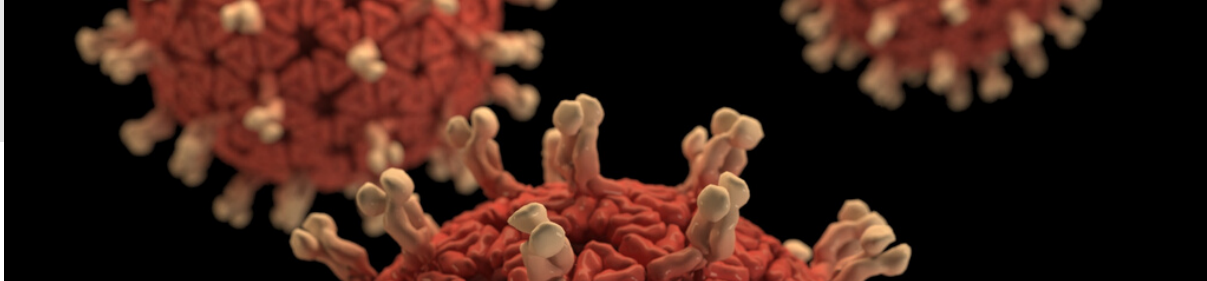




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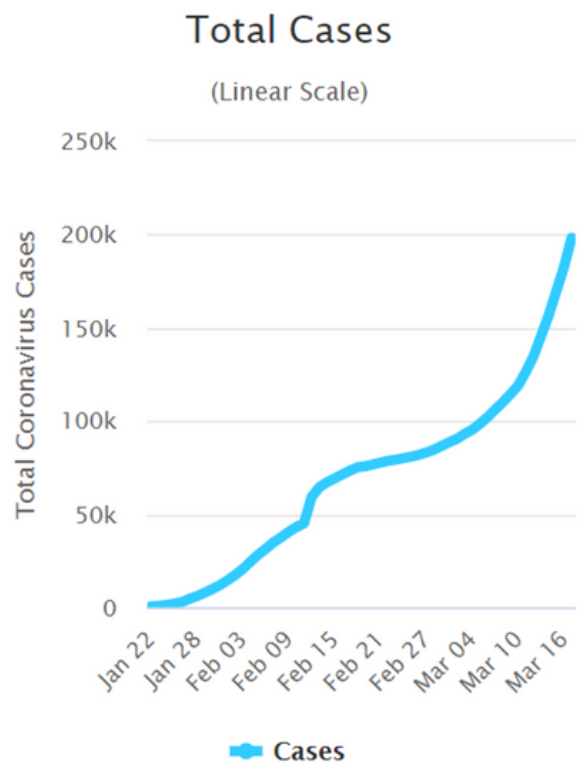


COVID-19 KEY RISKS TO THE GLOBAL PHARMACEUTICAL SUPPLY CHAIN

MARCH 18, 2020

INTRODUCTION

Only ten weeks ago, COVID-19 seemed far away somewhere in central China. Suddenly, the virus started popping up in various other parts of the world. This week, with more than 200,000 cases and more than 8,000 deaths globally the World Health Organisation (WHO) announced we have a global pandemic on our hands ravaging across the world. An increasing number of countries across Asia, Europe, the Middle East and the US are sliding into lock down mode. Exhibitions, conferences, sports events and social gatherings have been forbidden. Schools are closed. People are being told to stay at home and streets across Europe in countries like Italy and Spain are being policed. No-one saw this coming. What started as a strange virus with a funny name has turned into everyone's worst nightmare.



Date: March 18, 2020
Source: Worldometer

People all around the world have started panic buying food from their local supermarkets leaving shelves empty. People are locked up in their homes. Companies around the world have started to halt manufacturing lines similar to what has already been happening earlier across China. Whole industries are coming to a halt. Flights are being cancelled and airlines and hotels have started laying off staff. Other industries are doing the same starting to lay off temporary staff and flex workers. The global financial markets are in melt down and have lost over 35% of their value not seen since the financial crisis of 2008. This has started to look like the script from a Hollywood horror film scenario with only one major difference. This is real and we are only 10 weeks into this!



