: "Quitting the EU is not an automatic process - it has to be negotiated with the remaining 27 members and ultimately approved by them by qualified majority. These negotiations are meant to be completed within two years, although many believe it will take much longer. The European Parliament has a veto over any new agreement formalising the relationship between the UK and the EU."

BREXIT LONG-TERM ECONOMICS: UK TO SUFFER, EUROPE AND ELSEWHERE NOT SO MUCH

Why should those in the transport and logistics sector care about economics so much? Simply, because there is a close link between economic (GDP) growth and transport and logistics growth. In general, the higher economic growth, the stronger growth is in transport and logistics. The rationale is simple - higher



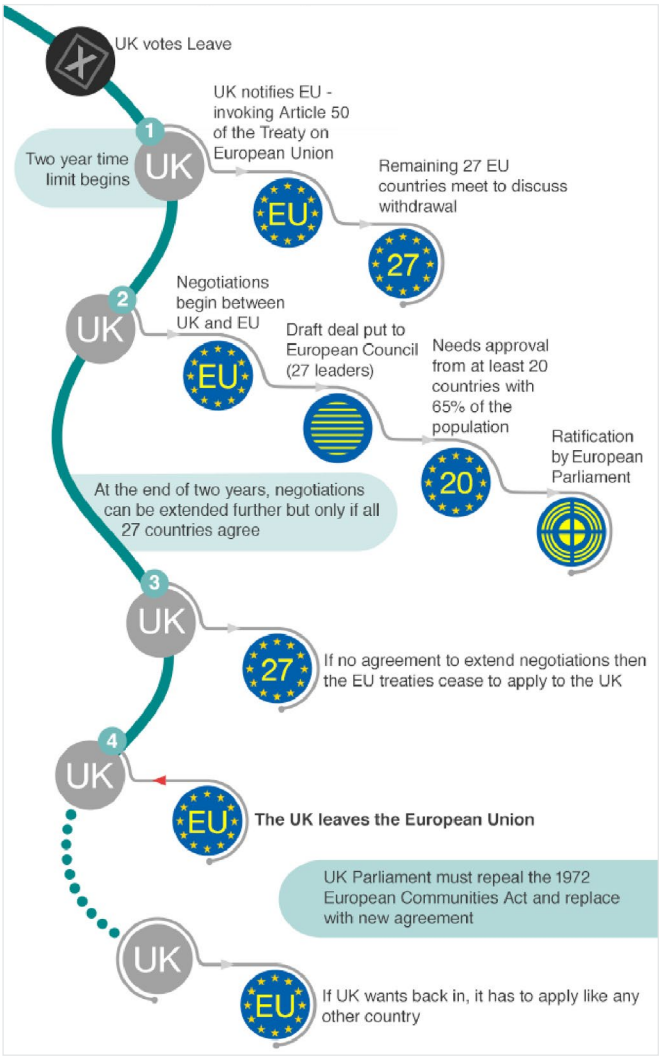


Figure 1: Steps to UK leaving the European Union Photo: BBC

economic output is associated with higher consumption and production, which stimulates greater demand for freight transport, warehousing and other services. To understand the impact of Brexit on logistics, part of the puzzle is to understand the economics.

So what can be confidently said about Brexit economics? In the run-up to the vote a strange thing happened. Economists almost universally agreed on something. That is, they came basically as close to a consensus as is possible (for economists anyway) that the long-run effect of Brexit on UK GDP would be negative. At least, that is what is indicated by surveys of economists, a letter signed by 288 UK economists and various economists commenting that they thought the majority of their profession had this view.

This position is held because economists think being less economically integrated with the EU will lead to lower levels of migration and trade, making the economy less specialised and productive, with a lower level of investment – standard supply-side effects.

