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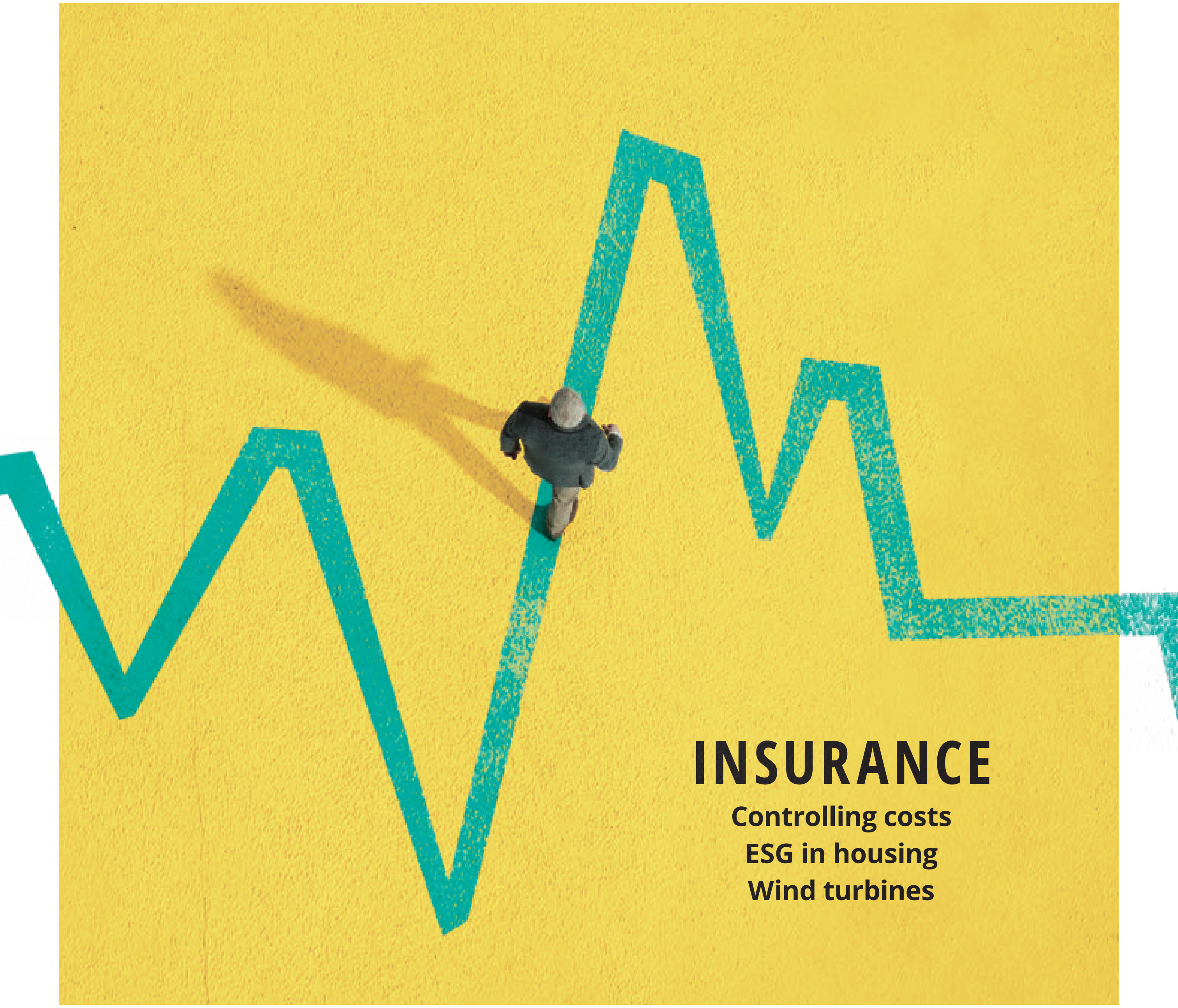

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Global supply chain issues are impacting all organisations. How and when will they be resolved?

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Online shopping is very easy. Just click 'next day delivery' and 24-hours later your item is in your hands. Similarly, we expect procurement of goods and services to be fulfilled efficiently. But there are many stages to supply chain delivery, from the global sourcing of raw materials and components, to manufacturing and shipping, all of which happens long before your order arrives on the doorstep, or in your public services.

Global supply chain issues impact public services and therefore on the work of insurance market and risk and project managers. It's one of the many drivers behind the current hard insurance market. While global shortages and interruptions, along with inflation, are threatening service delivery. This influences enterprise risk, organisational resilience, compliance, and reputation.

Co-existing with COVID-19

Media reporting has reflected global supply chain issues over the last couple of years, accompanied by the threat of shortages, from microprocessors to car parts and even turkeys at Christmas. Shortages have been accompanied by spiralling price increases.

Marine cargo plays a significant part in the supply chain process. Five years ago, the situation for shipping lines was very precarious. This resulted in failures, most notably the Hanjin shipping line, which collapsed and left vessels crammed with customer goods bobbing around at sea. Today, the situation is a stark contrast with the recent oversupply of shipping globally, with widespread shortages due to reductions in capacity and increased global demand.

