Hard lockdown in Shanghai a threat to supply

Gantry cranes loom over shipping containers at Hong Kong's Kwai Tsing container terminal. PHOTO: BLOOMBERG

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Key points

- Ikea switches supply plans for a greater focus on European goods.
- Shipping lines trying to minimise disruption by skipping Shanghai.

New IKEA Australia boss Mirja Viinanen expects to sell more European products in the coming months as the furniture giant rushes to find alternatives for stock trapped in China, where lockdowns have shut down factories and the region's biggest port.

Although one in four IKEA purchases comes from a Chinese supplier, the Swedish retailer known for its flat-pack furniture has a diverse supply base across 1600 manufacturers in 50 markets including Poland, Italy, Germany and Sweden.

Ms Viinanen said Australian retailers without such a diversity of manufacturing partners would struggle to keep products on shelves.

"It will be a huge topic when it comes to product availability, for not only retail, but everything. We are lucky at IKEA, we are able to switch [suppliers] quite fast now – we have exercised quite a lot of this over the last two years already throughout the COVID period," she told *The Australian Financial Review*.

"So we try our best to secure the availability as much as possible, even though one very important port like Shanghai is closed. We try to switch the different ships coming from Europe already."

However, IKEA is not totally immune from global supply chain shock brought on by the pandemic and worsened by the war in Ukraine.

It has increased prices by an average of 9 per cent globally to help offset the jump in transport and raw material costs for Ingka Group, which controls most of the IKEA stores.

Ms Viinanen urged more local sourcing of products where possible.

"It is good for the community and it's good for transport. If China keeps this zero-COVID policy, this [lockdowns and closures] could go on for years."

Affordable products remained a key cornerstone for IKEA, she said.

"To ensure our longevity as a business and employer, we have to adjust our prices to reflect the increased cost base. This varies across countries and across the range, reflecting localised inflationary pressures, including commodity and supply chain issues." Her comments came after Beijing locked down residents on Tuesday and the government started a mass COVID-19 testing program for nearly all the 22 million people in China's capital.

There are increasing concerns about the impact of China's hard lockdowns on global supply chains.

Logistical challenges were the top issue raised by eight foreign business chambers during a meeting with Chinese Commerce Minister Wang Wentao on April 21, said Jörg Wuttke, president of the EU chamber of Commerce in China. Mr Wuttke told *China Direct* the Shanghai port was "swamped with containers" because no trucks could get in or out. "In the Shanghai area, truck movement is down by 50 per cent," he said.

Shanghai went into lockdown at the end of March, with residents ordered to stay at home as part of attempts by the Chinese government to eradicate COVID-19. The lockdowns have created congestion at ports as warehouse and port workers are unable to move goods on and off ships.

Shipping Australia said shipping lines had been trying to minimise disruption by skipping Shanghai and stopping at other ports instead.

"We anticipate that, despite the current disruptions in China, shipping will continue to deliver goods to, and export goods from, Australia," it said. "While there may be higher costs for some shippers, importers and exporters who have cargo routed through Shanghai, it appears that overall costs in the ocean supply chain are currently declining.

"The cost to ship cargo, and of operating a ship, are both generally on a downward trend at the moment owing to a combination of a greater supply of ships and less port congestion."

The cost of shipping containers by sea to and from Australia and other countries peaked at the height of the global supply chain crunch in September before falling since late 2021.

This year, container rates – which are still more than double the rates of a year earlier – have been dropping since the start of March, according to the Freightos Baltic Index, which tracks market rates for container shipments.

But handling costs at Australian ports continue to rise. Stevedore Hutchison Ports Australia has announced it will increase the "infrastructure levy" by 17 per cent to $159.98 per container in Sydney from June, and raise levies 22 per cent in Brisbane to $162.10 per container from May.