Supply Chain Monitor

March Update

Navigating the tides of tariffs and their implication on European supply chains

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The Supply Chain Chessboard

In today's fast-paced global environment, supply chains are entangled in a complex web of geopolitical tensions in which international trade tariffs play a pivotal role. The United States and multiple other countries are currently influencing various markets with such tariff policies and countermeasures. This shift reflects the intricate dynamics of international commerce, prompting businesses to adapt swiftly, or risk unfavorable economic repercussions. As European markets brace for potential disruption, the focus shifts to operational efficiency and cost management. Success or failure could resonate across industries, potentially causing substantial trade disturbances. However, businesses and markets are not the only ones who have to adapt swiftly. European ports, including the Port of Rotterdam—one of the world's largest and a vital gateway for continental goods—face both challenges and the opportunity to reposition themselves. These ports could play a pivotal role in enabling success even in this turbulent macro-economic time. Amidst this geopolitical puzzle, businesses must chart a course that embraces resilience and agility.

This supply chain monitor explores the impact of the current trade landscape on European businesses, supply chains, and ports (particularly in the Netherlands) knowing that these are likely to change and take different forms as negotiations between countries continue. How can businesses succeed in stormy geopolitical waters?

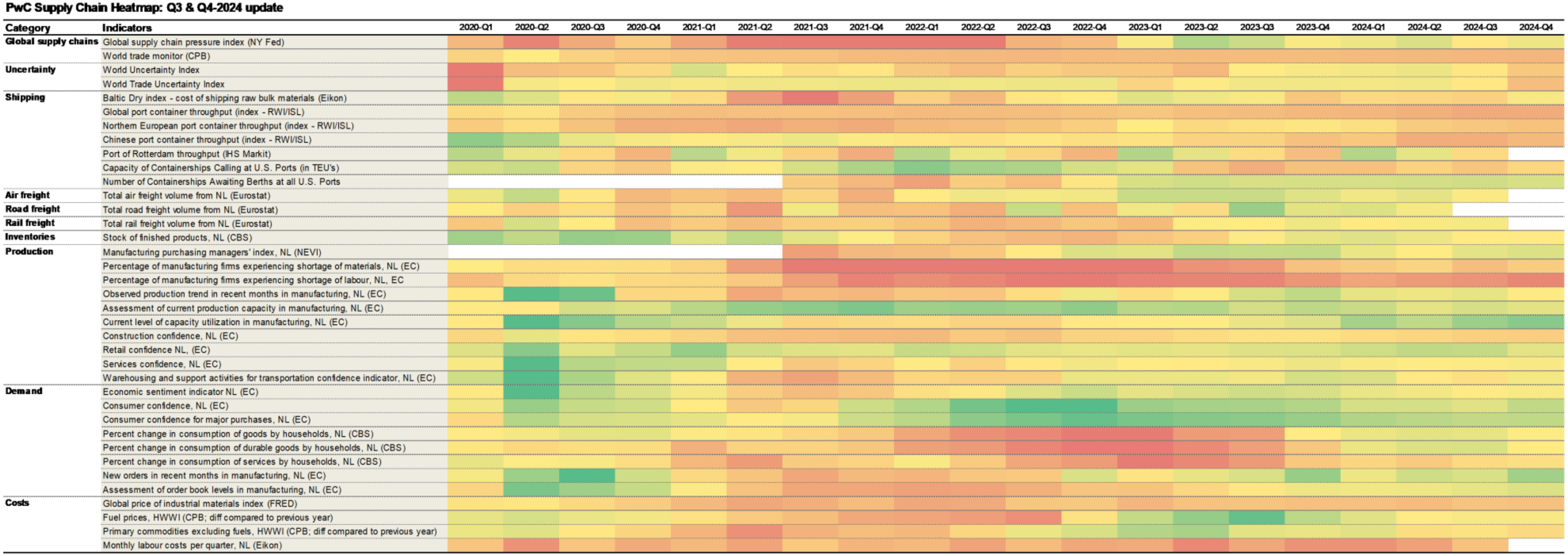
The Supply Chain Monitor

PwC's supply chain monitor gathers data from multiple sources to analyze supply chain pressures, updated quarterly. The heatmap visually tracks the movement of these pressures: yellow/green indicates easing, while orange/red signifies increased pressure.

