Welcome!
July 23, 2020
Change in the Chain: The New Normal

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Change in the Chain: The New Normal

Welcome

QUICK POLL
Change in the Chain: The New Normal

Panelist introductions

**Marco Bloemen**
Managing Director at Seabury Consulting

**Romaine Seguin**
President UPS Global Freight Forwarding

**Mike Harrell**
President Global Freight Forwarding, Europe

**Sebastian Chan**
President Asia Pacific Supply Chain Solutions

**Jeff McCorstin**
President UPS Global Customs Brokerage & North America Supply Chain Solutions
Change in the Chain: The New Normal

Global market update

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Meet Marco Bloemen

Marco Bloemen
Managing Director at Seabury Consulting

Marco Bloemen joined Seabury Consulting in 2007 and has close to 20 years’ experience in air cargo consulting and 5 years in air cargo management functions. Successfully conducted assignments with leading air cargo carriers, integrators, forwarders, and airports around the world.

Assignments include freighter fleet selection, network strategies, market positioning, partnership strategies, revenue boost programs, express and cargo market intelligence studies.

Former partner with a management consulting firm with dedicated focus on the air cargo industry. Line management experience at KLM Cargo and responsible for revenue management globally. Various commercial functions in marketing, pricing, sales support and alliances. Frequent speaker at air cargo related conferences on air cargo developments and trends. MBA graduate from Nijenrode University in The Netherlands.
Change in the Chain: The New Normal

Global market update

• Air cargo capacity developments
• Impact of COVID-19 on air trade
• Insights on potential recovery
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Global market update

Global air cargo capacity declined 28% last week compared to last year

The Transpacific and Latin America – North America are the only trade lanes that have consistently experienced single-digit declines in cargo capacity since mid-June

Global capacity decline: -28%

The Transatlantic shows no sign of recovery for air cargo capacity

Note: Thickness of arrows is representative of May 2020 capacity in metric tonnes, direct flights only; all flows indicate region-to-region capacity; regions are indicated by color coding; 1) Total cargo capacity includes widebody passenger and all freighter flights; 2) Same week last year defined as 14 – 20 Jul 2019, all dates measured in UTC;

Source: Seabury Consulting Capacity Tracking database; Seabury Consulting analysis (July 2020)
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Global market update

Widebody belly cargo capacity remains 73% lower than last year

Despite an initial recovery of passenger belly capacity and an increase in freighter capacity, global cargo capacity is 28% lower than last year

Global air cargo capacity has been relatively stable since mid-May

Note: Direct capacity only. All freighters and widebody passenger aircraft only. Date measured in UTC time. 1) Corrected for day-off-week fluctuations, smoothened for clarification; 2) Comparing 12 - 18 July 2020 to 14 – 20 July 2019; 3) Freighter aircraft (excluding those operated for integrators and "passenger freighters"). Source: Seabury Consulting Capacity Tracking database, Seabury Consulting analysis (July 2020)

Marco Bloemen
Managing Director at Seabury Consulting

7/23/2020
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Global market update

Integrators have captured significant capacity share since the COVID-19 outbreak

Almost all freighter operators and integrators have increased their capacity market share since the outbreak of COVID-19; some mixed-fleet carriers managed to maintain share, while others lost considerable share.

The world’s top 50 carriers by capacity shares, June 2020 vs June 2019

Share of worldwide air cargo capacity

Belly-only carriers have, naturally, lost the most capacity market shares

Note: Direct international capacity only. Airlines with freighter capacity share between 10% - 80% are classified as Mix; airlines with 0% - 10% freighter capacity share are classified as freighters; rest are classified as belly. For freighters, if >50% capacity is done on behalf of integrators, then airline is classified as an integrator; 1) June 2020 covers 01 – 27 June, all dates measured in UTC; Source: Seabury Consulting Capacity Tracking database, Seabury Consulting analysis (July 2020).

