



THE IMPACT OF THE WAR IN UKRAINE ON GLOBAL SUPPLY CHAIN | ACCENTURE

VIDEO TRANSCRIPT

Kris Timmermans [00:00:00] I wanted to share with you the impact on supplier networks, and you can see an image here. This image is actually a real life image with real Russian and Ukraine company names. What's the deal here is that if you look at your Tier 1 suppliers as a company, take a U.S. company, there are actually 2550 large U.S. companies that have a Tier 1 supplier from Russia or Ukraine. And I'm listing Russia and Ukraine because Russia it's because of self-imposed trade sanctions, but also official trade sanctions. It's hard to do business with today and Ukraine because it's a war zone that the country has collapsed. So you can't work with those suppliers anymore. So here is the first counterintuitive insight. There are more U.S. companies impacted with a Tier 1 supply base from this region than European companies. And this is very counterintuitive to what people would think. Most people would say, hey, this is a European regional thing. It's at the borders of the European community. You know, it's not a necessarily big, big event for the rest of the world. It is a big event because of that supplier connection. Then I take it one step further, and this is when you take a tier one supplier. Okay, that's one thing. And people have some visibility. Our companies have visibility, but not full visibility. But let's now talk about the suppliers that deliver to the suppliers. It's called Tier 2 and also Top Tier 3, which is the suppliers that deliver to the Tier 2 suppliers. Okay. So I'm going to tiers down in the network and then look at the number of companies impacted. So 80,000 US companies, 340,000 U.S. companies when you go all the way to Tier 3. This is massive. This means the mom and pop shops next. Next door is impacted by this thing. The reason this is the case is that Ukraine and Russia, they actually deliver quite early upstream in supply chains. They are close to natural resources, to ingredients that actually are used everywhere. And that's why this impact is so severe. So let's talk about these items. What I have here is I made a selection of the biggest items of impacts, the biggest categories of impact. So I'm not talking about minor things. I'm talking about things where Ukraine and Russia are in the top three producers in the world. That's what I'm talking about. My upper line is more Ukraine focused. My bottom line about about Russia. But they tend to blend in in certain situations. I'll call out a few. Neon gas. So do you know that neon gas, 70% of world production is from Ukraine? 90% of the neon gas used for semiconductor production. This is actually it's a gas used in the laser equipment to do the lithography of semiconductor production. 90% comes from Ukraine. 50% actually from two suppliers. All those suppliers are down. There is not a single element of neon gas coming out of Ukraine. Look, it's not a demand issue because it's not a very expensive gas and people have to take an inventory. But if this thing lasts for a couple more months, we are going to add yet another set of years before the semiconductor situation impacting so many industries is actually stabilizing. Do you know that today people are buying washing machines and take the semiconductors out to get semiconductors?



That's how scarce this thing is. Well, this is going to add to the to the problem of what's happening here. And then the agricultural products: barley, sunflower oil, many of the potato things are all from Ukraine. This is going to create social unrest in quite a number of nations because we have no control anymore of the increase of food prices, which has gone completely through the roof. And it's uncontrolled because of this situation. If I go to Russia, it's oil and gas. They are number two in gas production in the world, number three in oil production. Now, here's the supply chain impact. All of a sudden, the prices go through the roof. We have tipping points in terms of the networks. Will I regionalize supply chain? Will I actually electrify some of my lanes? Will I actually get as a business - can I continue? What we're now seeing is quite a number of smaller companies just simply stopping to do business. They do not have the cash to continue operations with these sorts of energy costs. And so it's adding yet an enormous amount of supply disruptions starting to mirror what we saw in the COVID. And we weren't stabilizing supply chains yet after COVID. Let that be very clear because of the bullwhip effect. Well, it's now being fueled by another another event here. And then last but not least, ocean freight. It's a very little known fact that almost 16% of all seafarers are either Russia or Ukraine people. So think about an ocean freight with enormous, scarce capacity in the world, already struggling from the pandemic tremendously, now being hit by 16% less labor availability in just because of this particular event. And so you see that it's quite widespread.

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