Neo-bilateralism and the effect on global perishable supply chains

By Alex von Stempel, Managing Director Freshwater Logistics Ltd

As the world is plunging into a sea of uncertainty with President Trump threatening to impose a new economic world order, the need to keep the flow of food supplies going is essential.

> "The cancellation of the Transpacific Partnership agreement, the likelihood of North American Free Trade agreement suffering a similar fate and probably worst of all, the threat of an all-out trade war with China are putting global supply chains under inordinate protectionist pressure"

Meanwhile in Europe, the impending Brexit negotiations are leading to a hardening stance on both sides of the Channel.

The result of the UK Referendum last June *has lead to a drastic depreciation of the Pound both against the Euro and the US Dollar and growing food price inflation has been gathering pace.* How price-sensitive fresh produce supply chains have become, especially at a time of increasingly volatile currency movements, was brought home to UK consumers this week.

The rain in Spain falls mainly in the plain

The impact of the vegetable shortage on some UK supermarket shelves is a case in point. To blame unusually inclement weather in Spain for the sudden lettuce, broccoli, cabbage and aubergine shortage on this side of the Channel is probably as much a matter of media hype as it is a red herring.

Why is it that for example that nobody in Germany has been complaining about a supply crisis? According to the German Marketing and Price Bureau ZMP there were no significant upward price

movements for lettuce, including iceberg lettuce last week. Indeed there seem to be sufficient quantities available from the Netherlands, Poland and Sweden.

> "The depreciation of the British currency against the Euro and other currencies ever since the EU Referendum is the real reason why UK supermarkets are now experiencing the dreaded stock-out, i.e. empty shelves. Some of them are even reported to be flying in iceberg from the US!"

The truth is that in the fresh produce trade currency is king. “Producers will always try and sell into the market where they can obtain the best price,” says Phillip Symons from Northbay Europe. The company imports all kinds of fruit, asparagus, mangoes, apples, including blue berries from Chile and the US.

> "Notwithstanding the lip service currently being paid to a free trade between the Trump Administration and the UK, the Pound remains in the doldrums"

This means that both supermarkets and wholesalers will have to pay more for fresh produce in the months to come. *Retailers have been trying to shield consumers from price increases until now, but there are strong signs that a limit has been breeched.*

Who will pay?

The big question is *who will have to pay for imported inflation: the producers, the retailers, the food service sector or the logistics service providers?*

At the moment mainly airfreight is feeling the heat with airports being put on red alert and, but before long the problems is expected to spread to other borders including seaports.

> "The risk of trade flows being diverted as a result of protectionism is now real and there is no reason why fresh produce sector on both sides of the Atlantic will be spared"

Just as the new US President is now advocating a *‘nation-by-nation approach’ in dealing with different US trade partners and the risk of destabilizing the European Union in the process*, the UK Government under Theresa May now *hopes to secure ‘sector-by-sector’ deals with its European trade partners.*

Although ‘people need to eat’, we need to be reminded that agriculture has a relatively weak political lobby, compared with other industry sectors, such as the automotive industry, energy, and of course the banking sector.

The Fresh Produce Consortium in the UK for example, a trade association comprising producers, exporters as well as importers is currently lobbying the UK Government to secure better conditions for UK importers. *Whilst British farmer rely between 50 and 60 per cent of their income on subsidies from Brussels, importers do not currently benefit from any such protection. What will happen if the UK leaves the EU nobody knows.*

> "The UK imports over 40 per cent of fresh produce, nearly 80 per cent of fresh meat and nearly 100 per cent of prepared and processed foods either as finished or intermediate goods"

Two of a kind

The similarities between Brexit in the UK and Trump's are inescapable, *however, much the UK keeps stressing the importance of global free trade and it's the bid to secure free access for a number of sectors on both sides of the new divide.*

> "The reason why the UK is still clinging to free trade is rooted in its history, which is closely linked with s strong maritime tradition and a 150 year dependence on food imports"

The fact that 90% of world trade is carried out by sea and that GDP is usually accompanied by images of containers being handled in sea ports is a useful reminder how consumers have come to rely on a virtually unlimited and unhindered supply of goods from abroad.

