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Winners and Losers in the Supply Chain as Oil Prices Tumble

Written by Darryl Judd
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In any volatile market situation, there are going to be winners and losers. The decline in oil prices will have broad implications for transportation and logistics companies - some positive, some negative. Clearly, the impact can vary greatly on a company-to-company basis and the impact of the dramatic price fall in the oil sector will eventually work its way down the supply chain.

At the recent Logisym Singapore 2016 Supply Chain conference, the subject of the boarder impact of the volatile oil prices on our supply chains took centre stage with mixed views of what it meant and just how we will see ourselves through this challenging cycle.

What is clear is that suddenly the world is awash with oil. When oil was trading above US$100 a barrel and new technologies made the extraction of shale oil possible at a relevantly affordable cost, we saw a rush of new supply onto an already flattening global market. Stockpiles grew well beyond daily demand and yet producers still pumped greater and greater amounts of crude. Oversupply and under demand - The perfect storm?

It is little wonder that the surge in production and weaker than expected global demand for crude has sent oil reserves soaring and prices tumbling. The drop in the oil price over the past 12 months is by far the biggest shock for the global economy has seen since 2008. Whilst in recent weeks, we have seen headlines that Saudi Arabia and Russia will cap productions at February levels and a bounce in oil prices back up to US$40 per barrel, the volatility is likely to continue.

Similar episodes of oversupply and falling demand in the past tell us the consequences are likely to be both profound and long lasting. Normally, economists would add "positive" to this list, but there are more doubts are surfacing than ever

NEWS

ALA MasterClass Malaysia

Commencing from October 2016. This 6 module Masterclass for ALA Diploma for Supply Chain Management & Operations will kick off in KL, Malaysia. HRDF certified. You number one pathway to a Diploma in Supply Chain with any 6 MasterClass! Slots are limited and registrations now open.

www.logisticsexecutive.com/academy

Logistics Academy CSCMP SCM Essentials Program Launched

One of 28 new online programs being offered by Logistics Academy, CSCMP SCM Essentials (SCME) is an innovative web-based course that covers the fundamentals of supply chain management.

SCME provides insight into supply chain planning, processes, and global operations via discussion, animation, and industry video clips. All this from the convenience of your computer!

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Coupon code: LE2016CSCMP

www.logisticsexecutive. com/academy/cscmp-quick- courses.

Manoj Soni to Head Logistics Executive India

Logistics Executive Group is pleased to announce the appointment of Manoj Soni as Managing Director India. With more than 25 years Executive Leadership before.

A fact that was underlined by Mr. Tony Nash, Managing Director of Complete Intelligence, a specialist economic advisory firm at Logisym. "Global trade in 2015 fell by over 14%. It's therefore no surprise that demand for oil is soft and with output high, this is not about to change anytime soon".

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>
> **TONY NASH**
> **MANAGING DIRECTOR, COMPLETE INTELLIGENCE**

The scale of the current oil shock is difficult to exaggerate. While financial markets and commentators were obsessed by rising geopolitical tensions and the latest twists in central banks' policies in the US, Europe and Japan, even larger forces in oil markets went largely unnoticed. A "key concern" of the International Monetary Fund was the risk of an oil price spike caused by geopolitical tensions. Instead, rising production and weaker demand growth have left suppliers competing to find willing customers.

Yet most economists still agree with Christine Lagarde, IMF Managing Director, who last month said that "it is good news for the global economy". The positive effect on growth should arise because oil consumers tend to spend more of their gains than oil producers cut their consumption.

What Ms. Lagarde failed to mention is that trade is down and the trickle down to consumers is being offset by job losses, lower salaries and markets struggling to maintain any form of positive growth (when inflation is taken into consideration).

Stephen King, chief economist of HSBC, is likely to be closer to the mark when he says that lacklustre demand in China, Japan and Europe over the summer was the primary cause of the collapse in prices so the traditional "lower oil prices good: higher oil prices bad" story is no longer so obviously true.

He argues that optimism following an oil price fall in economic estimations is based on positive supply-side developments for the western developed world, but "there are plenty of situations where falling oil prices are merely symptoms of a wider malaise".

And so, just who are the winners and losers?

First, companies that spend a significant part of their resources on transportation benefit from lower oil prices by making considerable savings in the supply chain. So do logistics and shipping companies, because they are able to save directly from lower fuel prices. The airline industry is a winner from the low oil prices with around one third of the industry costs associated with fuel.

