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Disruptive Forces

■ Trade and Transportation
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It's been two weeks since Hanjin, the South Korean shipping company and one of the world's largest ocean carriers, filed for bankruptcy protection. We're still seeing the short term ripple effects, and the long term impacts are uncertain; but whether small and manageable or large and sustained, they will be disruptive.

If you needed a reminder of the interconnectedness brought about by global trade, consider what Hanjin's actions set in motion. Not only did the company seek legal protection in its home country, it did so in 42 other countries as well, including in the U.S. The purpose was to prevent Hanjin's assets from being seized; but it didn't prevent ocean going vessels from being stranded offshore, ships being refused permission to offload cargo, or companies in the business of moving goods demanding upfront cash payments to handle Hanjin cargo.

That's the short term impact. Over the longer term, longshore workers, truckers and terminal employees with a direct relationship to Hanjin or its terminal partners will have to readjust. Of course, there may be an uptick in work for risk managers and legal teams who will have to sort this all out, but I don't think that's what a group of elected officials and union leaders had in mind when they called for federal assistance to minimize the impact on our local workforce.

The Hanjin bankruptcy is also a reminder of how dynamic and rapidly changing the industry can be and how it's not uncommon for the players to be asked to shift their focus at a moment's notice. That's not to say that the company's actions were entirely unpredictable. Overcapacity in ocean carriage has been a concern for the past few years. Increasing capacity on larger vessels (and at a time of economic uncertainty) has resulted in both reduced rates and in new alliances among the major carriers as a way of minimizing risk.

It's also resulted in industry consolidation as carriers play their own version of survival of the fittest. In a prescient observation made in the 2016 State of Logistics Report, released by the Council of Supply Chain Management Professionals (CSCMP) in June, the authors suggested that a merger of Hanjin and its Korean rival Hyundai Merchant Marine could create some supply chain disruption. Hyundai may in fact play a role in Hanjin's future, but largely by acquiring its assets.

The CSCMP report called the water and ports sector a "sector in flux" which sounds about right just now. It acknowledges that overcapacity helped to create a favorable rate environment for cargo owners; but in the wake of Hanjin's exit from the market, there is already some indication that, at least in the short term, those rates will increase.

The State of Logistics Report pointed out other disruptive forces that should be on our radar screen. Some on the operational side are not surprising and tend to appear in the report on an annual basis. These include an uncertain regulatory environment, driver shortages in the trucking industry and infrastructure bottlenecks. The impacts of others, like 3D printing, increased use of robotics and big data are more difficult to predict. 3D printing, for example, could at the same time reinvigorate local manufacturing and place developing economies at risk.

That's the challenge of predicting change. A year ago at this time, the goods movement industry here in Southern California was rightly congratulating itself on surviving a period of labor unrest, equipment shortages, and congestion on the docks. Stakeholders, led by the ports, had embraced new cooperative measures like the Supply Chain Optimization (SCO) group as a way to anticipate problems before they occur and engage a wide range of stakeholders in responding to them. In the process, you hope to rebuild some trust between and among key players.

The Hanjin bankruptcy will test these relatively new structures. It's likely that this disruption will hit some segments of the industry harder than others; but mitigating the broader supply chain impacts is in everyone's best interests. Because while addressing this particular challenge won't solve all of the structural problems of global trade, it will better prepare us for the next one that is sure to come.

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