Instability rules the vehicle logistics sector

ECG aims to create new normal in volatile reality

by Ewa Kochańska

The annual General Assembly and Spring Congress of the Association for European Vehicle Logistics (ECG) conference took place on 12-13 May in Malaga, Spain, where speakers discussed the current state of affairs in the sector stuck in a seemingly endless cycle of crises for three years now. Briefly – comparatively speaking – disturbed by the disfunction of Brexit, through the lockdowns and bottlenecks brought about by Covid-19 and the resulting global microchip shortage, to the ultimate pandemonium caused by the war between two significant players in vehicle production – Russia and Ukraine, the automotive sector is desperately seeking stability and cooperation.

Photos: ECG

The conference started with the ECG member board meeting, greetings and other annual General Assembly formalities. They included the formal discharge of the 2021 board and the election of the new member board for the current year, welcoming new members – Andrea Eck of BLG Automobile, Andreas Sundl of Hödlmayr International AG, and Krzysztof Szeligowski of Adampol S.A. The day ended with a gala dinner and the ECG Academy graduation ceremony in the Car and Fashion Museum. In the evening hours, the freshly trained junior and middle managers from the vehicle logistics sector received their Certificates in Automobile Logistics Management. The course programme was mentioned by speakers during the Spring Congress the following day when it was pointed out that attracting young talent to the finished vehicle logistics sector is essential for the industry to future-proof itself. The next day, the Spring Congress, full of presentations from high-profile speakers and ECG working groups, painted a fittingly spooky – for its Friday the 13th date – picture of the sector's current state. "The outlook? Havoc in the markets, havoc in sourcing and production, and havoc in transportation," summarised the global industry circumstances Namrita Chow, an analyst with ECG Business Intelligence.

The never-ending crisis mode

The speakers named several disruptors affecting the finished vehicle logistics sector in recent months. Unmistakably, the Russian attack on Ukraine and the ongoing conflict have created adverse economic conditions worldwide, including in the automotive industry in Europe. Specifically for the vehicle logistics sector, one of the most pressing issues is the soaring price of raw materials and components necessary for vehicle production, with both Russia and Ukraine having been key suppliers. According to the opening presentation by Justin Cox, Director of Global Production, LMC Automotive, about the European market outlook, Russia was the third biggest light vehicle producer in 2021 in Europe, and this year, the production expectations for Russia were cut in half at best. Ukraine, which had specialized before the attack in electrical cabling, wiring harnesses and other components necessary for vehicle production, has initially halted production, although it has recently seen some restarting of activity. Additionally, Russia is the world's biggest supplier of palladium and the third biggest producer of nickel needed to produce vehicle batteries, while together, Ukraine and Russia produce 40% of the world's neon which is vital for the manufacturing of semiconductors.

Clearly, the high energy prices and surging fuel costs following Russia's aggression in Ukraine have disturbed business in the EU since the block

had been sourcing about 40% of its natural gas from Russia before the war. Undoubtedly, the uncertainty of the energy sector is a crucial factor contributing to the current European and global economic and geopolitical instability, also causing inflation to skyrocket in some areas. For example, the inflation rate in EU member states Lithuania and Belgium was just 1.6% in March 2021 but grew to 15.6% and 9.3%, respectively, in March 2022. In the European Union, the inflation rate for April 2022 was 8.1% compared to 2.0% a year earlier. High inflation rates are a crucially damaging factor in the logistics sector, but in just a smidgen of optimism, Cox stated that economic forecasters believe inflation has peaked and should start coming down, and they don't expect a recession in Europe in 2022. However, while western Europe is expected to see a strong recovery, Eastern Europe could remain at risk of further economic downfall.

Another key global disruptor continues to be Covid-19, particularly the Omicron variant and particularly in Asia. The Chinese government's insistence on pursuing a zero-Covid policy prompted large lockdowns in cities such as Shanghai, host to the largest port in the world. This has resulted in components and cars being stuck at ports, large backlogs at the port, and serious trucking issues around it. "Global chain is significantly affected – trucks cannot get to the ports, trucks cannot get to the factories, factories cannot get parts, and the supply chain just cannot supply," said Chow.

These issues and their effect on vehicle logistics have been reiterated by ECG President Wolfgang Gobel, who also mentioned the low level of confidence in the future of the industry. Due to uncertainty of future volumes, investments in the sector are down. Additionally, issues with labour shortages, mainly truck drivers, started about two years ago due to lockdowns and reduction in volumes; most recently, the Ukrainian truck drivers returned home to defend their country, adding to the labour disturbance. So, while wait times for a new truck are extending to now at least a year, it's becoming increasingly difficult to find someone willing to drive it. Shipbuilding operators are also struggling with skilled worker labour shortages, so the wait times for a new vessel extended to up to five years. That is relevant if companies are even able to finance such investments at this point. "Operators cannot move vehicles without assets such as ships and trucks," said Gobel. "The automotive industry risks losing its suppliers." However, Gobel pointed out that in the middle of the turmoil, relationships with stakeholders along the supply chain were good, and customers demonstrated flexibility, particularly when diesel costs saw a drastic hike. He underscored how important it is to keep the communication channels open to face critical issues together.

Finding the way forward

Therefore, one of the critical factors for the vehicle logistics sector is cooperation among stakeholders in this time of volatility. Such an approach aids in increasing standardisation and digitalisation of the sector, which helps share know-how and deal with supply chain disruptions. Rob Exell, Business Services Manager at Odette International, spoke to that when discussing his company, Odette – a pan- European automotive supply chain collaboration platform. The organisation strives to provide tools and services to develop uniform standards and solutions by bringing together supply chain professionals and IT experts. Exell talked about a joint ECG-Odette-VDA project, aiming to develop and provide a set of standard digital messages supporting communication across all finished vehicle logistics processes, allowing OEMs and finished vehicle LSPs to communicate efficiently (via digital FVL messages).

Additionally, Daniele Saba, VDA representative and senior manager of green logistics at Volkswagen, further spoke about Odette, ECG, and VDA teaming up to address the necessity of harmonizing and standardising emissions calculations and reporting in the sector. Saba emphasised that the logistics sector will be the focus area for the EU's sustainability ambitions for the next few years. "In the future, sustainability reports will become more and more important," said Saba. "They will be an essential documentation for the future climate-neutral Europe until 2050." Therefore, cooperation within the logistics sector is not only a helpful tool in times of crisis but will become fundamentally essential in Europe in the coming years.

Future-proofing

As disruption becomes the new normal in vehicle logistics, forced on by the geopolitical and economic chaos of the past three years, the automotive stakeholders are scrambling to survive and find some consistency. The war in Ukraine, together with Covid-19 and the resulting inflation and microchip and labour shortages, are threatening further supply-side disruptions. Stabilising and ensuring longevity for the finished vehicle logistics sector hinges on car producers working closely with their logistics and transport providers as well as decision-makers to innovate, resolve labour and equipment shortages, stabilise energy costs, and achieve digitalisation and standardisation of information flow and processes across the sector. "I think no one is expecting that the normal of 2019 will come back," said ECG President. "What is the new normal? We need new methods, we need more robust contracts, we need to adapt to these 2020s, which are completely different from anything we have seen." ■