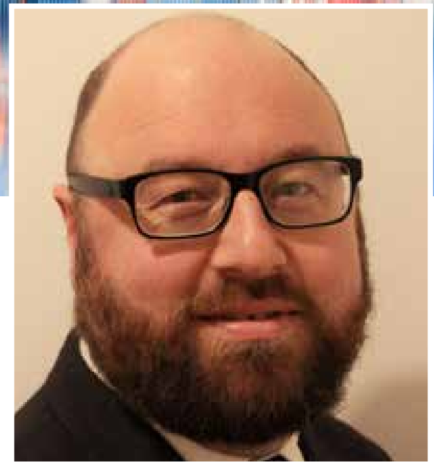
Global supply chain is the weakest link

The global supply chain and logistics industry has always been somewhat of a mystery, except to people who work in it. Consumers and end-users of goods and products have regularly neither known nor cared where their goods come from, or how they get to them. From just-in-time manufacturing to Amazon Prime's guaranteed next day delivery and everything in between, people have become used to getting what they want, when they want it, be that from traditional bricks and mortar options or by a click of a button on-line.

However, over the last 18 months, this has changed dramatically to the point that the global supply chain and logistics is now front and centre in the minds of most c-suite level executives. It has also been afforded headline news by the world's mainstream media, *writes Brian Murphy, Ocean Product Manager, Expeditors** (inset).



So how did this all come about?

Asia is the manufacturing capital of the world and within that, China is the dominant player. In the early 19th century, Napoleon is reported to have said "China is a sleeping giant. Let her sleep, for when she wakes, she will move the world." While Napoleon's prediction took almost 200 years to come to fruition, he was ultimately right. Over the last few decades, China has changed from being a sleepy agriculture-based country to the second largest economy in the world. This phenomenal rise is mainly attributed to investment and growth in its manufacturing sector, which in turn has fuelled its export-driven economy.

In early 2020, as the Covid-19 outbreak started to grip China, the Chinese Government announced that it would extend the annual Chinese New Year holiday, planned from 25 January to 1 February, into February. This was ultimately extended again into March and, for six to seven weeks, factories lay idle and production and exports were minimal. Just as China exited lockdown in mid-March, most of the western world was entering lockdown. Large numbers of buyers cancelled or deferred orders with their Asian suppliers.

Shipping lines reacted quickly and decisively to the massive reduction in demand by removing capacity from the market. Services from Asia were suspended, and vessels were parked up. In addition, due to travel restrictions, airlines stopped flying most of their aircraft with international flights being more severely affected. There was a real and genuine fear of a global recession – we were in very new and uncharted waters.

Over the course of the next few months the behaviour of people in the western world changed. Humans are, in the main, social creatures, but that social outlet was taken away by a series of lockdowns. No longer could they spend their money in restaurants, bars and cinemas or on holidays and foreign travel. Instead, they started to spend their money, and a lot of it, on products and goods.

People who could no longer go to the gym bought home work-out equipment. Working from home meant there was a need for a new home office. Having to spend more time in your home and garden led to huge numbers of self-renovations and improvement projects.

This sudden surge in spending caught everybody off guard. Wholesalers, retailers, logisticians, shipping lines and manufacturers, who were largely Asian based, were not expecting such an uptake in demand so quickly after a potential global recession.

Lack of containers

As demand took off, shipping lines reinstated services from Asia but there was one major problem – there was a severe lack of containers in Asia to meet the demand. As mentioned earlier China, and indeed most Asian countries, have export-driven economies. While they do import goods, their exports far outweigh their imports so empty containers need to be positioned back to Asia to meet the export demand. When services ex-Asia were suspended, it also meant there was no return voyage several weeks later containing the much-needed empty containers.

The lack of containers led to backlogs and bottlenecks in Asia and, in so accordance then with the laws of supply and demand, freight rates for containers ex-Asia rose sharply, by up to 1,000%. When the cargo did move, it arrived into ports in Europe and the USA that were working in a new Covid era of rules and regulations. Staffing levels were reduced, partly due to sickness from Covid and partly due to having to work in smaller crews because of social distancing. Strict cleaning regimes were implemented in between crew changes.

This all led to vessels taking longer to offload and congestion within the ports which ultimately meant that it took even longer to get the containers back to Asia to deal with the next round of exports – a vicious cycle was created that still hasn't been broken.

To further complicate things, in late March 2021, the *Ever Given*, one of the largest container ships in the world, got stuck in the Suez Canal, the main artery that connects East to West from a shipping point of view. The media dubbed it "The Billion Dollar Ship" due to the value of the contents loaded in its containers onboard and "The Ship That Broke Global Trade".

Notwithstanding the dramatic headlines from the media, the blockage of the Suez Canal in terms of global trade was hugely significant. In the six days that it took a team of expert salvage operators to free the vessel, approximately 400 more vessels were significantly delayed – freight rates rose again.

It's also important to note that Covid hasn't gone away. While here in Ireland things are starting to get back to some sense of normality, not every country in the world is in the same position. In recent months. Both Vietnam and Malaysia have endured their own long and strict lockdowns. There have been sporadic outbreaks and lockdowns in several parts of China, most notably in Shenzhen, that saw the port effectively closed for almost four weeks. To put this into perspective, Shenzhen is the world's fourth largest port, having handled just shy of 14 million TEU (twenty-foot equivalent units) in the first half of 2021 alone.

Solution not so simple

So, surely the solution is to make more containers and use more ships? Unfortunately, it's not quite as simple as that. Over 90% of all new containers are built by three Chinese-based companies. These factories were closed during the initial lockdown in China which led to backlogs on orders. Despite them ramping up production since, they simply cannot keep up with the demand. From a container vessel point of view, all available vessels are in service.

Shipping lines have ordered new vessels in the last 12 months but they will not be built and in service until 2023 at the earliest. It is also worth noting that even if there were vessels available, it wouldn't necessarily make sense to put them into service in a network that is severely congested and has huge bottlenecks – they would only add to the problem.

Communication is key

The consensus is that the current global supply chain challenges will remain in the market until at least Q4 2022. To try and mitigate these challenges there are some things that can be done. There needs to be more collaboration between manufacturers, importers, distributors, contractors and logistics companies – communication is key. Lead times should be increased, both from a production point of view and from a transport perspective. Most important, possibly, is that budgets need to be reviewed. Prices will continue to remain high for both freight and raw materials. This will pass but, in the meantime, it's all hands on deck! ■

* Expeditors' menu of core services offers full-spectrum support for an array of industries and for the unique logistics challenges they present. From wholesale global logistics to specific supply chain enhancements, all services are supported by leading-edge information technology systems operating on a single, global operating platform.