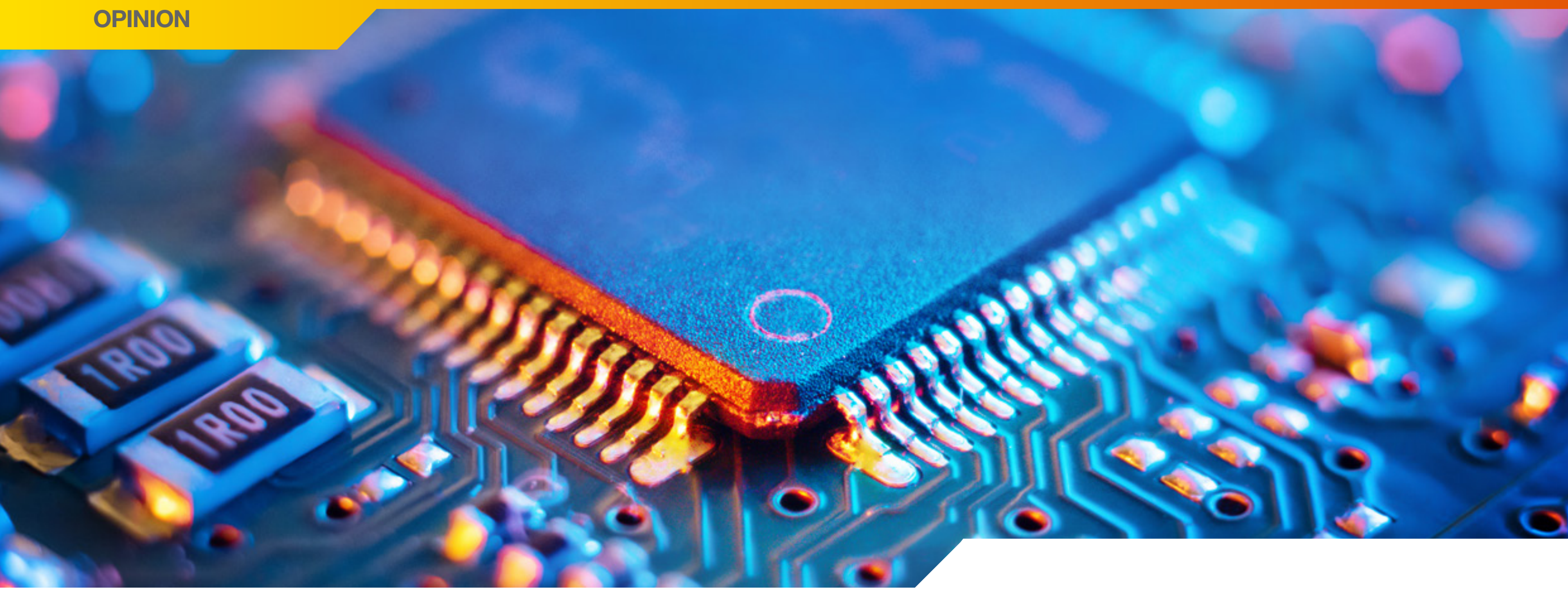

"THE SEMICONDUCTOR CRISIS HAS NOT PEAKED YET" WARNS LOGISTICS EXPERT

The widespread effect of the semiconductor crisis on the automotive sector has been well documented of late, with many manufacturers halting production or altering vehicle specs in response to the shortage.

Similarly, the increase in demand for laptops and gaming consoles as people were all stuck working, and playing, from home created a reduced availability of consumer electronics. Some economists are even predicting that the shortage of semiconductors will affect food prices as farmers are less able to rely on smart tech and revert to manual processes. Other consumer electronics that may not have peaked in demand will still increase in price as the semiconductor shortage extends its reach and items become scarce.

It is easy to understand how the semiconductor shortage has affected the products that directly rely on them to function, but what about the logistics sector in control of moving this electronic life source around the world? I fear we are yet to see the true impact of this crisis on our industry.

The lead time to produce semiconductors can be anything between six and 18 months. Although it has been suggested that many OEMs could solve the problem in the long-term by manufacturing their own semiconductors, this is an unlikely solution that would drive up prices for the consumer.

As the demand for electric transport increases, so too does the need for more semiconductors. An electric car uses many more than its combustion engine equivalent and, considering automotive semiconductor production is only 15% of the global output, it's already a limited resource. The shortage has affected the automotive industry more than most because the sector traditionally operates with very lean supply chains. Another suggested, but unlikely, solution is that the automotive sector will move away from the just-in-time manufacturing model that has come under scrutiny of late. However, it is exactly this that allows automotive manufacturers to keep competition high and prices low. Many automotive plants are remote, and their ability to receive and store large quantities of materials will always be compromised, so, for many, a lean inventory will remain the norm. For the automotive sector, the semiconductor crisis is predicted to continue beyond 2022.

Consider for a moment that semiconductor production was hit by the first factory shutdowns 18 months ago. This is the same lead-time needed to produce semiconductors from scratch, and conjecture is that the recovery period is imminent. Under 'normal' circumstances, manufacturers would rely on the cheaper, but longer, lead-times of sea crossings for their semiconductors but, given the pent-up demand, most will turn to air freight in an attempt to expedite production and recoup costs. This will put added strain on the already restricted air sector as belly capacity remains low.

But it's not just air freight that continues to suffer. Port congestion and the international driver shortage are affecting sea and road solutions globally. While pent up demand will benefit the freight industry financially, as the increased demand against a paucity of supply will cause rate escalation, it will also bring frustration with the lack of available capacity to match the prevailing demand. In addition, COVID-19 is still causing staff shortages and closures across all modes

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of transport, and there remains a vast and unpredictable variation between countries dictated by transmission rates.

These conflicting and unpredictable factors, combined with the existing lack of capacity and the huge seasonal surge around Christmas, will affect the logistics sector the most. If any of these pieces that make up the jigsaw of the supply chain were within our control, the outlook would be more optimistic. At present, it's not a matter of avoiding any negative impact on the industry but instead trying to reduce the size and gravity of that impact.

Andrew Austin, Group Operations Director

Andrew has spent his entire career in the logistics industry. With over three decades of experience in senior management and board level positions across diverse, international locations, he is responsible for leading and developing the operations mission within the company.

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