How to make supply chains more resilient with the OECD's Marion Jansen

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Anticipate Risks, Minimize Exposure, Build Trust, Open Markets: Marion Jansen on making supply chains more resilient

Intro [00:00:06] Welcome to OECD podcast, where policy meets people.

Christopher Mooney [00:00:11] Supply chains. Two words that describes perpetually in-motion and usually invisible pathways by which goods get from where they are made, mined or grown to where they are going – the consumer and companies who pay for them. Until about two years ago, only specialists in the fields of trade, manufacturing, transportation and logistics ever used this term. Now, thanks to events we're all too familiar with, supply chains are on everyone's lips. Welcome to OECD Podcasts. I'm Christopher Mooney and today my guest is Marion Jansen. Marion is the director of the Trade and Agriculture Directorate of the OECD and one of the world's top experts on policy reform in the fields of food, agriculture, fisheries and international trade. Hello, Marion.

Marion Jansen [00:00:54] Hi, Chris.

Christopher Mooney [00:00:55] Okay, so first, the COVID-19 pandemic hit, and suddenly medical supplies like face masks were impossible to find in certain countries. Then one of the world's biggest ships got stuck sideways in the Suez Canal, blocking traffic. Then Russia invaded Ukraine. What have we learnt from all of this? How prepared were governments?

Marion Jansen [00:01:14] Well, we have learnt that we depend a lot on international trade and that the shocks you describe, Chris, are very different in nature, and supply chains have reacted in different ways to them, and our economies have managed to deal with them in different ways. In the COVID-19 pandemic, what happened is that across the globe, everybody suddenly started to want to buy the same thing. Masks, for instance. That's a huge increase in demand for one particular good. So, it's not surprising, really, that you run into bottlenecks in a situation like this. And frankly speaking, supply chains held up very well in that pandemic. If we hadn't had open markets in that period, we wouldn't have been receiving masks, disinfectants, testing kits and everything you would need in a hospital to deal with COVID-19 that rapidly. Same thing for vaccines. They wouldn't have been available so rapidly. Now, we may have experienced shortages, but supply chains held up very well. We ran into more problems in the second half of the of the crisis, when the economy started to recover and economies opened up at different places at different times. And then we realised that our supply chains were built around a just-in-time delivery. Everything was perfectly timed down to the minute. And then when suddenly something changes in that chain, then we realise that adjustments were hard. On top of that, a ship gets blocked in the Suez Canal. That's another big shock. So, then we realised that the just-in-time is maybe not be ideal in a period with the kind of disruptions that you have been describing, and we expect business will be adjusting to this. Now, the war is a very different story, but I'm happy to expand on that, if you wish so, Chris.

Christopher Mooney [00:02:58] Okay. So can all these risks be anticipated and what sort of predictive analytics are available to policymakers?

Marion Jansen [00:03:05] I think you can predict a lot of risks and you can prepare for them. And it is it is a choice to prepare for them or not. So, do you want to pay for having a stock of masks always ready somewhere, and also renew that stock of masks before, in order for it to be in the shape you need it if there is a crisis? Or do you consider that the risks of something serious happening are so low that you do not need that stock? And I think that we may now assess things a bit differently than we did before the global pandemic and the invasion of Russia in Ukraine has definitely changed our assessment of the risks of major geopolitical crises.

Christopher Mooney [00:03:48] So are there things that governments can't do?

Marion Jansen [00:03:51] Well, there are different views on this. I think that we would say governments should not run supply chains. And the private sector has definitely methods, mechanisms to pre-empt risks, to assess risks and to manage them. The private sector has over time adjusted the way to give to certain risks. Definitely, after the great financial crisis of 2008-2010, they started to change their way of doing business. And the private sector is quite good at this. So, if anything, governments can learn from the private sector. And by the way, when we at the OECD developed our “OECD Keys to Resilient Supply Chains” for policymakers, we worked with business to think the supply chain through and to assess what could business do and, what can, if, at all, the public sector do, and how. And it's very important. Can they work together? In a moment of crisis, public-private collaboration is key, and that's the kind of thing you can prepare for by building trust, having platforms and networks ready that can react and act when and if the crisis happens.