The impact on manufacturing businesses is mixed. Sectors that rely on imports

experience in Supply Chain Management, Mr Soni's appointment will be a boost to Logistics Executive Corporate Advisory team. He takes over day to day operational responsibilities rom Joint Venture Managing Director, Mr L.R. Sridhar, who will remain on Board, playing a critical role in guiding the business and focusing on his role as the Founder and CEO of last mille delivery partner, Connect India.

Global Sea Freight Survey 2016

In a highly competitive market where margins are increasingly thin, securing new clients and maintaining old relationships have become major concerns for shipping lines looking to grow their market share. What value does your shipping line deliver? Ti would appreciate your insight, and as a thank you for taking part you will be entered into a prize draw for a chance to win an iPad.

https://survey.enalyzer.com/?pid=p3teraca%20

UPCOMING EVENTS

Home Delivery World USA

30 - 31 March 2016,
Atlanta, Georgia, USA

Home Delivery World USA is the only event to bring together retailers to learn about innovations across home delivery, click & collect, and ecommerce. While there are many retail conferences in the US, this event uniquely covers the entire delivery cycle, from warehousing to customer doorstep, gathering perspectives from big box retailers to innovative subscription service companies, and best in class carriers, 3PL, fulfilment and other delivery solution providers. With out of the box speakers from The Home Depot, Costco, Sears, Polyvore, Office Depot, and Alibaba, on-floor seminars led by Home Delivery experts Cagney Global Logistics, ProStar Logistics, SprintShip and Doorman, an innovation showcase for start-ups to pitch their retail idea to retail entrepreneurs and VCs, networking lunches and interactive roundtables, the event created a truly inspiring environment to help the industry further their business. Even the Mayor of Atlanta, Kasim Reed, joined the conference in support of the industry.

www.terrapinn.com/conference/homedelivery-world/index.stm (e.g. manufacture of machinery, transport equipment, computer and electronic products) could benefit as transport costs fall and overseas suppliers pass on the savings from lower oil prices. However, exporters could experience stiffer competition from overseas businesses that also become more competitive due to lower production and transport costs. The question being asked in supply chain circles is clear – is the rush to near-shoring now dead?

The financial services sector also benefits from the increased economic activity, as it facilitates the reallocation of capital and other resources to the sectors that want to invest in response to rising levels of demand. Although the other services sectors will benefit through a small increase in demand for their products, the rate of output and employment growth in these sectors will likely be outpaced by growth in the winning sectors.

Net importers of oil, such as European countries, benefit from lower oil prices. Energy imports to the EU cost around $500 billion in 2013 and 75% accounted for oil. With average prices for Brent at around $109/barrel in 2013 compared to the 2015 average of $54/barrel, the EU is experiencing 50% savings. China, the world's second-largest net importer of oil, is an obvious winner despite the slowdown of the economy. Based on 2013 figures, every $1 drop in the oil price saves an annual $2.1 billion, according to the Economist. While Chinese export prices remain at the same level, in the long run low oil prices will benefit the economy on the whole and enable the government to reduce energy subsidies.

Clearly, the losers are the oil and gas companies with debt to service. The oil service sector will also likely face a phase of transition, given the reduced amount of capital expenditure invested by oil and gas companies. In the United States, there are now virtually no wells that are profitable to drill.

Chevron, Royal Dutch Shell and BP have all announced cuts to their payrolls to save cash, and they are in far better shape than many smaller independent oil and gas producers. Job losses will impact local economies in the short term.

Electric vehicle manufacturers lose. While the medium-term trend towards the electrification of road transport should continue, cheaper fuel for motorists is likely to slow down the uptake of electric vehicles in the short term. The same applies to alternative fuels such as biofuel.

So, how far do we have to go?

With global trade heading downwards and capital drying up, it's clear we may have a way to go before the cycle turns. Adding to that analysts at Deutsche Bank said that "history shows the potential for geopolitical tensions in the Middle East to push oil prices higher", and the possibility of instability in the region could interrupt production. Low prices themselves could provide a catalyst, as cheap oil undermines the outlook of Middle East economies.