Now for a caveat. Economists may have agreed on the direction of travel, but there is not really a consensus on the scale of the impact. So what exactly are the numbers? Figure

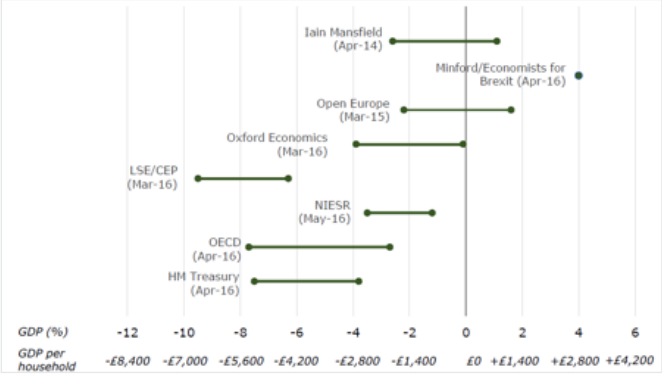


Figure 2: Estimates of the long-term impact of leaving the EU on UK GDP Photo: HM Treasury Committee

2 does a good job of outlining the various predictions on offer.

The only forecast fully tilted to the positive was that of Economists for Brexit, although a minority range of Iain Mansfield's and Open Europe's forecasts were also positive. All the rest were negative. Again, it is worth stressing that most economists just do not envisage a long-run positive impact on GDP happening.

Why do the forecasts differ? Principally, because they model the effects of leaving the EU on trade and investment differently. They make different assumptions about the UK's future economic relationship with the EU and the rest of the world, and about the extent to which the Government would choose to alter the regulatory framework presently set by the EU.

Another point worth raising is how big is 2%, 4% or 6% of GDP? It is very hard to get across just how significant these numbers are. One way of attempting to do this is to put the figures in terms of GDP per household, as Figure 2 does above. Another, is to recognise that the UK's long-run per year trend economic growth rate post-WW2 up until the financial crisis was 2.25%. Then put any GDP growth number into context against that. Or alternatively, you can take the words of economist Paul Krugman: "2 percent is a lot! It's very, very hard to come up with policies that will make a country 2 percent richer in perpetuity. You'd have to have very good reasons to leave the EU to be willing to make that big a sacrifice."

So the long-run economic effects for the UK look to be negative and significant. What about Europe and the rest of

the world? There is far less evidence on this matter, but a simple rule of thumb is that Europe should be considerably less economically hurt by Brexit than the UK, while the impact on the rest of the world is very limited indeed. According to Oxford Economics: "the impact on the rest of the EU is very modest", with Ireland found to be the most vulnerable EU member given its stronger trade and investment ties with the UK.

SHORT-RUN ECONOMICS: UNCERTAIN ABOUT UNCERTAINTY

In the nearer term, as already mentioned, any effects are due to expectations or uncertainty – the UK is still in the EU and will be for some time. So just how uncertain is the UK and what impact will uncertainty have?

Although there is no best single metric, one such attempt by Economic Policy Uncertainty suggests that Brexit has sparked an extraordinary level of policy uncertainty, more than any other event post-2000.

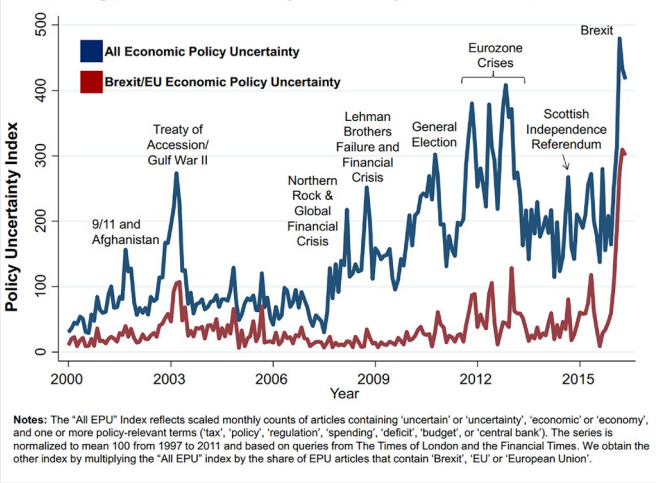


Figure 3: UK Economic Policy Uncertainty - All and Brexit/EU Photo: Economic Policy Uncertainty

Economists think this will have negative consequences for the demand side of the economy because right now, firms do not know how closely Britain will be tied to Europe, so it is sensible for them to postpone investments until the landscape is clearer.