During COVID–19 national lockdowns, there was a massive growth in demand for cheaper goods, which drove a 300-400% increase in marine shipping container costs. These costs are now built-in and are

passed on in the price of shipped goods. However, fewer goods are being shipped from China. Due to stringent COVID-19 restrictions, China's output in early 2022 was the lowest in two years. This means fewer cheap goods are being exported worldwide, which has taken some pressure off the global shipping network.

China's Zero Covid policy also led to major delays in getting goods out of Shanghai, it's largest port. With China confirming a two-year continuation of this policy, future lockdowns may mean Chinese manufacturing slows again and goods become stuck in the country. This will inevitably introduce short-term disruption and unpredictable supply chain delays that can't be planned for.

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Brexit delays

Closer to home, Brexit was expected to add import and export delays initially. Every stage of the revised customs procedures for carriers transporting goods in and out of the UK has the potential to cause problems. There are simple process issues such as waiting to get documents approved by customs in all UK ports, but it has added extra vulnerability to some.

Dover and Folkestone in particular, due to their size and importance, geographical location, and port infrastructure, continue to experience challenges. Dover, the largest roll-on-roll-off port in the UK, handles between 22% and 25% of all freight movements in the country. If customs staffing reduces, HMRC systems crash, or it is the school holidays, port resilience can be challenged. However, looking ahead, it should improve as we have developed a much better understanding of the post-Brexit process. Right now it's more plastering over the cracks than finding long-term, robust solutions, but generally it has improved this year.

The big story in the build-up to last year's festive season was the reported shortage of 100,000 delivery drivers. At one point, HGV testing was difficult due to COVID-19 restrictions, but in Q4 2021, there was a 53.5% increase in HGV tests compared to Q4 2019. With better pay rates, improved working practices and benefits, drivers are being tempted into the industry, so this issue is stabilising and heading in the right direction, albeit at a higher cost.

Ukraine conflict

More recently, conflict in Ukraine and the economic sanctions on Russia started impacting the global supply chain. The Ukraine conflict is both a humanitarian tragedy and an economic crisis, with the World Bank reporting that Ukraine's economy will shrink by 45% this year[1]. In addition, the western sanctions imposed on Russia are damaging the Russian economy.

The UK has already closed its airspace to Russian airlines and its waters to Russian owned, controlled or registered shipping. According to the Office for National Statistics in 2021, the UK imported £10.3 billion of goods from Russia, which accounted for 2.2% of all goods imports, making Russia our 12th biggest importing partner[2]. This has a significant impact on the cost of products such as crude and refined oil, as well as wood and charcoal.

Geographically, most goods come into Europe from the Far East, via routes that pass nowhere near Russia, so this is not an immediate issue. However, certain goods such as oil, gas, wheat, corn, and sunflower seed are Ukraine's main exports. Ukraine is a major grain exporter, but about 20 million tonnes of grain is trapped in its ports, unable to leave because of Russian forces. An agreement with Russia brokered by Turkey, to release ships out of Crimea bound for Africa, is yet to be honoured.

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As the war continues it is inevitable that goods in the Ukraine supply chain will have to be sourced elsewhere. There is also the question whether the geopolitical relationship and close supply chain ties between Russia and China will ultimately introduce wider global supply problems. Given the relationship between China and Russia, will China favour Russia for the supply of goods? Also, with NATO and the West's attention on Ukraine, will China take the opportunity to expand into South Asia? Any action here will affect global supply.

Ferry carriers

Cross-channel ferries play an important part in goods delivery to the UK. P&O has operational and reputational issues, due to the way it handled workforce reductions and replacements, with agency staff from abroad. This spring the Maritime and Coastguard Agency (MCA) detained three P&O vessels because they weren't seaworthy. With trucks held up in European ports, this caused short-term delays.

Other ferry companies may suffer because of P&O's actions, with reputation damage to the sector impacting recruitment and retention, as well as organisational disruption and regulatory scrutiny. All the while, shipping costs are increasing, which is another contributory factor to inflation in the UK as it affects most consumer goods and raw materials.

The effect on public services

There is a suggestion that capacity is slowly returning to the marine sector, and so, potentially, we may see some softening of the market in future.

It's always useful to know that goods can be expected to turn up when they are scheduled to, but we haven't had that certainty for some time. Purchasers have adapted and built-in longer lead times or changed suppliers, often closer to home, but in spite of these measures, the delivery of goods can still be delayed. This can have a knock-on effect when it comes to the timely delivery of major capital projects such as those in the construction industry, resulting in losses from the delay.

In Q3 of 2022 we are experiencing some recovery from the instability of the last few years. Unfortunately, however, the current global supply chain system remains weak, and the slightest turbulence will put everything back to where it was six months ago. One thing that won't revert however are the price hikes in all links of the supply chain. Inevitably the biggest impact for organisations will be on cost. ●

References

[1]Russian invasion to shrink UK economy by 45% this year, World Bank
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