WHERE WE ARE NOW

THE ROLE OF GOVERNMENT

Thus far, governments are still slow to respond. They are not using the lessons learnt in China and copying these lessons quickly enough. Lock down only started this week across some countries, yet the virus has already infested whole areas and countries. Where China managed to lock down most of the Wuhan region quickly within 4 weeks, some major countries such as parts of Europe and the US still allow free movement between and within the country.

What is needed is for government not only to think about how to provide some economic relief across the whole economy but to focus their financial efforts on three key sectors.

THREE KEY INDUSTRIES ARE VITAL

A number of companies have started to slow down or stop completely their manufacturing activities. In China this has already been going on for some weeks which means products such as electronics, mobile phones, fashion and textile exports are coming to a halt. Of course, China is the global factory for so many products and all these product supplies are affected as inventory levels across the world are starting to run low.

This week a number of key carmakers announced a full production stop such as the French PSA Group and Volkswagen. Others such as Renault, Ford and Fiat have announced similar closures of key factories. Soon there will be no new cars to buy from the showroom. This is just an example of a whole sector grinding to a halt.

Another one is the airline sector, as countries close their borders and people stop traveling, all airlines are winding down their operations. Major airlines operating flights between the US and Europe have started to fully cancel all flights in an attempt to reduce the financial impact on their business. Soon there will be no trans-Atlantic flights a situation unheard of since the Second World War. However, most people don't realise that most air cargo moves around the world onboard passenger jets. Airlines are making the right decisions from their own financial business perspective, but from a macro socio-economic perspective this will start affecting supply of goods across the world.

There are three key industries which run the highest risk of impacting all of us the most very soon if governments and big business don't step up.

These sectors are utilities such as water and energy, food and food processing, pharmaceuticals and medical care.

The energy sector is well organised, and governments traditionally have a direct role to play in this sector as they own most of the assets and/or have a vested financial revenue interest in ensuring energy gets to consumers as part of their tax system. The energy sector is probably ok for now.

However, in the food industry we are already starting to see many people stockpile food to build up buffers in their homes in case events turn for the worse. Most of us have never experienced this before in our lifetime. Although retail chains and governments are calling on people not to panic, the panic is there and for good reason. People realise that supply of certain foods will soon slow down especially in countries heavily dependent on imported foods.

The pharmaceutical and medical supply sector is the third sector which although on everyone's radar screen in terms of the medical and hospital care needs, is at great risk of breaking down soon unless governments step in fast.



THE PHARMACEUTICAL SUPPLY CHAIN WILL RUN DRY

During normal times the pharmaceutical and medical supply sector typically has about 6 months of inventory on hand in its supply chain. There are various factors why pharmaceutical products from the pharmaceutical industry will soon be in short supply. The production of medicines typically has a very long and global supply chain. From raw material production to API to semi-finished product, compounding or filling to packaging. Many pharmaceutical products touch a number of countries before the finished product is actually available in the hospital or across the counter in your drug store around the corner. In the pharmaceutical industry, much of the global transportation between these manufacturing steps goes via international airfreight. This is grinding to a halt.

Right now, there are various “supply” related factors slowing down the whole pharmaceutical supply chain. First, manufacturing itself is slowing down as companies are trying to protect their staff. Second, government pressure on certain companies has started to slow the export of certain medicines and medical consumable items as governments step in to secure supply for their own domestic needs first. Third, the transportation of product itself is under severe

pressure as airlines stop flying. Medical consumables, typically moving around the world via sea-freight, is also under severe pressure due to several additional factors and overland transportation on trucks is also being complicated as countries have started to block their borders.

On the “demand” side we have seen in the pharmaceutical and consumables a similar development compared to the food industry, namely stocking up of product. This is currently going on throughout the whole global medical market. Governments and hospitals are trying to increase their “safety stocks” from the traditional 3-4 months to 12 months of many medical items as demand for a number of products surges related to the virus.

