



The COVID-19 impact on Supply Chains Trusted. Transformational. Together.

The Customs authorities and the world of supply chains have faced major turmoil during the past 3 to 5 years. Prior to the COVID-19 pandemic, businesses had dealt with the fallout caused by the China—United States trade dispute. The respective tariffs and sanctions imposed on certain goods had a substantive effect on supply chains. For example, the electronics and automotive sectors continue to remain severely affected by the shortage of microchips. Today, many automotive manufacturers are still under pressure and some have closed production lines or entire factories.

The imposing of tariffs and sanctions forced several manufacturers, especially those in China, to review their supply chains. They had to:

- determine whether they should move all or part of their manufacturing out of China;
- understand what were the regulatory and other implications in China of moving out part or all of their operation;
- carefully select potential locations;
- do a thorough 'greenfield' study of those options;
- conduct due diligence of potential third-party service providers; and
- understand the regulatory requirements and their applications in each of the locations.

The disruptions and costs of those moves are substantive.

Reviewing of Supply Chain processes and contracts

The COVID-19 pandemic revealed the weaknesses in supply chains and in some supply/purchase contracts and agreements. For many parties, it was the first time that they reviewed or considered the use of the 'force majeure' clauses in their contracts. Many of these clauses were missing or not able to be invoked. There were

also several parties reviewing similar contracts to see if there was a definition of natural event and whether a 'pandemic' qualified. Those operating a just-in-time supply chain found themselves without a sufficient inventory of components. This was because of the closure of key supply routes or factory closures. With a global closure, it forced some companies to abandon their operations while others laid off staff. At the heart of some of these issues was that of oversight of their supply chain or lack of it. Many companies had very little transparency of their supply chains, and that was a key omission in their internal controls. In China, upon their initial attempt at reopening, companies found that many of their key personnel had either died or were incapacitated by the virus.

Highlights of recent developments

- Israel has the highest vaccinated population of any country in the world. But despite this, the rate of those infected amongst the vaccinated is substantive and poses a significant risk to the early recovery of the nation and its supply chain.
- A recent issue in China, where their busiest port by volume and the third-largest container port in the world, Ningbo Meishan Container Terminal, was closed due to one worker purportedly testing positive for COVID-19. Then, there was the previous closure of Yantian port in China. That caused Los Angeles port, the largest port in the US, to have a major slowdown.
- Australia has completely locked down the state of Victoria until 2022, with no businesses allowed to operate and no interstate movement of goods and potentially no exports and imports. The State of New South Wales is also in lockdown, with tight restrictions in place.
- The availability of workers has been significantly affected. The number of people either dead or seriously incapacitated through either the vaccines, COVID-19, or its variants has grown exponentially.
- The massive cost increases in shipping rates from China and Southeast Asia to the east coast of the US. The rate as at 22 August 2021 for a 20-foot equivalent unit (TEU) is US\$19,098 and to the West Coast of the US, it is US\$17,507. (Source Freightos Baltic Global Container Freight Index) Those are crippling prices that are still increasing.
- Suppliers are also resorting to the use of airfreight to get their cargoes to their buyers. However, rates for airfreight have also increased as lost shipping capacity adds to aircraft supply shortage. Out of China, the restrictions to control a spike in COVID-19 infections have severely curtailed cargo operations at several airports and reduced crew availability. It has forced airlines to cancel hundreds of flights. This is only going to get worse given that this is the start of the peak shipping season.
- On 1 August 2021, the US Department of Transportation reinstated a 150-flight annual quota on charter flights from China's two primary economic zones. In 2020, they waived the charter limits to help with critical shipments of medical equipment and other supplies to combat COVID. While the restrictions don't apply to scheduled freighter activity, it is still another potential constraint to supply chains and trade.
- On 29 August 2021, the Government of China announced that effective from 1 September 2021, there will no longer be free passage of both military and commercial vessels through the South China Sea. Instead, operators of submarines, nuclear vessels, ships carrying radioactive materials and ships carrying bulk oil, chemicals, liquefied gas and other toxic and harmful substances are required to report their detailed information upon their visits to Chinese territorial waters. The Government of China has claimed under, a so-called "nine-dash line" on its maps, most of the South China Sea's waters, which are disputed by several other countries, including the Philippines,

Vietnam, Malaysia, and Indonesia. The Chinese government also said that the Maritime Safety Administration “has the power to dispel or reject a vessel’s entry to Chinese waters if the vessel is found to pose threat to China’s national security.” There is an estimated \$5 trillion worth of trade that passes through the South China Sea. That is along with numerous US, UK, India and other naval vessels that pass through those contested waters.

- Many companies are taking a wait-and-see approach to the whole supply chain scene, some companies are proactively engaging in succession planning if key personnel are no longer with the company over the next 1 to 5 years because of death or incapacitating injuries from either COVID-19 or the vaccines.
- From the regulatory side, the lockdowns have also heavily affected the customs authorities and restricted their operating environments. A lot of their daily physical functions, such as inspections, audits, and investigations, were suspended because of restrictions or the lack of staff. Some customs authorities in the region have also lost some of their key personnel, which means they need to rebuild quickly. Some realise they need to modernise their laws, processes and operations, but that those are longer-term projects. Their roles as border protection, where they administer and enforce their own customs act and those acts of several other government departments, is a key role. Also key for many Customs Authorities is their revenue collection role and their collection targets rarely get adjusted down.

Deloitte Singapore’s view

Upon lifting of restrictions, we would expect to see customs authorities undertaking more post-clearance audits and investigations. As many of the jurisdictions within South East Asia are still within some form of lockdown or working from home as default, we believe that audit processes will increasingly move towards electronic submission of documents, as a first step, and interviews being carried out via Zoom, Microsoft Teams, or any one of the other often-used technology platforms. Indeed we have seen many formal meetings being migrated to online meetings, with customs authorities in the region in the past 18 months.

In times like this, it is also understandable that companies have been keen to move cargoes expeditiously to ensure goods get to where it is required. In this regard, to ensure that all customs and trade compliance requirements have been met throughout such period and moving forward, we would recommend a review of all supply chain processes within the past 18 months, to ensure that companies have been compliant throughout, and are also able to deliver as part their contractual requirements moving forward.

How can the Global Trade Advisory (GTA) team assist?

The GTA team can assist companies to review their supply and value chains, provide suggestions based on their key markets, and review their import and export transaction records in countries across Asia, Australia and New Zealand for any potential red flag events.

We typically work with lawyers from company in-house teams and external law firms to review third-party service, supply agreements, purchase contracts and distribution contracts to confirm that the company complies with the regulatory requirements, customs, and direct/indirect tax laws.

We are experienced and have a proven track record in assisting our clients navigate customs audits and investigations.

Separately, any re-organizing of supply chains and value chains would also be an opportune time to consider the advantages of using Free Trade Agreements (FTAs). When carrying out a trade compliance review, it would be useful also to look at whether existing supply chains may benefit from tariff saving opportunities, or whether there may be additional opportunities under FTAs which may not have been considered in the past.

The GTA team regularly assists companies with carrying out such feasibility studies and will be pleased to assist with any ongoing projects under consideration.

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