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Global market update

- Air cargo capacity developments
- Impact of COVID-19 on air trade
- Insights on potential recovery
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Global market update

May decline in global air trade is the second strongest since 2009
Air trade dropped 343,000 tons in May compared to the same month last year; the Transpacific Eastbound and Asia Pacific to Europe air exports grew by double-digit rates driven by PPE demand

May 2020 air trade growth
Year-on-year change, %

Notes: 1) Data excludes UN Conitrade; thickness of arrows is representative of May 2020 trade lane size in tonnes.
Source: Seabury Consulting Global Trade Database and Dashboard (July 2020)
Confidential – not for third party distribution & distribution 6 August 2020

Global air trade change: -17.9%
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Global market update

Demand for personal protective equipment (PPE) such as face masks gave some respite to the industry; while automotive volumes are half of what they were in 2019

Air trade growth by Industry, April - May 2020

<table>
<thead>
<tr>
<th>Industry</th>
<th>Absolute change (thousand tonnes)</th>
<th>YoY growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery Parts</td>
<td>-33</td>
<td>5%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>-16</td>
<td>5%</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>-79</td>
<td>40%</td>
</tr>
<tr>
<td>Temperature Control</td>
<td>-141</td>
<td>26%</td>
</tr>
<tr>
<td>Live Animals</td>
<td>-12</td>
<td>46%</td>
</tr>
<tr>
<td>Capital Equipment</td>
<td>-64</td>
<td>28%</td>
</tr>
<tr>
<td>Automotive</td>
<td>-88</td>
<td>51%</td>
</tr>
<tr>
<td>Fashion Goods</td>
<td>-88</td>
<td>33%</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>-207</td>
<td>29%</td>
</tr>
<tr>
<td>Special Handling</td>
<td>-14</td>
<td>42%</td>
</tr>
<tr>
<td>High Technology</td>
<td>-69</td>
<td>11%</td>
</tr>
<tr>
<td>All Industries</td>
<td>-744</td>
<td>20%</td>
</tr>
</tbody>
</table>

Notes: 1) Growth in terms of 2020 air weight compared against same time frame in 2019
Source: Seabury Global Air Trade Dashboard; Seabury Consulting analysis (July 2020)

Top-10 commodity increases, April - May 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Absolute change (thousand tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face masks</td>
<td>235</td>
</tr>
<tr>
<td>Medical gowns</td>
<td>44</td>
</tr>
<tr>
<td>Medical gloves</td>
<td>15</td>
</tr>
<tr>
<td>Laptops</td>
<td>14</td>
</tr>
<tr>
<td>Rubber aprons</td>
<td>12</td>
</tr>
<tr>
<td>Nonwoven fabrics</td>
<td>10</td>
</tr>
<tr>
<td>Men’s woven garments</td>
<td>9</td>
</tr>
<tr>
<td>Ventilators</td>
<td>8</td>
</tr>
<tr>
<td>Medicaments</td>
<td>7</td>
</tr>
<tr>
<td>Parts of laptops</td>
<td>7</td>
</tr>
</tbody>
</table>

Category: PPE, Work From Home, General cargo

Marco Bloemen
Managing Director at Seabury Consulting

7/23/2020
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*Global market update*

- Air cargo capacity developments
- Impact of COVID-19 on air trade
- Insights on potential recovery
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Global market update

Previous crises provide hints as to how long the recovery could take

During the 2008 financial crisis air trade decreased by ~25% after July 2008 and took 20 months to recover; ocean trade started to drop only in September and took slightly less time to fully recover.

Global trade development during the financial crisis of 2008/2009

Monthly change (vs. Jul’08 for air and vs. Sep’08 for ocean trade)

- Rapid deterioration ~8 months
- Recovery ~12 months
- ‘Back to normal’

Air
Ocean

Global air trade decline is currently at -21%

How fast will air trade recover given current capacity constraints?