Recent data show that global uncertainties have intensified despite stable overall supply chain pressure. Worsening uncertainty indicators highlight an increasingly unpredictable global environment. Consumer confidence has declined, particularly in warehousing an transportation. While shipping pressures ease slightly, with reduced throughput in China and lower dry bulk prices, the production sector faces greater challenges. Labor shortages have intensified for over four consecutive quarters, nearing its peak stress levels; while production capacity utilization has declined for three quarters, and order book levels are trending downwards.

Although consumption has not decreased (yet), the outlook remains gloomy. This seemingly stable yet strained state suggests that businesses have yet to take significant moves to address the anticipated uncertainties.

PwC Supply Chain Heatmap: Q3 & Q4-2024 update



Sources: Freightos, Port of Rotterdam, Tomson-Reuters, NY Fed, Kiel Institute, European Commission, CBS, CPB, OECD, HIS Markit, WUI, ECB, PwC Analysis

The heatmap shows z-scores, computed by subtracting the mean from the observation at time t and dividing the difference by the standard deviation. The mean and the standard deviation are computed for as large historical samples as possible. Observations arketing with "-" are not yet available. The color grading goes from -3 (green), 0 (mean, yellow) to 3 red standard deviations.
*Approximate standardization

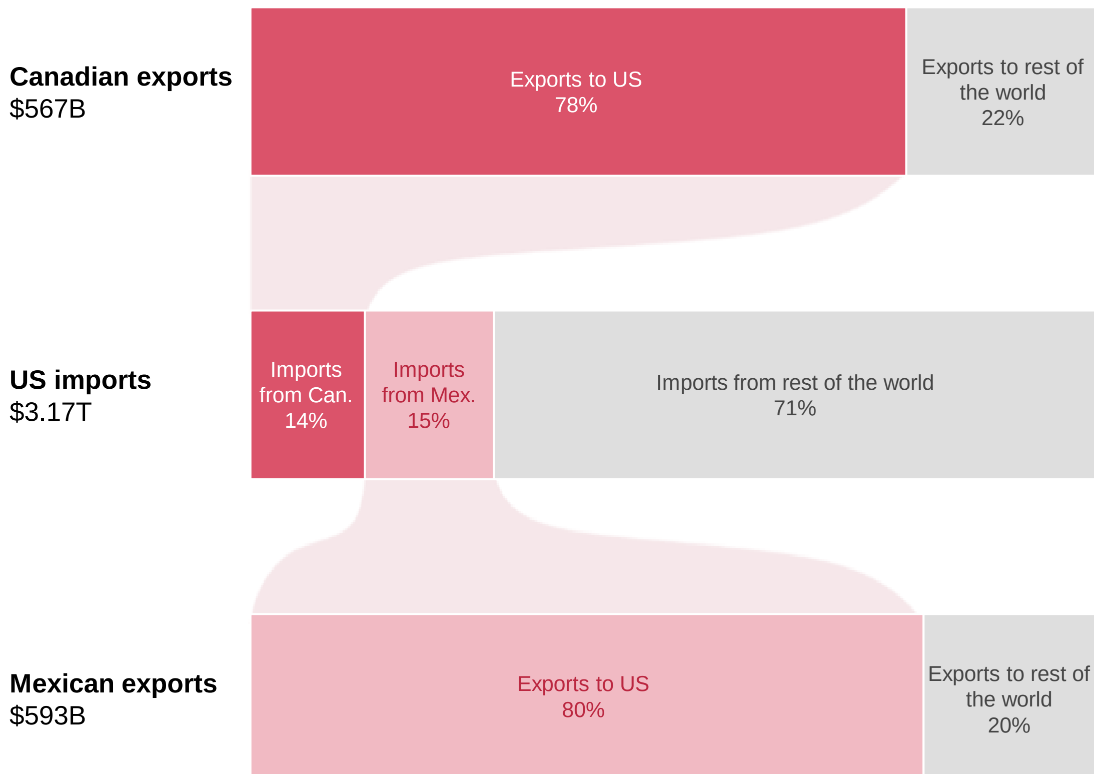