Christopher Mooney [00:05:05] So what were those keys that the OECD discussed and put together?

Marion Jansen [00:05:11] Yes, we tried to put something together that is simple to use and gives policymakers a way of thinking through the problem. Because we believe that in every country, the choices that policymakers will make will be different. As we described, what you have to do to anticipate risk. And notably, in that part, you should consider deciding where do you want to intervene as a government? What do you, for instance, consider to be a critical supply chain? Are masks critical? Are vaccines critical? Is energy critical? Are shoes critical, trousers critical? And it's only in a certain part of the economy you may want to even consider intervening. And then you also have to ask yourself, in what part of that economy, where should we leave the role to the private sector or where should the public sector come in. So, it's anticipating risk. Then you can prepare your economy in a way domestically to minimise exposure. So, you can, for instance, do this by having infrastructures in place that are strong enough to hold up with different types of crises. You can have, what was very important in the pandemic, digital systems in place that allow you to work with less people than you had originally anticipated. There are things you may want to do with your partners. So, you anticipate risks, you minimise exposure at home. But then there are things in an open economy that you want to discuss with other partners. Very important, for instance, is how do you deal with regulations at the border in times of crisis? Are you willing to become a bit more flexible, a bit more agile? In order to do that, you have to have built a trust relationship with your partner countries. Simple example: If I have a vaccine producing company in my country, the company when it produces and a pandemic happens, it is interested in producing as much as possible and selling. The company doesn't necessarily care in which country it sells. Well, a policymaker represents an electorate, it represents voters in his or her country. So, a policymaker cares about where the vaccines are sold. There's a situation where the policymaker doesn't necessarily have the same view as the company. And these are the kind of things you have to prepare for together. You do not want to do the business of the company as a policymaker, but you want to prepare for a crisis situation so that you're, together, able to act in the best way.

Christopher Mooney [00:07:38] Okay. And I think the fourth point was open markets. What exactly does the OECD mean by this?

Marion Jansen [00:07:45] That was the start point. So, anticipate risk, minimise exposure, open markets and build trust for public-private relationships. In open markets, we understand different aspects of this. So, one aspect is that you ideally keep your markets open. One thing that is very bad in terms of shocks to the economy is if different governments start to close their markets because then you add another shock. On top of a shock you're going through.

Christopher Mooney [00:08:12] Panics and people hoarding, etc...

Marion Jansen [00:08:14] Exactly. Then you get less access to goods, prices go up. And that's a very natural reaction to do this. But it is a terrible thing to do in times of crisis. The other example I mentioned is the one of regulatory collaboration. That's also something that has been very important during the pandemic, to be sure that you continue to get things through the border, even though operations are taking place in an unusual way. Ideally, also, in a situation of geopolitical risks, you want to consider building up close and trusted relationships with enough partners outside so that you can, if something goes wrong with one partner, move towards other partners. So, building strong trade relationships, for instance, through trade agreements is another important thing to do.

Christopher Mooney [00:09:03] If we talk about the war, what are some of the most significant bottlenecks, supply chain bottlenecks that have been occurring because of the situation in Ukraine?

Marion Jansen [00:09:11] Now, I think it's fair to say that one of the biggest impacts of the invasion in Ukraine is the impact of going through the rise in energy prices. And that's the case because Russia is such an important provider of energy that Russia being at war has affected the availability of energy in global markets. A number of OECD members do not buy from Russia anymore. The prices for energy have gone up and that has trickle-down effects on many economies and on different parts of the economy. So, one thing that we can expect is that those sectors that are very energy intensive will be harder affected by this. I'm thinking notably of the car industry. This is not what I would call a supply-chain effect. When you think of a supply chain effect related to the border, and I would think of the logistics being interrupted in the Black Sea region, the Black Sea region is very important for the exports of grains. From Ukraine and Russia to, in particular, Northern Africa and the Middle East. And because of the war situation, transport and logistics in the Black Sea had been interrupted until the Black Sea Grain Initiative was concluded. And so, no logistics, no ships. That means you don't get grain out of Ukraine to the typical buyers. And if there's one thing that we learnt in that crisis, it's that you cannot easily and rapidly build alternative infrastructure if it doesn't exist. So, it was not possible within short notice to build alternative land transport routes that would allow Ukraine to transport the same amount of grains out of the country. The Black Sea Grain Initiative has therefore been a very important initiative to ease global markets for cereals, in particular for grains. The European Solidarity Lanes have also been very important, but the Black Sea Initiative has made it possible for grain to leave Ukraine through the traditional logistic channels.