Note: Ocean trade contains containerized trade only; Data has been corrected for seasonality; Lines have been smoothed for illustrative clarity, recession characteristics (start of decline, maximum trade decline, etc.) based on trade actuals. Source: Seabury Consulting Global Trade database, Seabury Consulting analysis (July 2020)

Marco Bloemen
Managing Director at Seabury Consulting
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Global market update

The depth of decline and recovery time to go ‘back to normal’ will vary by industry

Industry dynamics varied significantly during the recovery from the 2008/2009 financial crisis; external factors, such as, the availability of a vaccine, will influence the time needed to return to normal.

Air trade development by industry during the financial crisis of 2008/2009
Monthly change (vs. Jul’08)

- Rapid deterioration: 8 months
- Recovery: 12 months
- ‘Back to normal’

- Automotive
- Chemicals
- Industrial goods
- Perishables
- Fashion & High tech
- Consumer goods

Automotive is currently also the hardest impacted industry.

Source: Seabury Consulting Capacity Tracking database; Seabury Consulting analysis (July 2020)
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Marco Bloemen
Managing Director at Seabury Consulting
Change in the Chain: The New Normal

Global market update

For more information, please contact...

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Change in the Chain: The New Normal

Global market update

Q&A
Change in the Chain: The New Normal

UPS global update

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Meet Romaine Seguin

Romaine Seguin
President UPS Global Freight Forwarding

Romaine began her career with UPS in 1983 as a part-time hub supervisor in Missouri. She held a variety of operational and management roles in Missouri before accepting a five-year assignment in 1989 in Europe as part of the integration team with Finance & Accounting and Operations.

In 1994, Romaine returned to the U.S. as Air District Controller, based in Louisville, Kentucky. From 1996 to 1999, she returned to operations in varied roles and was promoted to managing director in 2004.

In October 2007, Romaine moved to Milan, Italy as the managing director of UPS South Europe and was promoted in March 2008 to Chief Operating Officer for the Europe, Middle East, and Africa Region, based in Brussels. In September 2010, Romaine was promoted as president of the UPS Americas Region based in Miami. She accepted her current position in September 2018.

Romaine is a frequent speaker at community and business events and has received multiple awards and recognition for her work in the international business community. She sits on the Board of Trustees of William Woods University. Romaine also serves as a board member for both Fight Colorectal Cancer, and the Women’s President Organization.

Romaine holds a degree in marketing management from William Woods University in Fulton, Missouri and a Master’s of Business Administration from Webster University in St. Louis, Missouri.
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UPS global update

- **54%** of customers have cash flow management concerns
- **43%** of customers need to rebuild their customer base
- **29%** of customers consider inventory replenishment a major concern
- **1 in 5** customers have proactively taken steps to shore up their supply chain despite
  **9 in 10** having pervasive disruption

*Customers do not feel they have a good resource for reliable alternatives*

Source: UPS COVID-19 pulse survey of 400 customers
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UPS global update

• RV rentals are skyrocketing during pandemic. RVShare reported a 1,000% increase in their rentals since April 1st (Boston Globe 21 May 2020)

• Online Sales/E-Commerce: Total US online sales reached $73.2B in June, up YoY 76.2% (digitalcommerce360.com 13 June 2020)

• In home fitness equipment: retailers reported spikes -- as much as 625% (thehustle.com 10 April 2020)

• Furniture retailers have seen a spike in outdoor home items like patio chairs, gardening tools, pool floats and grills: one large online retailer saw outdoor furniture sales increase 225% (Foxnews.com 18 May 2020)
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UPS regional update, Europe

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Meet Mike Harrell

Mike Harrell
President Global Freight Forwarding, Europe

As the President of UPS Freight Forwarding in Europe, Mike is responsible for operations, strategy, and business development for all Freight Forwarding services in Europe. UPS provides services for both air as well as ocean freight and employs 1,500 people across more than 40 locations in Europe.

Mike has spent 30 of his 32-year logistics career based in the EMEA Region working and living in some 10 countries, first for Fritz Companies, Inc., and then joining UPS through acquisition in 2001.

