

Dear reader,

The impact of the Corona Virus in China, the economic powerhouse of Asia, will be far-reaching. Ranging from the effects on the domestic stock market and subsequent knock-on effects this has on the world economic markets, to the lag of imports into China, production and exports. This will seriously affect shipping and fuel prices.

The dramatically rising number of Corona virus infected patients (and the number of deaths) leads us to the conclusion that the effects of this travel restriction may still have to be seen.

Many workers still remain at home and those who have returned are often quarantined before they can take their place in the mills. It may also be valid to state that, had China not taken these steps, the outbreak might have been much worse than it currently is.

The Chinese authorities had already extended their New Year holidays by about a week, until Feb 9<sup>th</sup>. They have advised and are still advising against domestic travel and we have been notified that local government has announced an extension of factory closure until at least the 24<sup>th</sup> of Feb. After the 24<sup>th</sup>, companies still have to be granted permission to reopen again. Our Agri manufacturing partners in China are slowly seeing a return of their workers.

## Where does this leave LC Packaging and our customers?

LC Packaging sources but a few product groups from China, being:

- Raschel bags
- Monofilament bags
- Fleece
- Shade cloth
- BOPP WPP bags

Our product managers are in contact with the various product mills and we are ascertaining the impact the Corona virus and the state mandated Holiday extension and travel restrictions have had (and are still having) on their mills and subsequent production for LC Packaging on a daily basis.

## Zero impact for FIBC customers

LC Packaging does not source any FIBC's from China and, to the best of our knowledge, our production partners do not source their raw materials from China; these are sourced more locally. Thus, for our FIBC's, from a purely production point of view, LC Packaging does not foresee a (short-term) negative impact of the Corona Virus on our overseas production partners.

### Plenty stock for corrugate-board demand

As LC Packaging does not source corrugated board from the far east, we do not foresee a negative impact of the Corona Virus on our corrugate-board production partners. However, there is a case to be made that the production of Paper pulp does to a certain extent depend on the availability of containers for distribution. Corrugated board is produced from 2 types of fibers -long fibers and short fibers. The short fiber pulp is generally sourced in South America and is then transported to the Pulp processing plants in Scandinavia. If containers are unavailable for this transport, then yes, we may see a delay in production. However our production partners continue to have available stock for the foreseeable future.

### Agri: Ascertaining impact of 'slower than usual' startup period

Because this Corona outbreak has coincided with Chinese New Year, the Agri side of LC business will be affected by a slower than usual startup of the mills. Travel restrictions will have to be rescinded, confidence of the working-force has to grow and the production partners then have to start up their mills again.

We can state that, under normal conditions, up to a month of production is "lost". Also the actual shipments are slow to start up again because of lack of empty containers in the depots.

The full effects that the Corona Virus has (had) on the domestic Chinese economy is yet to be seen. Following the end of the Chinese Holiday Extension, our product managers are in close contact with the mills and are ascertaining what effect this outbreak has had on the mills, their workers, and current orders.

### Global long-term impact

There are several long-term impacts that are yet to be felt globally. The impact that the Corona virus has on shipping is being felt and will be felt for months into the future:

- There currently is a shortage of reefer containers.
- There is huge congestion of reefers in Chinese ports that will lead to shortages and delays for our customers (and their customers) if and when they depend on reefer shipments of their produce packed in our packaging.
- This reefer congestion also leads to an increase in congestion tax for reefer of between USD 1000 -1250,-

### Shipment delays

The corona virus considerably reinforces that effect as there is no longer any transport in China from the ports to the destination in the hinterland and port staff remain at home and thus vessels are slow to be unloaded. However, we may see delays in shipments of FIBC's due to stricter Hub-port hygiene and the delays in unloading mother-vessels in Chinese ports. The congestion of reefers may also have a knock-on effect on GP containers and 40ft in that there may not be enough depot space for containers to be stored.

Shipping companies report that strict hygiene protocols are imposed on the vessels and the mariners operating them; and that under certain circumstances, containers in port may receive an extension of the demurrage free time. This must be verified as this depends on the shipping company and the port.

A quote from CMA,CGM group :

“For the health of our seafarers, strict hygiene measures have been put in place onboard our vessels. In order to limit their exposure to the virus, we are restricting our crew from signing on/off at the affected ports. Our seafarers shall fully comply and cooperate with the local authorities for any pre-quarantine checks. Note that a potential delay to vessel schedule could happen in the event a vessel calls a port with sick crew member onboard.”

In addition to the above, the New York Times reported :

“Aside from fear of disease, the country’s nearly 300 million migrant workers — almost two-fifths of the labor force — now have another reason to be reluctant to travel to distant cities: Their children are still home. Depending on the province, many schools are not scheduled to resume until Feb. 25 or even March 1.

Even factories with enough workers are running into further problems. The packaging industry is almost shut down, so everything from plastic packing to steel drums is running out, Mr. Wuttke said.

Local regulators are putting up even more barriers.

Before businesses in big manufacturing hubs like Shanghai, Shenzhen, Suzhou or Nanjing can reopen, they must now verify the travel history and health of every employee over the past two weeks. They must have frequent temperature checks of employees, hand-washing procedures and a plan to isolate and refer to hospitals anyone showing even fevers as low as 99.1 degrees Fahrenheit.

Most difficult of all, businesses cannot reopen without approval of their health plans by municipal officials — and larger operations also have to wait for a site visit from a health official.”

It seems more than likely that unless the actions for containment of the Corona Virus have paid off and new numbers of infections are decreasing, mills are slow to start up production by end Feb/start March at the earliest. However, if infections continue to rise then a start-up at the end of Feb / Start of March will seem optimistic.

If the Corona Virus makes the quantum leap to, for instance the Indian sub-continent, then this assessment will change.

We will keep you informed. If you have any questions in the meantime or if you are seeking more information, feel free to reach out to your LC Packaging contact or LC Packaging’s Quality Department at LC International via [quality@lcpackaging.com](mailto:quality@lcpackaging.com).

Yours sincerely,



Lucas Lammers,  
CEO LC Packaging