Navigating Current Trade Waters

In recent months, the Trump administration announced, implemented, postponed, and adjusted tariffs on Chinese, Canadian, Mexican, and European imports, emphasizing national security and redefining North American trade narratives.

If invoked, the tariffs targeting goods from Canada and Mexico, which are not compliant with the U.S.-Mexico-Canada Agreement (USMCA), are under a significant 25% tariff with some energy products subject to a lesser 10% rate. This change resonates through supply chains, intensifying concerns in Europe, particularly for those engaged with North American markets. Compliance burdens are on the rise and disruptions are expected as already seen in the automotive industry which depends greatly on Canada-Mexico-US networks. Even with adjustment policies put in place to stabilize the automotive supply chains, increasing costs and logistical complexities test businesses' resilience.

Canada and Mexico rely far more on the US than vice versa

Trade in goods, 2023



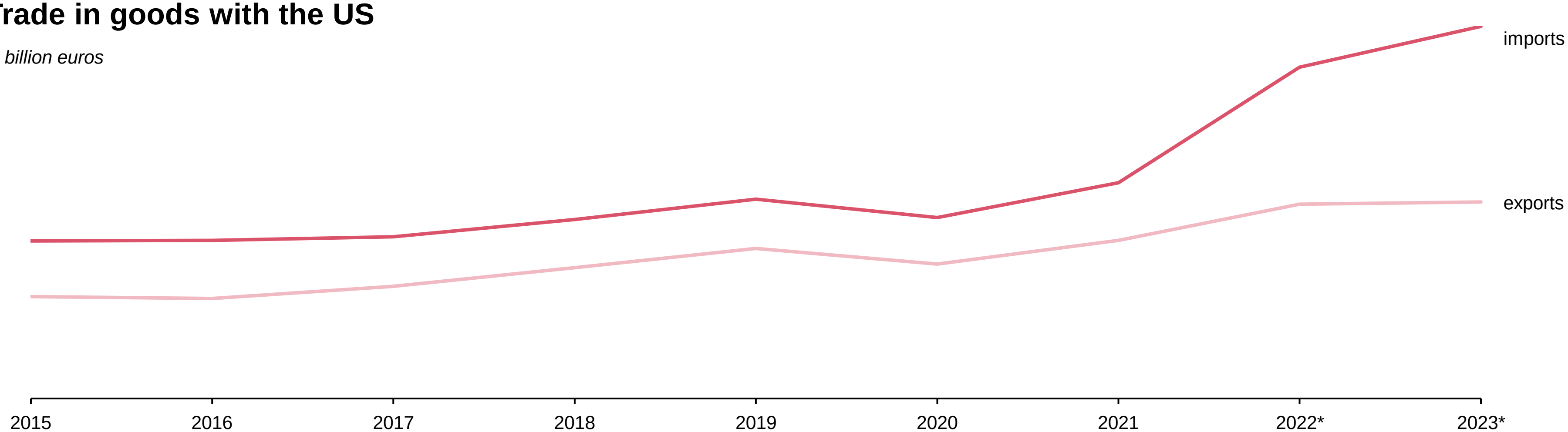
Source: Council on Foreign Relations

Looking ahead, if the announced 25% tariff were to be imposed on European goods, analysts predict that this would slow economic growth in the Netherlands with a dip in GPD up to 1%[1]. Different analyses and studies highlight the extensive economic aftermath tariffs could cause, noting possible declines in manufacturing sectors like chemicals, machinery, and transport equipment.

