

Dear Eurasia first-responders in Europe,

In light of recent Red Sea situation and ocean disruption, quite booming volume are being placed on Eurasia railway, we would like to take this opportunity to share our analysis, what we achieved so far, our strategy at this stage as well as our version of market outlook for the future.

Lots of people are referring Red Sea incident this time to Suez Canal incident back in 2021, and we also want to start from this angle.

There are fundamental differences between Suez Canal 2021 and Red Sea 2023:

- With COVID situation in Europe and the power of China manufacturing, the trading figures between Europe and China in year 2021 were at historical high level. At this moment due to global economy situation as well as supply chain re-organization, trading activities between CN and EU are relatively low.
- Ever since the Ukraine war most of multinational enterprises suspended their Eurasia railway activities due to political pressure/concern, even till this date under current circumstance, coming back to Eurasia is still a very sensitive topic. In general we don't see any sign of them to re-activate rail yet.
- EU imposed sanctions against Russia and as of package 10 Eurasia EB were targeted, with package 11 and 12 we are looking at quite a number of commodities being physically banned with crossing Russian territory. As a result WB activities were also suppressed due to operation balance.
- Suez Canal 2021 took place at end of March, while we are now at a very special moment right before Chinese New Year. It is traditionally the most peak season before Chinese New Year and will take a nose dive into most slack season right afterwards.
- Suez Canal incident was something nobody foresaw or prepared for, combined with extremely low efficiency in port operation due to COVID. While this time all the carriers developed kind of BCP in the past two years and they reacted pretty fast.

What we experienced in Eurasia 2021:

- Ocean rates went crazy and got sky high (Usd 15K – 20K per 40'HQ) - more or less 50% higher compared with rail.
- Ocean volume swarmed into rail, given huge capacity gap, easily breached the infrastructure ceiling of Eurasia.
- There were massive congestions in origin terminals, border crossing trans-loading and destination terminals.
- There were unprecedented delay in departure, non-technical stops en-route everywhere, and weeks of waiting for arrival slots at destination.
- There were huge equipment shortage in China while containers flooded in Europe blocking every operation area.
- Hanky-panky carriers appeared everywhere, taking advantage of rate difference between rail and ocean making money while deliver extremely lousy service or no service at all.
- As a result: regular clients suffered from such chaotic situation, new clients acknowledged rail as lousy as ocean (at that time). When Ukraine war took place in Feb 2022 and ocean market normalized as of 2nd half of 2022, Eurasia activities took a big hit till today.

What we did in the past two months, ever since Hamas attacked Israel:

- We worked with all 5 carriers (Xi'an, Chengdu, Chongqing, Yiwu, Wuhan) who never stop providing service between China and Europe (excluding Russia) in the past two years, and achieved common understanding to prevent same situation in 2021 from repeating.
- These 5 carriers also convinced China Railway to allocate capacity based on past 12 months' performance. And strictly control the overall capacity in the market to avoid severe congestion within China or at border crossing.
- All together we sent clear message to those overseas service provider including DBCE to provide service according to their actual capacity (which reduced a lot in the past two years) and give priority to the regular users (carriers)
- DBS China blocked quite some empty containers and even positioned a number of them in our own depot.
- DBS China received biggest capacity on those qualified services. We have the majority portion of the 82 weekly slots on the Super Express train (operates in different module, short/reliable lead-time regardless congestion) ex Xi'an for Duisburg, and all other public train capacity reserved for us are the ones running on regular basis in the past with special protection mechanism within China Rail.

And again, here is our policy in terms allocation distribution under current circumstance:

- Tier 1: Regular/all-time user since the Ukraine war - We will grant special rates, honor long validity offer (if any), give priority to their request based on past performance and accept even more volume.
- Tier 2: Regular user before the Ukraine war, and now with the new situation they changed their internal policy to come back to Eurasia
- Tier 2: New user but willing to commit and become regular in the future after the crisis
- Tier 2: New user but have long-term cooperation with other DBS BU (air/ocean/land/CL etc.,) – For all three kinds of tier 2 clients we will provide capacity protection based on their forecast.
- Tier 3: Spot – based on capacity availability and accept only with decent margin.

Market outlook:

- We understand Red Sea situation can be dynamic given all the uncertainties.
- Carriers already increased rates in order to create kind of barrier between ocean, they will continue to do so in the coming weeks.
- Capacity released in the market will be based on infrastructure ceiling.
- CN Equipment shortage is foreseeable in the near future.
- Pre and post Chinese New Year will make huge difference.

Our goal:

- It is our mission to provide existing and new client better service compared with others in the market and much better service compared with 2 years ago.
- Under challenging situation we would like to demonstrate Eurasia railway is not backup towards any other modes of transportation, but one of the three solutions (Ocean/Air/Land) to keep the integrity of global supply chain.
- We will emphasize continuously the importance of regularity in railway operation, and persuade more clients become regular in light of supply chain diversity.

In the meantime we urge you to check the handling capacity in your respective team, voice out in case of any manpower shortage to be well prepared for the upcoming booming volume”