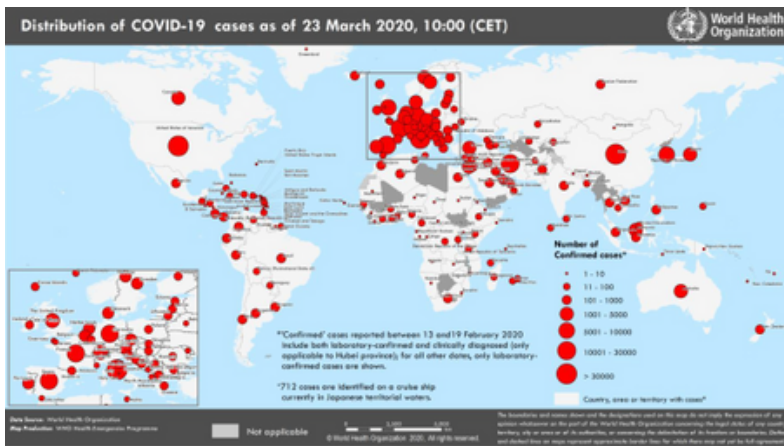
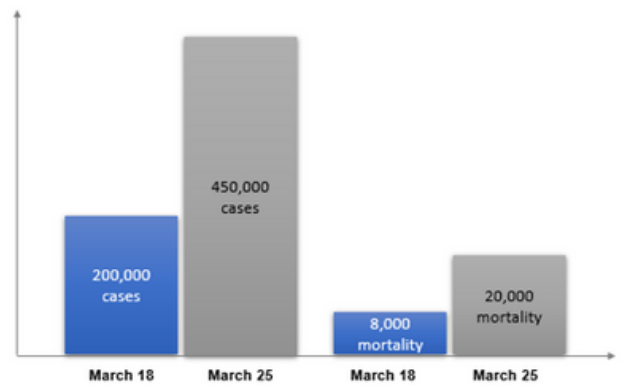


# Covid-19 and Global Supply Chain Impact

WEEKLY UPDATE



A week ago, the WHO reported 200,000 confirmed Covid-19 cases and 8,000 mortalities. Last week the world especially in Europe and the US were still coming to terms with the pandemic and how to best try to deal with it as cases were starting to go up. Seven days later, the numbers have jumped up to more than 450,000 confirmed cases and 20,000 deaths.



What is different in merely a week's time is that Covid-19 has now also taken a firm grasp on other countries. Where the focus was a week ago on Italy and Spain, the attention has now shifted to other European countries who see their uptake curve in confirmed cases shoot up and with it, daily increasing mortality rates. In the US, Covid-19 is also spreading fast across states such as New York and California. New York City alone is home to one third of all cases in the US.

What makes the US stand out against the other "newly" affected countries is the mere size of the country and the impact Covid-19 is making in just one week's time. The US has the largest and arguably the most sophisticated economy in the world. Despite all this, Covid-19 is causing increasing havoc in a country with the most expensive healthcare system in the world. The US economy is coming to a standstill and economists forecast a GDP decline of more than 25% in this quarter alone. The unemployment rate is expected to surge to double digits within months. The share-markets are highly volatile as investors look for direction. Trump's administration is trying to throw money at the problem with a 2 Trillion dollar stimulus package, that's 2,000 billion USD. In the days ahead we will learn whether its enough to offset the panic spreading across the country as the financial fall out starts taking a hold.

In the meantime, the focus in many countries including the US is on trying to save lives. For those countries already badly affected the focus is on providing medical care to those in need. In many of these countries there is a severe shortage of hospital supplies and respiratory equipment. In Spain, hospital workers are getting training in how to turn garbage bags into medical gowns.

A lock-down is now being enforced in most countries across Europe and North America. As other less affected countries start seeing the statistics in how Covid-19 develops with its typical infection and uptake curve, they are taking preventative measures and going into lock-down much sooner. India joined that group of nations yesterday as a complete and full lock-down commenced across the entire nation of 1.3 Billion people. The world seems to be coming to a complete standstill.