Governments and hospitals around the world have been caught “off guard”. They are not known as fast movers and typically behave reactively to events. It seems that the “middle-men” are profiteering and making the situation only worse. Price levels of many products have shot up and whilst some hospitals and clinics have secured additional stock others have clearly not been so lucky and are scrambling to find additional stock from anywhere.

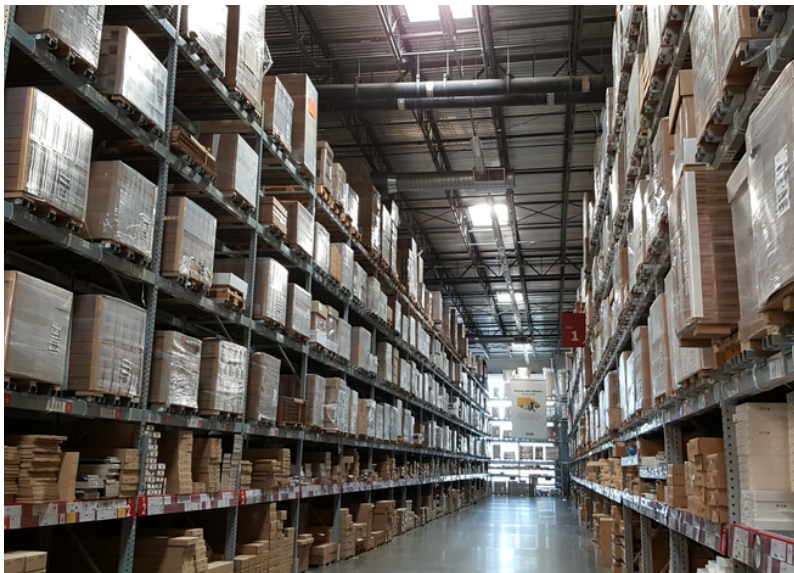
SHORTAGES



All of the above factors together are putting severe pressure on the whole supply chain system within the pharmaceutical sector. As a result, we could soon face severe shortages of medical supplies as the whole global supply chain for these products slow down. Inventory levels will wind down whilst medical needs for certain products such as medical gowns, surgical masks, sterilisation equipment but also for certain pharmaceutical products will go further up as the corona virus gathers further pace.

WHAT NEEDS TO HAPPEN - FAST

COVID-19 needs to be treated like an enemy during war time. Not only is securing strategic stock of certain products right now vital but even more so is ongoing continuity of supply. Governments needs to step up and work more together to secure continued supply and they need to do so fast. This is a fine balancing act as they weigh off domestic political and social pressures against the need to work together internationally to ensure global pharmaceutical supply chains keep working.



GOVERNMENT REGULATION

Governments need to regulate collectively. They need to ensure price levels are fixed through temporary law based on existing contracts from before Corona. This will also ensure the middlemen and traders cannot take further advantage of the situation and play off governments, hospitals and clinics against each other in the supply of vital products.

Currently, the global transport sector in airfreight, trucking and sea freight are all reducing capacity and they struggle financially to keep their heads above the water. This is completely the wrong direction to take and will lead to the “doom” scenario we need to try to avoid where product supply can no longer be guaranteed as whole supply chains break down.

Therefore, governments, pharmaceutical manufacturers and large logistics companies collectively need to ensure continuity of vital airfreight and logistics routes between countries. This can only be done short term through regulation to keep key transportation companies “operating” to ensure continued supply of “strategic” medical products. One way is for governments to extend financing securities to key transport players who currently are cutting down costs to offset massive financial loss in revenue and stock market value.

In the most extreme scenario, some airlines and some transportation players may need to be temporarily nationalised to ensure short term business continuity. This will cost money for sure but will cost governments far less than if they leave this problem lingering for too much longer.

THE GOOD NEWS

The good news will come if governments and big business act fast and work together. Securing vital supply chains will ensure there is enough product to support the hospital and medical care sector dealing with Corona with the products they need to keep the whole hospital care system going in each country.

By regulating and financially supporting key manufacturing, transportation and logistics players governments can play a vital role in ensuring ongoing supply of product reaches hospitals and patients around the world. This will create a balancing factor badly needed in an industry looking for leadership and direction.



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