

BDP Blog

# Chain reaction



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No sooner did we signal our cautious optimism as to the positive impacts that [Phase One of the U.S.-China trade deal would play on logistics and supply professionals](#) that an unforeseen health crisis emerged: coronavirus (COVID-19).

The devastating disease outbreak has, to date, struck more than 111,000 people in countries across the globe, with the IMF indicating that the virus would likely knock 0.1 percentage point from its 2020 global growth estimate of 3.3% and halt the supply-chains of many companies sourcing and supplying companies in key affected areas.

## ***So, what are international suppliers to do now?***

There are no definitive solutions to COVID-19, but to help you initiate steps to minimize your supply chain risks, we offer the below as top-of-mind considerations to help you navigate through some of the challenges associated with COVID-19.

### **Information**

In the current crisis there has been substantial challenges in building an accurate operating picture for businesses as often information conflicts or is out of date. As a logistics service provider BDP is constantly curating and managing information sources to provide an accurate and actionable picture for its customers, we advise organizations to manage their information sources and resources to build accurate and timely situational awareness.

### **Public health and labor**

In an effort to prevent the spread of the coronavirus, the numerous governments have imposed extensive, city-wide lockdowns quarantines and travel restrictions. As a



result, a number of countries have experienced significant labor shortages, which have impacted supply chain production and fulfillment. Ports are experiencing backlogs while areas that extract manufacturing resources, such as zinc, copper and aluminum, have been unable to do so.

### **Regulations**

Government officials in China have imposed a number of regulations, some of which have created a conflict of laws scenarios across provinces and municipalities that impact production. In early February, for instance, the federal government mandated a resumption of business operations, while various jurisdictions delayed reopening factories up to three weeks later, expect that as the virus unfolds many countries to also suffer from confusion between policy and process.

### **Borders**

Commensurate with widespread quarantines in both China and Italy, Border checks have led to a sharp reduction in the availability of trucks, and the communte of key workers delaying shipments, creating supply scarcity and production impacts.

### **Force majeure**

The coronavirus has caused indeterminate delays to manufacturing and distribution, which may trigger force majeure clauses in many supply chain-related contracts. Force majeure applies to unexpected circumstances that prevent contract fulfillment, providing liability relief. In a number of instances, the invocation by Chinese companies of force majeure — in some cases, suspending contracts — will force companies that rely on those enterprises to seek supply chain alternatives.

### **Air, sea and land**

The coronavirus has impacted every mode of transport. On sea, shipping companies announced in early February cancellations at ports, stops, and even entire routes due to low demand. Flights with freight cargo have also been cancelled, which is expected to cause an air freight shortage that lasts until April. (Roughly 25,000 flights have been cancelled each week, a 50% reduction in net air freight capacity.) Finally, as air freight capacities have dwindled, so too have cargo trains originating from China, with many cancellations as trucks have been unable to travel across provinces in key countries to deliver their product.

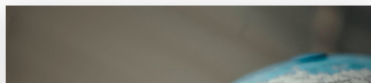
**Whilst companies are focused on the immediate concerns of how to deal with the virus, of course, there are likely longer-term consequences that organisations will need to consider and plan for such as;**

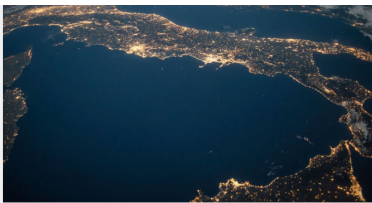
- Demand impacts: weakened consumer confidence as the financial impacts of the virus play out within global financial markets, like the financial crisis it is fair to expect a decline in demand as consumers save avoiding discretionary spending.
- Consumption patterns: as consumers have changed their patterns of consumption to purchase items online such as groceries online, the longer-term impact of the virus may be to exacerbate the trend towards online shopping across many economies
- Supply costs: supply-chains will need to restock, restart production and resupply materials throughout the value chain leading to competition for resources, transport capacity and bottlenecking within the supply-chain impacting supply of products and relative cost of material and transportation
- Supplier availability: the impact of the virus will likely lead to a wave of bankruptcies in overstressed industries (we have already seen the impact on airlines with the British airline FlyBe facing bankruptcy) impacting the availability of choice, sourcing options and cost of goods/materials

**The situation with COVID-19 is dynamic, and literally changing by the minute. Be sure to stay on top of the latest updates, alerts, and developments by visiting [BDP's COVID-19 Update page](#).**



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