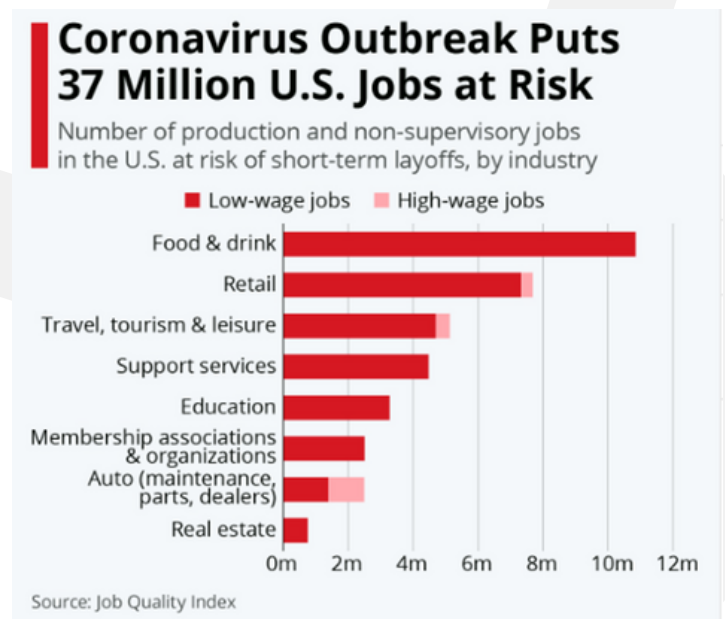
## Business Impact

The business impact is bigger than huge. The disruption to society and business most of us have never experienced before in our lifetime. Many companies have almost stopped trading as people are in lockdown at home and manufacturing lines have come to a standstill. Companies in the airline sector, the conferencing and hotel sector, the manufacturing sector, the retail sector, the hospitality industry such as restaurants and bars. The impact is unprecedented.



In an effort to curb losses, many companies especially in countries with more flexible labour laws, are shedding jobs. People are being made redundant or asked to take unpaid leave. Currently, up to 20% of jobs in many companies are being let go.

This is also visible in the US where the unemployment rate is expected to go up from 3.5% to double digit in the coming weeks. The same is happening elsewhere. In Europe, with tighter labour laws the shedding of jobs will take longer but has also started. With growing numbers of people around the world in the foreseeable future being jobless the question is what impact this will have on demand for products and services in the immediate term. Surely, this will set off a further vicious downward spiral of the economy unless offset somehow by government intervention we spoke about in last week's edition.

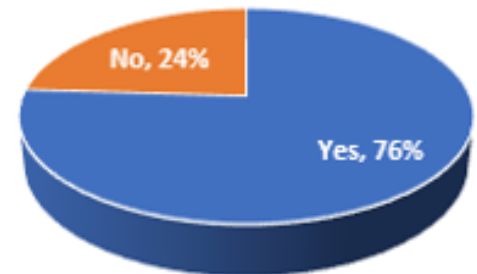


# Business Confidence

According to one survey by the European Commission dated March 19th amongst business leaders across the EU, most business leaders are concerned about the impact of Covid-19 on current demand for their products and the risks to their supply chain.

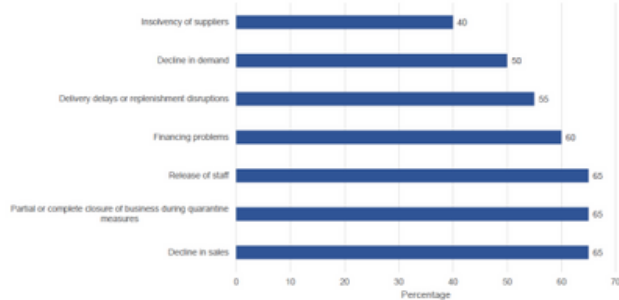
When asked about their concerns for the foreseeable future most companies have big concerns about the financial impact on their companies, on jobs, and continued disruption to critical supply chains.

## Reuters Poll: Is the global economy already in a recession?

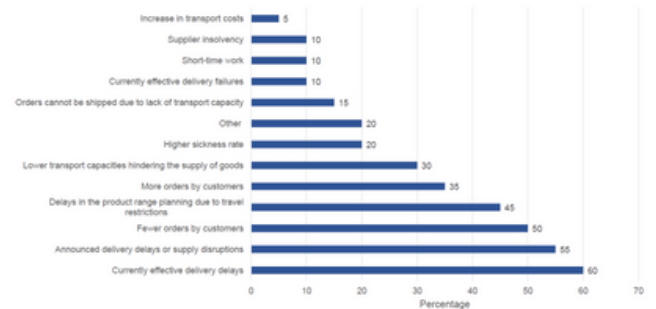


Poll conducted March 16-19, 2020  
41 Economists responded  
Source: Reuters Polls

What impact do you expect the pandemic to have on your company/your members in the course of this year?



Which concrete effects does the pandemic currently have on you/your members?



# Impact on Key Sectors

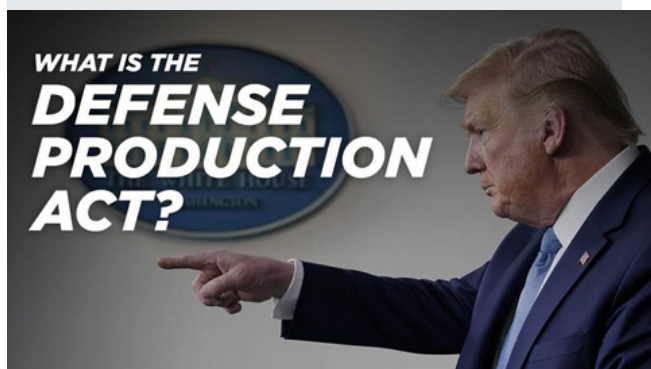
We spoke last week about the 3 key sectors which need support in the coming weeks and months. The impact on key critical sectors couldn't be much bigger. The utilities sector including water supply and energy needs is still holding up.

