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Interrupted supply chain infrastructure: Global supply risk or opportunity?

By Jason Griessel

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Congested ports and serious shortages during the Covid-19 pandemic and subsequent lockdowns might be a distant memory in many of the world's trading hubs, but in South Africa, it is looming over many industries post-festive season and beyond.

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Geopolitical tensions have only served to worsen the global shipping and logistics industry. Tensions in the Red Sea have seen its shipping lanes come under increasing scrutiny following attacks on commercial ships by the Houthi militia.

Red Sea concerns

The Bab al-Mandab Strait, crucial for global oil trade, connects Yemen and Djibouti, impacting the Red Sea's economy. This strait is vital for reducing shipping distances, with around 33,000 merchant ships passing through annually. Instability in the region could significantly increase global trade and energy costs. The Red Sea's strategic importance has led to various countries, including major powers like the US and China, establishing military bases to protect shipping interests.

However, the Yemeni-based insurgents, who claim their attacks are a response to Israel's actions in Gaza, have specifically targeted ships linked to Israel. In response, the UN Security Council has called for an immediate halt to these attacks. Additionally, the US and UK have conducted strikes in Yemen targeting the Houthi rebels, making the area an even more fragile geopolitical and security hotspot. The attacks have drawn attention from both regional and international nations as it has had a significant impact on the global shipping and logistics industry.

Port congestion and economic losses

The situation isn't much better in South Africa. Several news reports have provided insight into the stark reality off the

shores of Durban and Richards Bay in South Africa. Almost 100 cargo vessels, laden with fuel, bulk dry goods, containers and cars, were held up at the country's two largest ports, facing delays attributed to a combination of adverse weather conditions and ageing terminal equipment. Add to that the tragic accident that took place on the rail in mid-January when Train 4831 collided with Train 4623 which was stationary at eLubana, on the KZN north coast, due to the power outage in Richards Bay.

The congestion is resulting in losses in billions of Rands to the South African economy, with urgent action needed, according to many in the business sector. One estimate puts the losses to close to R150bn.

Looking at it differently, the anticipated repercussions of supply chain infrastructure collapse are staggering, with the country poised to lose R1 billion per day in economic output. This daily economic impact equates to 4.9% of the nation's annual GDP, amounting to R353 billion. Reflecting on these figures, it becomes evident how substantial and far-reaching the economic toll of these disruptions is on the country.

Port congestion has the potential to compel shipping firms to divert off their intended routes, resulting in delays and, at times, additional expenses to the end user. In recent context, shipping expenses have been increasing, and the current supply chain port congestion is poised to elevate these costs even further, disrupting financial efficiency, and ultimately increasing the cost to the purchaser at the till point in 8 to 12 months, depending on the product.

Implications beyond shipping

Many companies will find themselves compelled to acknowledge the unavoidable uptick in shipping and input expenses during this period of disruption, leading to indications of both price inflation and margin erosion.

Supply chain disruptions can deplete inventories and result in a backlog of merchandise stranded in transit. For products such as perishable goods, the time spent idling in a port or on a vessel awaiting berthing can compromise product quality, particularly if the container lacks sufficient protection.

Beyond the impact on consumers, manufacturers may also encounter significant challenges if they rely heavily on imported raw materials without substantial connections to domestic suppliers. Rapid increases in material and labour costs would pose a significant challenge for the construction industry and as a result the commercial property sector.

The market demand increases across essential construction materials, such as reinforcing steel and structural timber, is particularly noteworthy. A slowdown in the housing and commercial property markets could further strain the industry, potentially leading to insolvency for builders.

Builders are adopting risk management measures such as incorporating 'rise and fall' provisions in contracts, seeking extensions due to material shortages, and emphasising buffer and risk considerations in negotiations to navigate these challenges successfully. Key here is early communication and understanding of these costs and their variables by all stakeholders.

Adhering to the best practice of maintaining key material inventories for both raw materials and finished products becomes crucial, especially in anticipation of potential shipping congestion scenarios that can impede supply chains. While adjusting inventory policies to enhance resilience might not immediately address congestion issues, business leaders should adapt by forecasting and expanding buffer stock as long as vulnerabilities in the supply chain persist.

The downside of these types of congestion and our inability to keep up the servicing of normal logistics windows is that neighbouring coastal countries in SADC will seize the opportunity to erect their infrastructure, culminating in less demand on ours eventually, and at the cost of significant revenue loss and relevance.

Opportunities for South Africa

South Africans have historically found opportunities in crises, and there are benefits if managed correctly. In the shipping crisis created out of the port congestion, the focus could be more prominently on local procurement and sourcing, particularly for textiles, clothing, and luxury goods, which can be expected to witness increased consumption during this period.

Retail businesses can incorporate strategies into their planning that include a preference for proudly South African produce and products. Direct engagement with manufacturers is crucial, as is communication with consumers; for example, during the Christmas season, there is a notable uptick in demand for soft drinks and alcohol due to warm weather and year-end festivities. Rather than awaiting shortages and subsequent price hikes on hard-to-land products, replace them with local alternatives. In this respect, proactive management is essential.

Strategies that include collaborating with manufacturers, exploring alternative logistics routes, and anticipating potential shortages will help avoid panic-driven pricing. Industry working groups should collectively plan and communicate transparently, ensuring that end-users do not bear the burden of scarcity that is reminiscent of the challenges faced during the Covid face mask cycle.

With the challenges facing the Mediterranean shipping routes and shippers shifting routes via the Cape of Good Hope, it is imperative that we solve the disruptions in order to cease the increase in vessel traffic. If we do not, someone else will.

ABOUT THE AUTHOR

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