Perhaps that is why, according to a poll by Bloomberg, nearly three-quarters of market economists expect the UK to have a technical recession (two consecutive quarters where GDP falls) in the next 18 months.

Anecdotal evidence suggests uncertainty will indeed have some negative effect. A poll of more than 1,000 members of the Institute of Directors, conducted shortly after the Brexit vote, suggested 38.3% of organisations would decrease investment, 44.4% would keep investment the same, 9.0% would increase investment and 10.3% didn't know. But really, nobody knows to what extent companies will delay investment. Another point is that if investment is merely postponed in the short-run, will there not be some kind of compensating pick-up down the line? All in all, it is hard to say what the overall impact of uncertainty will be.

BREXIT AND LOGISTICS: WINNERS AND LOSERS

Putting the economics to one side and focusing more on the direct impacts on logistics, the picture is decidedly mixed. Business opportunities in the logistics sector will be both created and destroyed by Brexit: there will be winners and losers.

For example, anything less than a free trade agreement between the UK and EU implies that trade volumes will be curtailed. However, this must imply a degree of substitution to either buying and selling more goods in the UK or indeed elsewhere. Perhaps then international European road freight operators may suffer (see Figure 4, taken from Transport Intelligence's report European Road Freight Transport 2015, for the UK's most important European partners), while air and sea freight forwarders may see a pickup in business for UK and non-EU trade flows. In the longer term, this may be amplified if the UK strikes new free trade deals with countries outside the EU.

LOADED IN THE UNITED KINGDOM			UNLOADED IN THE UNITED KINGDOM		
	m tkm	%		m tkm	%
GERMANY	3,156	19%	SPAIN	4,672	18%
FRANCE	2,134	13%	POLAND	3,905	15%
POLAND	1,705	10%	GERMANY	3,523	13%
SPAIN	1,535	9%	FRANCE	3,116	12%
IRELAND	1,440	9%	ITALY	2,132	8%
OTHER	6,542	40%	OTHER	8,798	34%
ALL COUNTRIES	16,512	100%	ALL COUNTRIES	26,146	100%

SOURCE: EUROSTAT
Note: Tkm data here measures the top origin and detsination markets for the UK to/from EU28, Norway and Switzerland. Transports made by all EU28 registered hauliers are included (data is not available for all nationalites.)

Figure 4: Key destinations and origins of UK international road freight (2014)
Photo: Transport Intelligence, using Eurostat data

An abandonment of free trade with the EU may also imply new rules and regulations to adjust to, with duties and taxes put on products. While this added complexity may discourage trade overall, for the logistics provider, there could be opportunities to manage potentially complicated and unfamiliar customs procedures.

In time, perhaps regional distribution strategies may also shift. As quoted in the Wall Street Journal, Mark White, Chief Commercial Officer at SEKO Logistics Worldwide has stated: "We have customers that have said, look, if the UK does leave

we might look at holding our stock in Holland, Germany or somewhere rather than UK. If they have a good proportion of sales on the continent, they may move their distribution centres. But until a decision is made on cross-border regulations and trade rules, and we really, really know what it means, it's going to be difficult to make decisions to pick up and leave." So again, potentially bad for the UK, but the business shifts elsewhere.

Much also depends on the value of the pound, which has been volatile since the vote to leave. Other things being equal, a fall in the value of the pound should increase UK export volumes as they become cheaper, whereas import demand should fall as goods become more expensive. This is clearly good or bad for freight forwarders depending on their trade lane exposure.