The most immediate sector facing shortages at patient level is the medical supply and pharmaceutical sector. Countries badly effected such as Italy and Spain have a chronic shortage of medical supplies such as sterilisation and PPE equipment. This shortage is also starting to increase in other countries such as the US.

The food industry is also heavily impacted especially in countries heavily dependent on the importation of fresh and processed foods. These include countries such as Singapore and countries across the Middle East such as Saudi Arabia, and the UAE. As countries close their borders to each other it will become more and more difficult to easily trade between nations.

Although supermarkets and especially home delivery companies have seen record revenue over the past weeks, this could reduce if stocks of product in the supply chains are no longer moving from growers and food manufacturers to supermarkets. This would further fuel concerns of people and families around the world adding to that of concerns about the virus itself and the financial impact this is also bringing.

## Domestic Political Protection



What has also become a huge problem is the severe shortage of respiratory equipment to help effected patients in the intensive care units to breath. The US has initiated an old law called the Defence Production Act from 1953 related to the Korean war in which the government is authorised to order companies to completely control their business and supply chain.

One such example is Philips Healthcare which manufactures respiratory machines in the US for global supply. The CEO of Philips, Frans van Houten expressed his concern the company would be ordered by the US government under this Act to release its full production for domestic US demand and no longer be able to supply global customers elsewhere. These concerns are echoed across the medical industry. Broad powers over U.S. factories brought in by President Donald Trump could fuel protectionism and jeopardize the supply of critical medical equipment to fight the coronavirus pandemic globally.

## Respiratory Mask Shortage



A number of US automakers have started to design and manufacture provisional respiratory masks to assist in the acute shortage of respiratory masks and machines in the US and around the world. Ford Motors is working with GE Healthcare and 3M to make respirators and ventilators. They were also testing protection masks. General Motors has started work with Ventec Life Systems to help increase production of ventilators. Fiat Chrysler also announced it would make as many as 1 million protective face masks a week which it would donate to hospitals and medical personnel. Medtronic confirmed it was in discussions with Tesla to try to solve the “ventilator supply challenge”. However, these efforts will all take time to ramp up at a time where there is an acute shortage not just in the US but also in more and more other countries across the world.



# Government Financial Assistance Programs

Families need financial support right now to keep their heads above the water. Everyone around the world is already struggling with the emotional stress of dealing with Covid-19. The financial impact and uncertainty around jobs and money will only make matters worse.

In the US, congress approved today a 2,000 Billion USD stimulus package which includes 250 billion in assistance to families across the US. Families can apply for up to 3,000 dollars in immediate assistance.

In Germany today, political parties were united in agreeing on a financial rescue package up to 1,000 Billion Euro to support companies with loans and credit lines. In the UK, Boris Johnson's government announced late last week that the UK government would fund up to 80% of salaries of those made redundant.

In the days and weeks ahead, other countries will probably follow these examples to ensure their economies also don't go into complete meltdown.

## A National Response to the Coronavirus

*The Great Recession taught us that the greatest danger is in the government doing too little, not too much.*

**1**  
Start to stabilize the economy with one-time payouts.

**\$2,000** checks for every adult, plus **\$1,000** per child

**3**  
And stick with it.

Automatically do it again if unemployment slips above 4%

**2**  
Unleash a bold stimulus package.

**\$870 billion** or **4% of GDP**

in new spending starting this year

**The Nation.**

2020 infographic: Tracy Matsue Loeffelholz

History has taught us from events such as the Great Depression in the 1930's that government financial stimulus packages need to be provided quickly and they need to make a real impact to have any real effect. In the various financial crisis's over the past 100 years we have seen that the US typically moves swiftly in these situations on providing financial stimulus whereas countries in the EU typically take much longer.



# Supply Chain Impact

From the above it is clear that the supply chain can make a clear difference to ensure product is getting from manufacturing to there where it is needed. This relates to the supply chain for medical supplies as much as it does to the supply chain for agricultural products and food.

## Supply Disruption to Medical Supplies and Pharmaceuticals

The key point is that most medical supplies, medical equipment and pharmaceutical products are manufactured in factories servicing whole parts of the world not one country. Long gone are the days where a factory services only the domestic demand in one single country. In the context of COVID-19 this is causing some real challenges right now.

