



Commentary: Catastrophe in Japan-- The Supply Chain Takes a Hit

By Peter Parts, President, Peter Parts Electronics, Ontario, NY

Earthquakes, tsunamis, broken nuclear power plants and a devastated nation are not usually factors in making production plans, but a seriously disrupted supply chain may now affect all aspects of manufacturing while Japan claws its way out of its horrendous calamities.

As these events unfolded, everything we thought we knew about our supply chain took a sudden turn. How has this disaster affected this amazing country which has been an example of financial viability, a strong leader, and fine example in our electronic industry for decades?

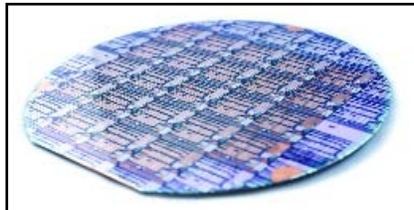
My low tolerance level for television changed drastically after the earthquake/tsunami/power plant crisis. Since my first trip to Japan more than 25 years ago, I have had the privilege to visit some of the business areas in the vicinity of the nuclear power station. They were some of the most beautiful places in Japan. During those visits I envied the people lucky enough to work in such an attractive environment — close to the ocean, surrounded by mountains

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Now they're all gone.

spas and hot springs in peace and tranquility. The view on the TV screen doesn't match those memories any longer. It is hard to watch.

From an economic standpoint, the quake was devastating. It tore up roads, airports, factories, and completely destroyed shipping ports. It has shut down many types of factories: automotive, capacitor, electronic goods, and some of the world's largest semiconductor factories. Even though many factories sustained no direct damage, the destruction to the Japanese power grid supplying these industries will consequently push out deliveries of products for many weeks. At one major supplier of NAND flash chips, for example, consumers will have to wait months as shipments slow down.



Semiconductor wafers are already in short supply.

Another concern is the supply of BT resin, used heavily in circuit boards. Some 90 percent of the world's supply comes from Japan, and even when a product doesn't come from an affected area, there are so many other issues that will push out deliveries. Power is still out in much of the affected area, over 100,000 people are still living in some kind of emergency shelter. People close to the coast struggle against harsh winter weather, a lack of food and medical supplies, and everyone has high anxiety from continuing aftershocks. Even the famous corporate Cherry Blossom parties in Tokyo are greatly subdued. Even if their factories are unscathed, 23 railway stations were destroyed! Gone! And the East Japan Railway is reporting that more than 680 places where bridges and train track are damaged or destroyed. Moving freight has become a new challenge.

Long Experience

There is good news, however. Japan's has long experience dealing with catastrophes and this has given them a

preparation to weather these “storms” with great resiliency. The 1995 Kobe quake (also known as the Great Hanshin Earthquake) registered 6.9 on the Richter scale and was labeled the world’s most expensive natural disaster (until now). Japan’s prior decision to improve newer built homes and buildings in the 80s, geared toward withstanding calamities such as this, proved to be life savers.

In the 1995 quake, it took only a few weeks for the country to be back up and operating at full capacity — including three railroads that had been completely destroyed. They were rebuilt and operational in four months. Japan has demonstrated that its people can work together to solve personal, company, and national problems quickly. Reconstruction in Japan’s northeast coast will take some time and hard work but economic growth is expected to recover quickly.

It was Sunday night, right after the quake (Monday morning in China) and I was evaluating how this disaster was going to affect our company’s costing for semiconductors and other commodities. I called our China office Sunday night, and when we opened Monday in Shenzhen, started an immediate mission to see where we might be impacted because of shortages. Japan certainly supplies many raw materials used by our manufacturers.

By Monday morning after the quake, semiconductor prices on the disty market in Hong Kong had jumped 10 percent. Wafers are the key building blocks for many chips that are routinely made in Japan. A shortage of wafers is going to put the world’s biggest semiconductor companies behind on already long lead times.

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A note I recently received from one of the biggest Japanese capacitor factories has just pushed out lead times from six months to 99 weeks. The area that was hit only accounts for about 5 percent of the GDP output for Japan, but there are some very special products in that 5 percent that folks are concerned about. A prolonged abnormalcy will exacerbate shortages.

In the meantime, major competitors such as Korea and Taiwan are working around the clock to pick up the slack. Auto makers are scrambling for new sources for parts that are currently being imported from Japan. To put it in perspective, cars and automotive parts make up 1/3 of the U.S. imports from Japan. With the shortage of car parts, it is going to give U.S. and other competitors of Japan’s manufacturers a chance to fill this void. Countries dependent on Japan manufactures, however, are putting faith in an early recovery. They are confident that this is a temporary and fixable setback.

It reminds me of my neighbor in beautiful upstate New York. Andy Orbaker is a fourth generation farmer and owns and manages a huge working fruit farm with over 10,000 apple trees. He’s the kind of guy that when you shake his strong tough skinned, calloused hand you know this is a man who works hard for a living.

Andy has seen many natural disasters affect his business. His philosophy is simple and he sums it up well, “One man’s misfortune is always another man’s luck.”

Apple production problems in Michigan or the state of Washington mean higher prices and greater sales for Andy. A Finger Lakes hail storm or late frost and he loses most of his crop and Michigan and Washington get more for their apples. Until Japan fully recuperates, the scales have tipped, for a time at least, in favor of other manufacturers around the world.

I flew through a somber Tokyo, and as I write this I’m working in Shenzhen and even here, so far away from the disaster, folks are worried. It was only a few days before most of the pharmacies in the south China area had run out of iodine pills. Obviously someone had read the fine print on a box of salt and discovered there was iodine in the salt. The salt rumor flowed from this, and there was a run on salt that didn’t stop for a couple of days. A box of salt that sold for less than a dollar went up over 20 times, not 20 percent here in Shenzhen. For a couple days, the salt inventory in restaurants had to be protected.

Down But Not Out

I have spent enough time in Japan to believe that they may be down, but they are certainly not out. Japan’s past reflects a history of working together to quickly solve problems and take advantage of the “big team.” The estimates coming in for cleanup and rebuilding exceeds \$300-billion US. I am betting that they are going to rebuild faster than anyone expected and even though the government is heavily in debt at 225 percent of annual economic output, they will find a way to get it done. I am betting that the suffering is not permanent and that Japan will come back strong, just as they have in the past. I can’t help thinking about my friend Hideo Kinoshita who is missing. Kino, if you read this and are okay, please let me know.

From the humanistic viewpoint, let’s do all that we can to help them. One way is to be more understanding of issues they are facing. They are certainly not intending to ship late, and they can certainly use the revenue. Another way can be as simple as sending money to the American Red Cross. The Japanese people personally gave tens of millions of dollars to support the United States after 9/11. Maybe it’s time we remember their gifts of support and money and we repaid them in kind.

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