Surveys on the impact of Brexit on the UK logistics sector have produced conflicting results. As reported on June 20 by Lloyd's Loading List, a poll conducted by its sister concern, IMHX, surveying professionals in the UK logistics and materials handling sector, indicated that approximately one third thought that a 'Brexit' would be good for their businesses, while less than one in five believed that Brexit would result in higher growth for the UK logistics business they work for. In addition, 38% thought that leaving could have a somewhat negative or extremely negative impact on the businesses they work for, while one third believed that there would not be any effect. Another survey, conducted in April by the Chartered Institute of Logistics and Transport (CILT), of 676 UK executives in the freight logistics industry, revealed that 65% believed the supply chain, logistics and transport industry would have a better future if the UK remained in the EU. When respondents were asked if they believed their business would be in a stronger position if the UK rejected a Brexit, 58% agreed. A survey of the UK Road Haulage Association's members, however, revealed 60% wanted to leave, 30% wanted to remain, while 10% were undecided. A majority of smaller firms wanted to leave, while most larger companies (over 65 trucks) favoured remaining.

CONCLUSION

The difficulty with assessing the impact of Brexit is clearly that so much is unknown. What we do know is that the vast majority of economists think Brexit is bad for the UK economy in the long run, while there are also serious concerns about the impact that uncertainty will have in the short run. When the economy suffers, transport and logistics suffers.

It also seems likely that the knock-on effects on Europe and the wider world will be pretty limited.

Beyond that, it is hard to say anything with confidence other than that there will be both winners and losers in transport and logistics. So much is hypothetical and unknown. On that note, it is important to not lose sight of the day-to-day issues firms face in the sector, which are now no less relevant and should not be overshadowed.

Transport Intelligence's CEO, Professor John Manners-Bell, has commented: "I think the over-riding message for the European logistics and supply chain industry is one of 'business as usual'. It will be several years before the UK's settlement with the EU will be agreed and it will be in everyone's interest to ensure that there is as little disruption to the movement of goods throughout the region as possible. For UK manufacturers there is the eventual prospect of enhanced links with many of the world's fastest growing economies, such as China and India. However, deals will take some time to put in place and for the time being, at any rate, we don't envision any changes to the UK's position in world trade."

For more analysis from David Buckby, sign up to Ti's free Logistics Briefing newsletter.
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David is an Economist for Transport Intelligence. He manages one of Ti's core strengths, the market sizing and forecasting of a range of logistics markets. He also makes regular contributions to the Logistics Briefing newsletter and research reports. Ti's latest report is Global Freight Forwarding 2016.

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Logistics Industry Consolidation Continues Into 2016

There has been unprecedented growth in mergers and acquisitions within the Logistics and Supply Chain industry since 2015. The impact of this is potentially going to change the industry in far reaching ways if it continues.

"Globally, in our offices in the Middle East and Asia in particular, we have noticed a growing demand for corporate advisory services in Mergers and Acquisitions practice" said Darryl Judd, who leads Logistics Executive Group's Corporate Advisory Services. "There has a been a marked increase the number of qualified client approaches since Q3 last year and this demand has continued into 2016. The Middle East and Asia remain the most active with clients wishing to expand their business footprints or add strategic niche operations to meet new challenges and ensure their competitiveness" he added.

According to Supply Chain Quarterly's annual survey , CEO's would predict every year that there would be an emphasis on acquisitions. However, counter to this survey prediction, relatively few large-scale acquisitions occurred in the logistics industry between 2008 and 2014. The Supply Chain Quarter's staff found this puzzling so in their 2014 survey they asked CEOs why merger and and acquisition activity continued to lag behind expectations. Some said this was because acquisitions were overpriced, some mentioned post acquisition integration problems, others said they had achieved the desired scale through previous acquisitions and organic growth. In early 2014 however this began to change on an unprecedented scale. There was a new wave of large-scale mergers and acquisitions in the logistics industry. Incredibly, between 2014 and September 2015, $20 billion was spent on acquisitions in the industry. This buying frenzy is continuing to this day. The trigger for these acquisitions clustered around four categories: consumer demand pressures, globalisation, financial considerations and economic conditions. Consumer demands have increased considerably with the advent of e-commerce which has enabling consumers to reach further geographic markets and for business to find seamless solutions to provide them with their purchases. Companies have had to manage multi-channel retailing and consumer relationships in a more sophisticated, complex method that is heavily integrated with logistics services and technology.