According to the International Energy Agency (IEA), "There may be light at the end of what has been a long, dark tunnel "for oil". In its latest monthly market update, the global watchdog speculates prices may indeed have bottomed when international benchmark Brent crude fell to $27 a barrel early last month. Since then, there have

Ti Future of Logistics

10 – 11 May 2016,
London, United Kingdom

The subject of innovation forms a core part of Ti's Future of Logistics conference series, the first to be held in Singapore, October 2015 and will be continued at the second in London, June 2016. Ti have now successfully run over 10 conferences in Europe, Dubai and Singapore and in 2016 will be bringing the conference series to London for the first time.

www.ticonferences.com/london/2016

Trans4

24 - 26 May 2016
Doha, Qatar

Trans4 exhibition is a major marketplace for transport services, attracting leading professionals from Qatar, the Middle East and the world. Issues concerning the development of the Qatari transport system are discussed, and new information systems are developed for interaction between different modes of transport, aimed at successfully addressing logistics issues in the global market for transportation and logistics services. Being focused primarily on Rail, Cargo and Airline transportation services, the Trans4 exhibition demonstrates the full range of industry solutions – from transport and forwarding services to software and equipment for cargo handling.

www.trans4qatar.com

GLCS LogiSYM Malaysia 2016

12 – 13 October 2016
Kuala Lumpur, Malaysia

GLCS LogiSYM Malaysia 2016 promises to be a highly unique event. Building on the success of the past 4 years, the 2016 Fifth Annual Global Logistics and Supply Chain Symposium will focus this year on providing a platform for mid to senior level shippers to discuss and explore innovation, excellence and what changes we can expect to see in the Asian supply chains of tomorrow. We will hear from leading solutions providers in the industry and explore best practice collaboration case studies. The structure of the symposium is such that delegates will have more interactivity with supply chain peers, been signs of a natural attrition on supply and, crucially, a deal to freeze production at January levels, which could eventually rebalance a heavily oversupplied market.

It pointed to outages in Iraq, Nigeria and the United Arab Emirates that took 350,000 barrels a day off the market in February alone, as was reporting the Financial Times. Iranian production post-sanctions is also rising more gradually than expected, adding 220,000 barrels last month compared to claims it would boost output by 500,000 immediately.

Overall, global supplies eased 180,000 barrels last month – and exports from high-cost exploration areas such as the US and South America could fall more sharply than expected this year. However, the IEA also noted that stockpiles are at record levels and that it would take the remainder of this year for supply and demand, currently out of kilter, to the tune of two million barrels a day, to reach equilibrium. In short, prices will be more stable at current levels around $40 a barrel and will not plough depths of $20 or below as some analysts once predicted. But neither will they rise substantially until next year.

While the negative impacts of oil arrive immediately, the positive effects take longer to materialise. While oil might act as a depressant for now, it will become a stimulant later. One thing is clear - it's going to be a long waiting game.

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In 2015, Darryl was named as one the "Top 50 influential individuals in Asia' Supply Chain, Manufacturing & Logistics industry" in the prestigious SCM Thought Leader publication by SCM World, recognising him as expert in the linkage of business strategy and supply chain best practices to human capital management. Darryl brings 28 years of executive leadership and consulting experience and is regular contributor on thought leadership across numerous industry publications and is a frequent speaker at international conferences and events on business leadership, strategy & people alignment and talent management. He was instrumental in the creation of Logistics Academy and presently holds an advisory board appointment with industry group LSCMS. In 2014, he was appointed as one of five global experts to IATA's Global Innovation Award selection board and has held senior executive positions within the airline, air cargo and aircraft leasing industry.

allowing the development of ideas and for delegates to acquire actionable take-aways to present back at the office.

www.logisym.com/events/logisym-malaysia-2016/

Logisym Dubai: Beyond 2020– Connecting Supply Chains, Creating the Future

22 – 23 November 2016
Dubai, UAE

LogiSYM Dubai 2016 is a unique two-day conference set in Dubai, United Arab Emirates from 22 to 23 November 2016. A premier event for Logistics & Supply Chain professionals, educators, Information Architects and Usability Practitioners, LogiSYM Dubai 2016 will bring together 300 professionals from around the region. With EXPO 2020 just around the corner and the UAE forging ahead as the regional's leading supply chain hubs, this year's theme: 'Beyond 2020 – Connecting Supply Chains, Creating the Future' looks at the opportunities, supply chain and consumer mobility and sustainability.

www.logisym.com/events/logisym-dubai-2016/

ABOUT US

Logistics Executive Group is the acknowledged industry leader providing a suite of whole-of-lifecycle business services including Corporate Advisory, Executive Search and specialist Supply Chain and Logistics Training.

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