How will the Mexican mango farmers be affected when the 'Wall' between the US and Mexico is erected? Mexico is the second largest supplier of agricultural imports for the US. *As a result the cost of avocadoes, berries, lemons and mangoes is likely to increase Gerardo Gutierrez-Olvera, managing director, trade finance at* Mexican bank Banorte *recently warned.*

> "It is highly doubtful that Mexican fruit exporters will be able to divert their exports to China and Japan or Europe without destroying prices in the process"

Retaliatory measures are likely to hurt everyone and have already lead to an outcry amongst fruit farmers in California to vegetable producers in Scotland. Banning free movement of labour will significantly affect producers who have come to rely on migrant workers.

Increasing border controls, security checks and a barrage of paper work on the supply chain could be significant and lead to more cost according to the UK Food Storage and Distribution Federation (FSDF).

> "Another critical question will be how multinational fruit and vegetable companies such as Chiquita and Dole will react to a mixture of tariff and tax incentives from Washington in the future. So far very little has been heard about this"

‘Global protectionism’

The real danger is that both tariff and non-tariff based trade barriers are spreading to other parts and sectors of world trade as the IMF recently warned. *Nevertheless it may be necessary to separate between protection and protectionism.*

There is a good example in South Africa showing how deeply complex and intertwined modern supply chains are these days. South African poultry farmers have been lobbying against increasing chicken imports that could threaten indigenous poultry production. They object to products entering the country without being properly supervised. Both goods arriving under AGOA (Africa Growth and Opportunity Act) and the EU have been singled out for ‘social dumping’.

By the same token Spanish citrus producers have been lobbying the European authorities against citrus black spot, which is found in South Africa and parts of Latin America. Spanish producers have claimed that the disease could spread from plant to plant and thus infect indigenous Spanish citrus crops. However, no credible evidence has ever been found to support this.

Logistical response

Meanwhile there are a few examples how greater logistical efficiency could help reduce the cost of distribution and thereby improve cost efficiency.

Fruit South Africa, the association of all South African fruit producers. has been trying to reach out to the poultry importers in SA to combine poultry import flows with South African fruit export flows. The plan would be to ship reefer containers by rail to/from the ports of Durban and or Cape Town and use the same containers for poultry imports covering demand in the area near Johannesburg. Citrus, mango and avocado exports from the North of the country could be transported by rail internally or for export via the main seaports.

This potentially groundbreaking proposal was put forward as a joint initiative of the FSA at the Cool Logistics Global Conference *in Bremen last year although little has been heard since*. According to Andy Connell from A-bar-C Services, the FSA is still trying to appoint a candidate who would be responsible for a joined-up approach between the different fruit export sectors.

It would therefore appear that overcoming divisions among the fruit trade is more difficult than expected. The prospect of being able to compete more effectively on world markets by slashing logistical costs is compelling.

As always in both rail and sea transport the challenge is to find solutions that work in both directions so as to maximize asset utilization. Ships as well as railcars only earn money when they are full, not empty.

Another creative solution could be to use so-called Non-Operating Reefers (NOR) carrying products such as mobile phones from China to South Africa and thus slash empty repositioning costs for reefers into SA where there is always a great demand for reefers. At present mobile phones and other goods that would clearly benefit from temperature control arrive mostly in dry containers.

> Although it is very difficult to establish the proportion of logistics costs as a proportion of selling costs, logistics remains the ‘elephant in the room’, which no one is prepared to tackle largely due to a lack of imagination

Everyone knows about this, but as long as in-fighting and parochial interests prevail what chance is there to tackle problems of rising protectionism and fear?

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