Barriers are starting to breakdown, not just in terms of geography but in terms of information sharing and traditional industry roles. Businesses are starting to trust 3PL 's more with their sensitive company information and this has allowed these providers to integrate and manage their services better. Thanks to the emergence of e-retailing with the phenomena exemplified by Amazon and its Asian counterpart, Alibaba, 3PL's are under more pressure than ever to provide customers with a broad range of services within an expanding geographical footprint. Acquisitions provide an efficient way of achieving this. Often in countries like India and China where there are some restrictions on foreigners doing business, it is easier to achieve a footprint through acquisition rather than with a direct investment.

We are also finally experiencing an emergence from the Global Financial Crisis. Despite the economic slowdown in China, various wars in parts of the world like Syria and other indicators of market volatility there seems to be an overall feeling of cautious confidence.

However, Penske and Capgemini Consulting's annual State of Logistics Outsourcing Study of September 2015 suggest that this sudden trend could be attributed to what they call "defensive acquisitions". According to this theory one player makes a move at domino effect occurs. If one 3PL starts to expand by acquisition the others think, from a defensive point of view, that they also need to follow suit in order to stay competitive.

Regardless of these various reasons, it seems that consolidation is going to remain a dominant theme in the logistics and supply chain sector that is set to continue. In their predictions for global

logistics 2016 Gartner says they expect that by 2020 the top ten, global 3PL's will control 80% of the world's logistics volume. They expect logistics service providers will evolve to meet the fast paced, specialist demands of different market segments. They will evolve into a relatively small number of these huge global 3PLs who will be serviced by small niche players who will work for them on a contract basis.

A report by PWC seems to support this theory. In their study, PWC found total M&A activity in 2015 nearly doubled from the previous year with an increase from from $87 billion to $172.7 billion. PWC also found that the number of what they call "megadeals" globally (which PWC defines as being of $1 billion or more) grew considerably in 2015 to 28 deals which is up from 17 deals the previous year. This increased the average deal value to $771 million up from $376.7 million in 2014.
It is predict that the result of this industry consolidation is that the balance of power will shift from shippers to 3PLs, which according to Supply Chain Digest may result in a major infection point in the supply chain. "It is a compelling argument" continued Darryl Judd. "3PL's have tried for years to provide more sophisticated services for their customers. Since the GFC, the role of Logistics has really stepped up to become a critical business function".

"Logistics service providers are becoming less interested in competing by way of cheaper prices and more interested in competing by way of offering. They are setting up long term relationships based on infrastructure investment and industry knowledge." In this way, the logistics function is continuing to take prominence as a critical business success driver rather than the backroom appendage. "Consumers will continue a faster, more efficient logistics service and this will be the deciding factor that will either make or break a business so their reliance on 3PL's will only increase" concluded Darryl Judd.

No doubt there are interesting times ahead for the industry and the acquisition phase will continue for some time to come.

Kim Winter
CEO, Logistics Executive Group
kim@logisticsexecutive.com

The founder of the company, Kim is an acknowledged specialist in Executive Recruitment across Logistics and Supply Chain sectors. A dynamic and engaging senior executive with 35 years leadership experience spanning Corporate Advisory, Executive Coaching, Public Speaking, Search & Recruitment across the Supply Chain, Logistics, FMCG, Retail, Resources, Industrial, Disaster Relief and Humanitarian sectors. Kim has built an international reputation as the founder (1999) of Logistics Executive Group which delivers whole of lifecycle business services including Search & Executive Recruitment, Corporate Advisory, Online Education and Executive Coaching / Mentoring.