This means that the European trade and thus supply chain landscape is poised for a transformation, demanding strategic evolution and resilience. While some short-term measures towards bolstering market protection and competitiveness may initially lessen the impact of tariffs on European businesses, long-term measures such as exploring new markets, reinforcing intra-Europe trade, and diversifying supply chain strategies must be explored. This could lead to nearshoring gaining traction as businesses aim to minimize risks from long supply chains, prompting Southeast Europe (especially the Western Balkans) to become promising areas for manufacturing and strengthening intra-European trade.

Trade in goods with the US

in billion euros



[1] *CPB publication on Effects of American import tariffs on the Dutch and European economies / Graph: CBS, *provisional figures*

Dutch Harbors: Anchoring Resilience Amidst Turmoil

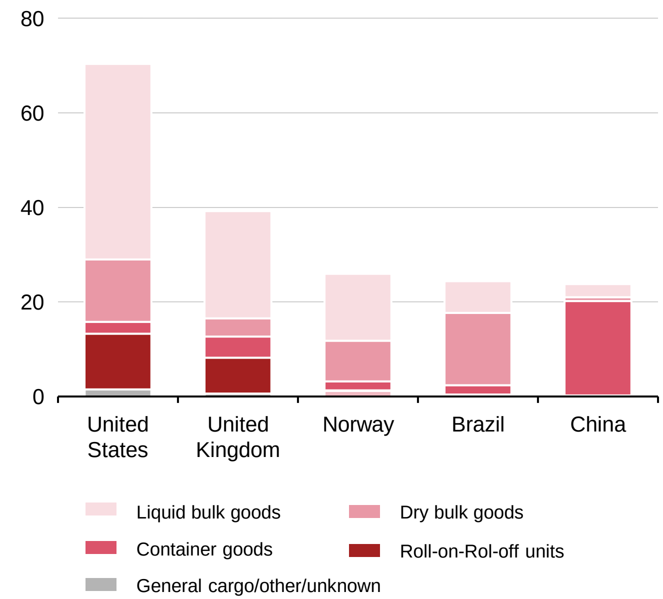
As geopolitical currents intensify, ports - the backbone of global trade - must respond proactively, innovating to efficiently handle new cargo flows amid recalibrated trade routes and shifting costs.

For Dutch ports, especially Rotterdam, these tariffs present a mixed economic narrative. While container shipping may flourish with logistics realignment, industries dependent on oils, plastics, and chemicals encounter hurdles from rising costs and shifting demands. An anticipated economic slowdown highlights the need for strategic foresight to maintain competitiveness amid climbing operational expenses.