On the demand side, the demand for medical supplies, equipment and pharmaceuticals has been up dramatically as hospitals and clinics try to deal with the severity of dealing with COVID-19. Governments and hospitals in recent days and weeks have tried to scramble for supplies from anywhere. This panic buying can best be compared to panic buying of food in the supermarket. The effect by itself leads to immediate shortage of product and some time is needed to resupply. This panic buying of medical products is still ongoing and distorting whole global supply chains.

As this demand surges, supply has actually been decreasing over the past weeks for a number of additional factors.

First of all, on the supply side, manufacturing globally gradually went down starting with the world's factory China.



As countries got affected with the disease and people went into lock down manufacturing supply went down also. It has only been in recent days that companies realize that to meet the growing demand for critical medical products, manufacturing actually has to increase and fast.

Secondly, most products around the world are transported between countries using trucks, boats or planes. Borders started shutting down between countries which started affecting trade. As a result, automotive, electronic and retail goods got stuck in transport containers around the world which meant these containers couldn't be used for other products. In technical terms this is called "repositioning" which has been a real challenge to manage to get containers there where they are needed to move critical products.



In turn, more and more product shortages created “urgent” order requests which started shipping as airfreight and this only made the airfreight problem bigger based on a shortage of capacity.

As airlines started reducing their flights, airfreight cargo capacity went down also as most air cargo travels onboard passenger jets as belly freight. Many people didn't realize the impact of this effect as they were more concerned about the passenger impact and reducing the network costs of flying planes without passengers.

Fourth, certain governments have started blocking the export of certain medical and pharmaceutical products. Examples include the US government using the Defense Production Act, however there are many other examples also. India, earlier in the month put curbs on the export of drug related API products to make pharmaceutical drugs. India is a major exporter of API products. India's top pharmaceuticals export group (Pharmexcil) said an Indian government curb on some drug exports as the coronavirus outbreak spreads will cause panic in other countries and will “severely impact” businesses in the sector.



On March 15th, the EU also announced limits on the export of medical supplies to other countries as it faced increasing medical shortages. These government actions will disrupt global supply chains and prompt other countries to impose export restrictions also. As the virus spreads also to developing countries these types of restrictions will for sure impact badly needed supplies to the world's poorest victims of the pandemic in countries across Africa and South America.

## Food Supply Shortages

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Whilst the world focusses on the immediate shortage of medical and pharmaceutical supplies there is another challenge starting to emerge as part of this crisis. The shortage of supply of foods into countries and supermarkets.

Consumers are finding themselves faced with empty shelves as panic buying places the food supply under short-term pressure. But could longer-term impact on the agri-food labour force actually have more significant implications?

In most countries the lockdown has already triggered a run on supermarkets to stock up on essential and non-essential foods. Supermarkets in turn are replenished by distribution centers and supplier warehouses. They in turn receive their products from food manufacturers, farmers and through the ports as imported product. All of these are under threat right now.

Ports and borders have been severely hampered in the processing of goods coming or going out caused by border blocks, equipment and transport capacity shortages and increasingly due to a shortage in labour being able to make, handle and transport these goods.

The growing shortage of labour to actually produce the different foods and much of the downstream processing is the next challenge we will face globally. In Europe, there is a growing group of farmers in the agricultural food sector warning against the shortage of foods in the short to medium term due to COVID-19. The key issue is a shortage of labour. In many countries in the EU, the yearly harvesting is done by seasonal workers from low wage countries such as Poland, Bulgaria and Romania or from even further away. These workers will not be able to cross borders into neighboring countries and thus harvests will suffer.

In the UK, The National Farmers' Union called on the government to act urgently. "Growers who rely on seasonal workers to pick, pack and grade our fruit and vegetables are extremely concerned about their ability to recruit workers this year".

Other areas around the world will face similar challenges in the months to come. Food harvesting seasons differ everywhere around the world and in the Western World, produce is brought into supermarkets from around the world to help manage seasonality.



The COVID-19 crisis highlights the vulnerability of our globalised food supply system.

A breakdown in the supply of the global food industry will also create severe economic problems for farmers and small communities in countries dependent on the export of fresh food and food related products.

## Sustainable Global Supply Chains

Finally, as this global crisis unfolds further during the coming days it will be important for decision makers in government and in business to deal not only with the immediate needs but also to look at what needs to be done to create structural improvement in the foreseeable future in medical manufacturing supply volumes and logistics flows. Ensuring freight capacities in transport through the air, on the ground and across borders is vital.



COVID-19 will no doubt expand further into and across countries globally. It's important that vital global supplies of critical medical needs as well as the short term medical and food flows are managed internationally between players.

Longer term, a full assessment will need to be done on whether current single source global manufacturing and global supply chains are the future or whether we need to re-think the way we source, manufacture and supply products.



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