How COVID19 impacts supply chains globally and in the Gulf
Current impact on trade

The ongoing spread of the coronavirus (SARS-CoV-2 or COVID-19) throughout the world has not only come at a humanitarian cost, affecting millions of people globally but it has also profoundly impacted economies.

The outbreak was first reported in December 2019, in the Wuhan district of China and today it has affected at least 195 countries around the world. Trade and supply chains are disrupted making many businesses unable to meet their Q1 targets for the year 2020, let alone Q2.

The lockdown of major manufacturing facilities in China has severely affected international trade, and it is still causing supply shortages for various goods and raw material, especially in the electronics industry, i.e., computers, computer parts, and accessories. Currently, companies are reporting longer lead times from Chinese suppliers, delays in receiving orders from China, and loading goods at Chinese ports. The Institute for Supply Management® (ISM®) survey reveals that nearly 75 percent of companies report supply chain disruptions in some capacity due to coronavirus-related transportation restrictions.

In February 2020, the goods trade barometer published by the WTO shows the real-time information of the trajectory of world trade is much lower than recent trends (last published in November 2019), and it is expected to keep falling due to the impact of COVID-19.
Around the world, where local economies depend on China both as a supplier and customer, businesses are feeling the strain of COVID-19 on their supply chains. The situation is no different for the countries in the Gulf, considering that the GCC has always shared a special relationship with China.

The GCC region connects the east to the west, and it is one of the main international trading hubs. According to the GCC statistical central report on Foreign Trade Statistics published in 2018, China was ranked first among the most important trading partners of the GCC in terms of total merchandise exports, which amounted to 15.1 percent of the total merchandise exports to world markets.

In relation to oil exports, Oman is currently the most exposed GCC country with its exports to China accounting to 45.1 percent, and the UAE the least exposed with just 4.2 percent of exports to China.

As we can see however with the rapid spread of the virus in Europe and the US, the impact can shift quickly. Factory stops are now seen as well in many European countries. In addition to the supply chain disruptions, businesses are struggling to meet their contractual obligations, maintain sufficient inventory levels, meet regulatory compliance requirements and internal performance objectives. Simultaneously, businesses are having to implement emergency measures to ensure employee health and safety.
Responding to immediate changes to the supply chain

This is not the first time that business supply chains are significantly disrupted by a natural phenomenon. In the past, a number of businesses were affected by, for example, the earthquake in Taiwan in 1999, which drove up prices for computer parts, SARS in 2003, and the most recent earthquake that hit Japan in 2011 which impacted many automotive manufacturers.

Despite having been exposed to similar situations in the past, more than 44 percent of respondents do not have a plan in place to address supply disruption from China, according to the March 2020 survey conducted by the Institute for Supply Management® (ISM®).

Better prepared businesses planned for the possibility to restructure their supply chains in the short run diversify their suppliers. Apple notoriously ran into complications since the production of its iPhone was done exclusively in China.

Unfortunately, with an outbreak as big as the COVID-19 pandemic, which has affected the world’s top nine container ports, even the best contingency plans may prove inadequate.

When restructuring supply chains, businesses are having to examine the possible change in origin of the goods, or the need for special export or import licenses.

The rules of origin constitute the basis to determine tariffs and other trade measures that will be applied. Once the source country of a component is changed, businesses may have to face different customs duty rates, customs clearance procedures and other additional duties payable due to the different places of origin of goods (i.e., antidumping duties).

In addition to that, moving business operations from one place to another may require the issuance of special local export or imports licenses, extra costs, and time. There is also the possibility that employees will have to be physically present in such destinations to oversee the move, which may be difficult with the travel restrictions in place.
The growing role of technology

The pandemic has brought technology into the spotlight. According to the WTO, demand for information technology services has “boomed” as more companies use digital solutions to stay connected, enable employees to work from home, and keep their businesses up and running.¹

In the current environment, organizations re-thinking their IT strategies may want to consider technology platforms that are purpose-built to support efficient and compliant global trade management. These can provide businesses with the tools to stay agile, manage ever-changing regulations, and control both cost and risk, amidst volatility.