> The majority of inbound cargo came from the United States in 2023

Top 5 largest suppliers of inbound cargo, 2023

in million tons



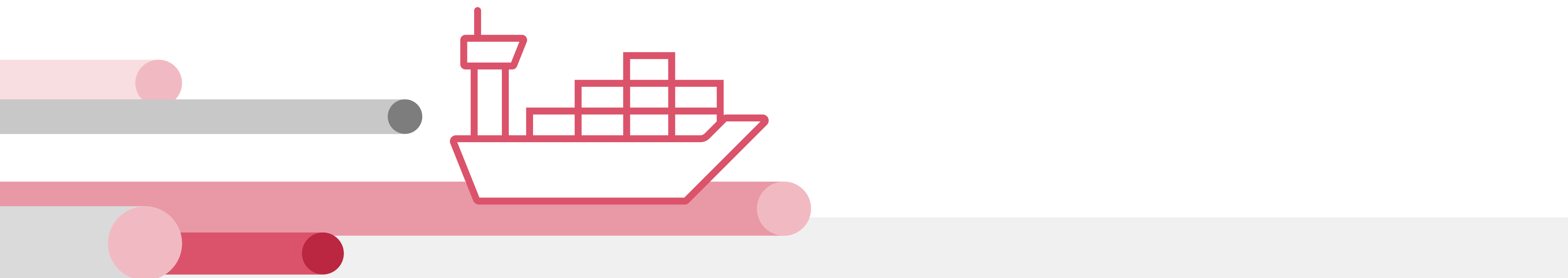
Source: CBS

Ports must therefore focus on resilience strategies in the short term to enhance efficiency and reduce costs. Knowing that the current geopolitical climate is unpredictable and highly sensitive, long-term measures must be taken to further build resilience. This is partially achieved by building on automation and digital transformation to streamline operations such as disaster recovery planning, AI-powered customs clearance processing, smart inventory management, dynamic resource allocation, and many others. On the other hand, strategic infrastructure investment – such as modular cargo docks, automated terminal processes, improved road and rail connection, and more – is key to meet diverse cargo demands and to adapt to new markets. It is important to remember that resilience extends beyond physical operations, it encompasses strategic alliances and trade diversification which means that reinforcing connections with other European ports and exploring market opportunities can cushion abrupt geopolitical shifts.

Adapting to Everchanging Realities

Looking back at previous supply chain monitor updates, it seems that the red thread is the ever-changing geopolitical landscape. And once more, European supply chains are expected to face pressures demanding adaptability and meticulous foresight. If the tariffs are imposed on European goods, they may reshuffle traditional trade routes, sparking a reevaluation of operational strategies vital for resilience and competitiveness. Such tariffs require supply chains to shift quickly from reactive strategies to proactive ones, necessary for agility in handling these complex international trade intricacies. Embracing advanced technologies such as innovative planning solutions enables companies to anticipate challenges and capitalize on opportunities with increased efficiency and precision.

This means that businesses must refine their supply chain management practices, invest in (advanced) digital solutions, network redesign to increase visibility and control over the components of their supply chain, and nurture strong supplier relationships resilient to market volatility. Only then can businesses mitigate risks stemming from dependencies swiftly and smoothly. Businesses that do so successfully will ensure competitiveness and are able to tap into new opportunities amidst shifting dynamics.



Actions to Take to Withstand the Tides

To navigate the impact of changing tariffs on supply chains, the following key actions can be taken:

1

Diversify supply chains

Explore alternative markets and diversify supply chain strategies to minimize risks associated with relying on long supply chains

2

Redesign network strategies

Reevaluate and redesign supply chain networks to ensure greater control and visibility to adapt quickly to disruptions

3

Enhance operation efficiency

Improve operational efficiency and cost management to streamline operations and reduce costs

4

Invest in advanced technologies

Adopt innovative planning solutions and tools to increase supply chain visibility and predictive capabilities to anticipate challenges and respond proactively

Other measures to mitigate the risk of tariffs as a business include:

1. **Develop a duty reduction or mitigation strategy**

   Accurately classify customs origin and tariffs to reduce country- and product-specific tariffs and maximize the advantages of preferential trade agreements

2. **Implement a duty suspension or deferral strategy**

   Store products in free zones to avoid import tariffs and consider utilizing bonded manufacturing or storage facilities. Take advantage of duty drawback schemes and inward processing or similar regimes to streamline operations

3. **Employ effective customs valuation strategies**

   Optimize customs values by excluding components that are not subject to duties and ensure separate charges for non-product related costs. Consider using the First Sale for Export strategy for shipments to the U.S. to improve cost efficiency

It is once again time to embrace agility and future-proof supply chains against uncertainties and disruptions, to capitalize on emerging opportunities in a rapidly evolving global market.

Contacts

Rolf Bos
Director Supply Chain Management
PwC Netherlands
E: rolf.bos@pwc.com

Henric van der Ent
Director Supply Chain Management
PwC Netherlands
E: henric.van.der.ent@pwc.com

Contributors
Sophie de Jongste
Meghan Robertson
Koen Hofstraat
Minne van den Wall Bake