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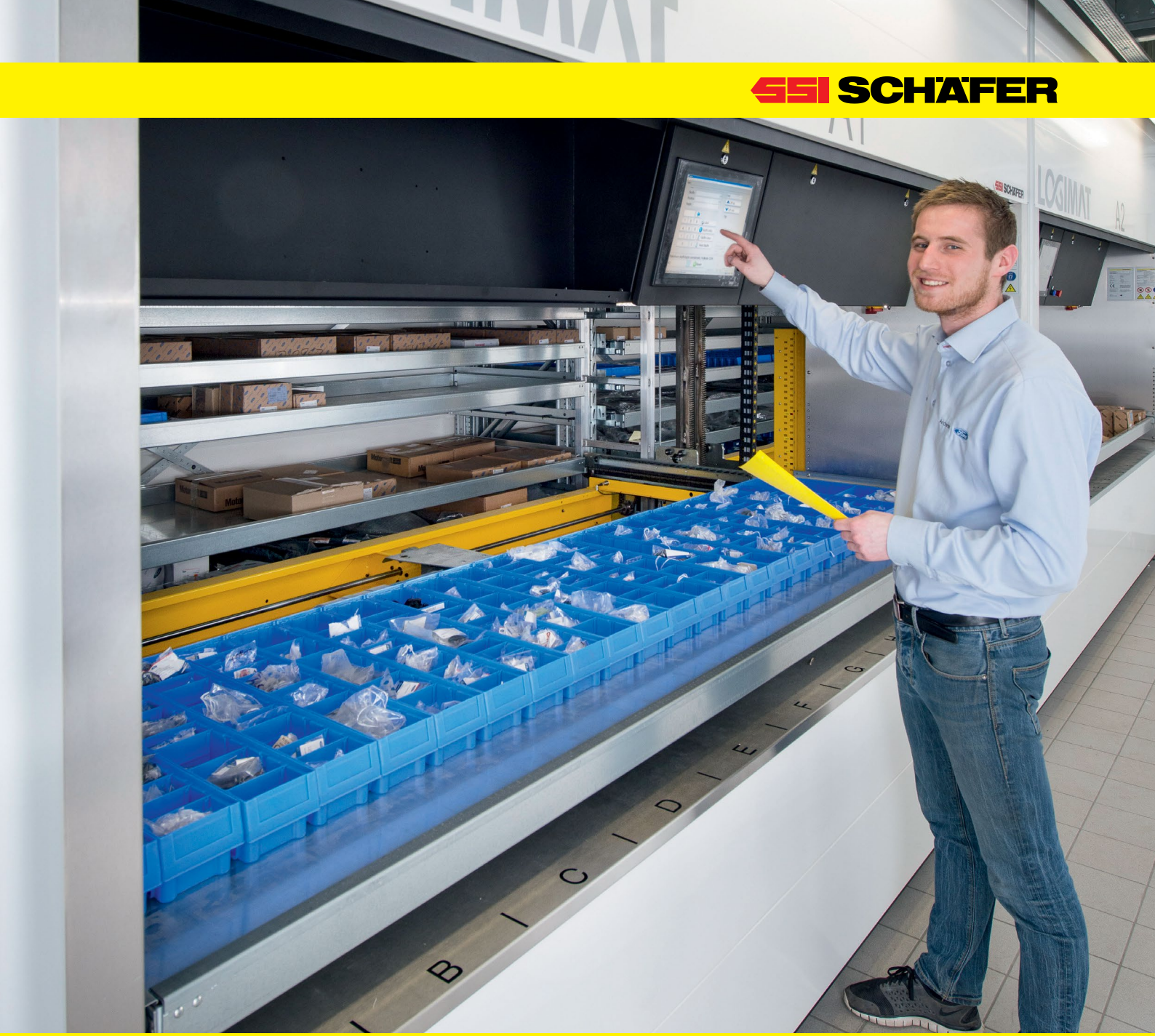

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