Modern solutions can be adopted to manage all trade-related processes, data, and documentation – working alongside existing systems without the need for disruptive IT change projects. With this approach, it is possible to:

- **Improve remote working arrangements:**
  Solutions that facilitate team communication, data accessibility, and digital workflow management are an essential aspect of any COVID-19 business continuity plan.

- **Improve data and document management:**
  A trade platform can increase the speed and accuracy of data capture through automation, enabling organizations to pull in current information from multiple sources without the risk of human error. Additionally, importers and exporters should be able to manage all trade documents in one central database, including bills of lading, invoices, and clearances. This enhances compliance and mitigates the risk of customs delays.

- **Structure trade lanes for optimum tax efficiency and cost control:**
  This type of solution can help companies adjust and optimize their supply chains in response to ongoing developments. Drawing on data to gain a complete understanding of potential landed costs, duty impacts, and applicable preferential programs – businesses can analyze trade lanes comprehensively to make more informed supply chain choices.

¹[https://www.wto.org/english/news_e/pres20_e/pr855_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm)
• **Increase the efficiency of processes and people:**
  Automation of routine processes can give personnel more time to focus on proactive planning and strategic thinking, so businesses are more agile and capable of responding swiftly to new challenges. Technology can also make important processes such as item classification, pricing, planning, and reporting more efficient and accurate. This approach minimizes the costs and customs delays associated with missing or incomplete documentation and data.

• **Monitor trade regulations globally:**
  In the current turbulent environment, research and compliance staff may be struggling to keep abreast of all the regulatory changes that impact trade around the world. With a technology platform that is constantly updated with regulatory content developed by industry professionals, companies have instant access to the latest data, including global tariff schedules, rules of origin, and restricted parties lists.

• **Manage business relationship risk:**
  In turbulent times, it is critical to continue screening for risk that could be hiding in complex trading networks – especially when companies are adjusting their trade lanes. It is vital to have a trusted solution for efficiently screening business relationships against current global lists for restricted persons, companies, and sanctioned or embargoed countries.

Today, China has slowly began resuming its operations and will soon re-establish trade and supply chains in the forthcoming months. With the virus spreading rapidly throughout many developing and developed nations, the question arises whether there will be a demand for goods produced in the destination markets.
Many governments and organizations are recognizing the need for intervention and are stepping in to provide some guidance and relief measures to their economies. The World Customs Organization is encouraging its members to ensure the smooth movement of goods (especially for protective wear, medicines, equipment, etc.) while taking precautionary measures in line with the 2011 Resolution on the role of customs in natural disaster relief.

In early March 2020, the World Bank announced USD 12 billion in aid to developing countries to help them deal with the health and economic impact of the virus. The assistance will be provided by prioritizing the most at risk countries.

Apart from the financial incentives, tax authorities around the world are also providing reliefs and deferrals in terms of tax obligations and tax compliance. Denmark and Switzerland, for example, have extended the deadlines for the payment of VAT. China has introduced measures such as reducing the VAT rate from 3 percent to 1 percent for the cash accounting scheme adopted by small businesses until the end of May or extending the carryover period for losses to 8 years, which was previously 5 years.
The table below provides an overview of the most relevant measures announced by the GCC countries. More initiatives are still expected.