Throughout most of his career Mike has worked as a General Manager, in both the freight and the express business units and often worked to integrate newly acquired companies into the organization.
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Brexit Update: New Negotiations

June 15th – UK – EU Review
- PM and commission president
- Limited progress to date
- Agreed on new momentum

July/Aug – New negotiations
- Initiated
- In interest of EU & UK citizens
- Transition period to end 12/31/20
  - No extension
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What is UPS doing to prepare for Brexit

- Product enhancements to support GB as 3rd country
- Technology updates, both internal and external
- Staffing
- Training
- Network adjustments
- Licenses and Bank Guarantees
- Contingency plans in place
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Time to prepare again . . .

Third time’s the charm?

But What Has changed?

- Economic crisis fears are now a reality
- Recruitment options increased
- Remote working is a proven success
- More flexibility in building solutions
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UPS regional update, Asia Pacific

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Meet Sebastian Chan

Sebastian Chan
President Asia Pacific Supply Chain Solutions

Based in Singapore, Sebastian is responsible for UPS’s Supply Chain Solutions business across Asia, a presence that spans more than 20 countries and territories. He leads a team of over 3,000 employees that provides customized air, ocean, rail, ground, brokerage, logistics and distribution solutions to meet the varied needs of businesses, and connect them to UPS’s global logistics network.

With almost 30 years of experience in the transportation and logistics industry, Sebastian began his career with UPS in 2006 as the Vice President of Supply Chain Operations in China, before being promoted to his current position in 2009.

Prior to joining UPS, Sebastian worked in various senior management positions in Cathay Pacific Airways LTD and Exel PLC, serving stints for these companies in the Philippines, Korea, Indonesia, Thailand, China and Hong Kong. He has also been an independent consultant, giving supply chain expertise to several logistics companies and entities, including the Airport Authority of Hong Kong.

Sebastian graduated from the University of Cambridge with a Master’s Degree, specializing in Engineering. Sebastian is also recognized as a Senior Scholar of Robinson College, University of Cambridge.
## Change in the Chain: The New Normal

### Asia Outbound Outlook

<table>
<thead>
<tr>
<th>Market Situation</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lockdown Situation</strong></td>
<td>Most countries in various level of lockdown situation</td>
<td>Most countries lockdown starts to ease</td>
<td>Most economic activities resume</td>
<td>Most restrictions lifted though economy not fully recovered</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>International Travel</strong></td>
<td>Minimal International Travel</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PPE Demand</strong></td>
<td>Very strong PPE Demand</td>
<td>Strong PPE Demand, some move back Ocean</td>
<td>Most PPE move back to Ocean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Segment Demand</strong></td>
<td>Very strong High Tech demand</td>
<td>Normal High Tech demand</td>
<td>Normal High Tech demand, Retail recovers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Capacity Supply

<table>
<thead>
<tr>
<th>International PAX Flights</th>
<th>Minimal PAX Schedule. ~ 64% reduction in belly space</th>
<th>Some PAX reinstatement, ~ 60% reduction in belly space</th>
<th>More PAX reinstatement, ~ 40% reduction in belly space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cargo Flights</td>
<td>Significant number of Charters – PAX &amp; freighter aircraft</td>
<td>Some Charters (PAX &amp; freighters) plus scheduled freighter capacity</td>
<td></td>
</tr>
</tbody>
</table>

### Implications

**Air Freight**
- Escalated air freight rates
- High rate volatility
- Charter solution to protect service commitment
- Establish regular tonnage commitment with carriers
- Gradually establish rate stability with carriers
- Scheduled charters to protect service during expected surge periods

**Ocean Freight**
- Continued soft demand on ocean freight
- Blank Sailing from carriers causing capacity reduction, but easing towards Q3
- Shipment planning and forecast critical to protect space and transit time
- Pick Up on demand to stock up for retail peak season
- Back to normal demand

**Rail Freight**
- Continue to be a viable solution for China to Europe and v.v.
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APAC Export Air Freight Capacity Projection