Christopher Mooney [00:11:12] Right. Because together Russia and Ukraine, they only account for 3% of global GDP and less than 2% of the world's trade flows. So why has the war had such a big impact? Is it entirely the cost of energy from Russia and access to the Black Sea?

Marion Jansen [00:11:31] I think it would be fair to say that it's the combination of these two things that has made an important impact. And add to this the fact that this war happened after another big crisis, as we just discussed, the COVID-19 pandemic. I think maybe also the timing made markets particularly nervous. So, what we have unfortunately seen in all these markets, in particular grain markets and now also in fertiliser markets, is a level of nervousness in markets and overshooting that leads to bigger price fluctuations than are necessary when you take into account the size of Russia and Ukraine in this particular case. For instance, Ukraine produces 4 to 5% of global wheat. It's responsible for 10 to 12% of global exports. And when that number hit the market, many players became very nervous and prices shot up. Also, Russia started to restrain its own exports of wheat. There was no need for that. They could have continued to export it. So that added, probably for geostrategic reasons, to the pressure on markets. We have seen prices going up by 60% just after the invasion of Russia to Ukraine. They are back now close to where they were before the war. So, the markets clearly overreacted. If you were to ask me again, what did we learn from this sequence of crises? It's that uncertainty is a very costly thing for business and in particular for international markets. And unfortunately, we have gone through a large amount of uncertainty in past years.

Christopher Mooney [00:13:03] I was wondering if we just talk briefly about the global supply of raw materials that are critical for clean tech and the transition towards renewable energy. Things like lithium and borates and cobalt. Global imports and exports of these have become increasingly concentrated amongst countries over the last decade. Are there mechanisms in place or are there discussions underway to put mechanisms in place to create more agile supply chains for these critical raw materials?

Marion Jansen [00:13:28] It is definitely possible to increase the diversity of producers and suppliers of this type of materials, and that would then also bring more tranquillity into markets. It's not something you do from one day to the other. But what we are most actively looking into is not necessarily an active way of changing who produces, who buys, but looking for an active way of increasing transparency in those markets. We have learnt from agricultural markets that having international transparency mechanisms is very useful in times of crisis. After the great financial crisis, something was created that we call AMIS, the Agricultural Market Information System. On that system you can see how the harvest is in which country, how many stocks are available for important commodities, including wheat and rice. You know what the price is. You know who is buying what and who's selling, who is importing and who is exporting. And in times of crisis, when people become nervous, it's very useful to be able to say, hey, look at the data. There actually are no stocks around, or harvests have been good in that part of the world. Even if there are bad times, as in the other parts of the world, that is very useful to keep markets calm and to avoid that governments panic and start restricting exports. Which is, as I already said, a very negative reaction for markets. So, there are very active discussions to set up a similar system for raw materials, to increase transparency and therefore add to better and stronger information on availability of raw materials in international markets.

Christopher Mooney [00:15:07] Well, thank you, Marion. You supplied us with a lot of things to think about. It's been great having you on the podcast.

Marion Jansen [00:15:12] Thank you for having me.

Christopher Mooney [00:15:14] Thank you for listening to OECD Podcasts. To learn more about the Trade and Agriculture Directorate, go to www.oecd.org/Trade. To listen to other OECD podcasts, find us on iTunes, Spotify, Google Podcasts and SoundCloud.com/OECD.