- Expect freighter capacity slightly decreases after the peak demand in Q2
- Slower resumption of passenger belly capacity
- Reduction of charters going into Q3 and Q4
- Uncertainties still around when the continued surge of Coronavirus cases will subside
- UPS continues to support export from alternative Asian origins, though expects China to continue to be the major export country given the successful containment of Coronavirus, making stable production capacity possible
- Shipments through various e-Commerce channels will continue to grow
  - UPS Trade Direct eCommerce Distribution and other Trade Direct products

Sebastian Chan
President Asia Pacific
Supply Chain Solutions
QUICK POLL
Change in the Chain: The New Normal

Meet Jeff McCorstin

Jeff McCorstin
President UPS Global Customs Brokerage & North America Supply Chain Solutions

Jeff McCorstin, began his career as a peak season package driver in 1990, and has served in his current role since January 2020.

Prior to his current role, he was President of Global Customs Brokerage and Trade Advisory Services since April, 2016. In this capacity, he was responsible for the customs brokerage operations, Trade Advisory Services and customs & trade compliance globally across all business units at UPS.

Jeff served as President Asia Pacific Freight Forwarding for three years, and Senior Vice President of Global Freight Forwarding Air and Ocean Products from 2011-2013. He was named President Europe Freight Forwarding where he was responsible for Air, Ocean and Road Freight Forwarding services in more than 120 countries and territories across Europe, the Middle East and Africa.

During his first 15 years, Jeff held a variety of positions in operations, industrial engineering, strategic cost and F&A across 6 different locations in the US. In 2005, he was named CFO for Europe, the Middle East and Africa.

A native of Stockton, California, Jeff earned a bachelor’s degree in Electrical Engineering from the University of California and a Master’s of Business Administration in Finance from San Diego State University.
USMCA vs NAFTA

The new agreement focuses on trade facilitation and non-tariff barriers

**What’s similar:**

**Rules of origin:** remain the same for most commodities
- Exceptions: automotive, textiles

**Certificate of origin data elements:** basically the same with only a few minor changes / simplifications

**Tariff rate reductions:** NAFTA already reduced or eliminated most tariffs
- Exception: dairy products reduced in USMCA

**What’s changing:**

**Trade facilitation**
- Transparency of customs processes
- Advance rulings
- Customs brokers: standard regulations
- Penalty regime: commensurate with offence

**Certificate of origin format**
- No specific, official form (any format as long as correct data elements captured)
  - New USMCA declaration clause
- Importer, exporter or producer may certify

**De Minimis and informal entries**
- Higher thresholds both for Canada & Mexico
- US already has relatively high thresholds
- Anticipated higher informal threshold for Mexico

Source: USMCA agreement and government implementation documentation
How USMCA benefits importers in each country

The revised certificate of origin benefits all importers

<table>
<thead>
<tr>
<th>Certificate of Origin</th>
<th>Simplified format &amp; certification process</th>
<th>Simplified format &amp; certification process</th>
<th>Simplified format &amp; certification process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$117 For Duty-Free Shipments</td>
<td>C$150 for Duty-Free Shipments</td>
<td></td>
</tr>
<tr>
<td>Informal entries</td>
<td>US$1,000 existing</td>
<td>C$3,300 existing</td>
<td>US$2,500 existing</td>
</tr>
<tr>
<td>Trade facilitation</td>
<td>Standardized CHB regs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Advance rulings process</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Std Customs processes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: USMCA agreement and government implementation documentation
The NAFTA C.O.O. cannot be used for USMCA shipments

Avoid the denial of USMCA benefits

- With USMCA in place as of July 1st the NAFTA C.O.O can no longer be used
- Only the USMCA C.O.O. should be used after July 1st

Note: your broker or trade advisor can assist with the use of the correct forms
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*UPS regional update, North America*

Q&A
Change in the Chain Webinar Series

Save the dates

**THE NEW NORMAL**
- **DATE:** July 23, 2020
- **TIME:** 9:00a EST

**NAVIGATING REGULATIONS**
- **DATE:** September 17, 2020
- **TIME:** 11:00a EST

**THE END-TO-END GAME**
- **DATE:** October 8, 2020
- **TIME:** 11:00a EST
THANK YOU