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<th>GCC country</th>
<th>Tax initiative</th>
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<td><strong>UAE</strong></td>
<td>• The Federal Tax Authority extended the filing and payment deadline for Excise Tax returns and VAT returns. The latter, where due by 28 April, can be filed one month later, i.e. on 28 May 2020.</td>
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| **UAE (Dubai)** | • Suspension 2.5 percent market fees on facilities operating in Dubai.  
• Recovery 20 percent Dubai customs fees on imported goods sold locally.  
• Cancellation AED 50,000 bank guarantee or cash required for Dubai customs clearance.  
• 90 percent reduction on customs document fees.  
• Requirement providing banking instrument while submitting customs-related grievances canceled. |
| **KSA**     | • Due date Income Tax or Zakat returns for businesses with financial year ending 31 December 2019 extended to 31 July 2020 (instead of 30 April 2020).  
• Extension for filing the VAT returns for the month of February to May. New due date will be three months from the original due date. For the tax period 1 January 2020 to 31 March 2020, the extended due date will be 31 July 2020.  
• Temporary deferral of Excise tax payable to the Customs Authority on import of excisable goods  
• Withholding tax returns for the month of March, April and May will now be due by 10th of July, August and September, respectively.  
• Penalties will not apply for payments of tax that are suspended and any refunds due will be expedited.  
• Temporary deferral of VAT payable to the Customs Authority at the first point of entry through the VAT return of the period which relates to the imports.  
• Deferral collection customs duties on imports for thirty days against submission bank guarantee. |
| **Bahrain** | • Exemption municipal fees and tourism levies starting April 2020 for three months.  
• Exemption industrial land rental fees for all businesses starting April 2020 for three months. |
| **Oman**    | • Three month extension for filing provisional income tax returns and payment of any tax due.  
• Any donations or contributions made by the taxpayers for the purpose of dealing with COVID-19 in Oman will be tax deductible, provided the taxpayer maintains sufficient proof of purpose for these contributions.  
• Other measures include, flexible tax payment mechanism, extension of the timeline for filing objections against tax assessments and additional time for submitting documents and clarifications for ongoing objection proceedings.  
• Exemption tourist tax and municipal fees for restaurants until 31 August 2020.  
• Exemption municipal fees for commercial establishments until 31 August 2020. |
| **Qatar**   | • Due date income tax filings for businesses with financial year ending 31 December 2019 extended to 30 June 2020 (instead of 30 April 2020).  
• Six month exemption custom duties for 905 goods related to foodstuff and medical supplies. |
| **Kuwait**  | No specific tax measures announced. |
Future impact and outlook

The spread of COVID-19 is unpredictable and global at this point. Even though it may be expected that the virus outbreak will be contained in the next few months, or that a vaccine will be developed, the effects of this virus will remain for a long time.

The WTO reports that global merchandise trade was already hit by trade tensions and slower economic growth during 2019, with exports dropping by 3% to US$ 18.89 trillion. In the wake of the COVID-19 outbreak, however, a 13 to 32% decline is predicted for 2020. Almost all regions face double-digit losses, with exports from North America and Asia feeling the greatest impact. Sectors with complex value chains, such as electronics and automotive parts, will be weighed down heavily, while services trade will be hampered by transport and travel constraints. The WTO has noted that trade could recover in 2021, depending on how long it takes to contain the pandemic.²

MUFG Bank has revised the growth outlook for all GCC countries in the context of the virus outbreak. According to the bank, the econometric model for the GCC region now points real GDP to register 1.7 percent this year from 2.5 percent previously estimated. The pandemic will have severe consequences for the regional economy, in particular, the oil-exporting GCC states.

S&P Global estimates that the volume of exports to countries with a high number of cases are at risk. It is estimated that the amount of vulnerable goods exports ranges from 53 percent of total exports for Oman to about 17 percent for Bahrain. It is natural that if the volume of exports falls, the GCC region’s external and fiscal balances will be impacted.

² https://www.wto.org/english/news_e/prs20_e/pr855_e.htm
Despite the supply chain disruption caused by COVID-19, businesses remain positive and are working on strategies to overcome the challenges. The situation will naturally lead businesses to reconsider their reliance on a single supplier or country. Other Asian countries such as Indonesia, Bangladesh and Vietnam have emerged as strong alternatives to China.

Businesses will need to study their supply chains, evaluate their risks, and focus on cash flow. It is time for businesses to conduct studies to understand the demand impact and evaluate alternative strategies and logistics options.

An Institute for Supply Management® (ISM®) survey has shown that organizations that diversified their supplier base after experiencing tariff impacts are potentially more equipped to address the effects of COVID-19 on their supply chains.

Furthermore, businesses should not overlook the tax implications of COVID-19. Companies must reassess their tax planning based on the impact suffered, re-evaluate transfer pricing policies, and determine the effect of additional expedited taxes and fees that may result from moving exports and imports through affected countries.

Most likely, Governments will provide additional aids and reliefs, such as the extension of the deadline for payment of taxes or postponing the date to file tax returns to boost the economy and support businesses through these challenging times.

Businesses must then make use of those aids and reliefs to build a financial buffer and re-plan for the rest of the year while keeping sufficient documentation and continue to properly account for the tax to be able to report and pay it when the time comes.

It is difficult to predict when the crisis will be over. It will have served as a reminder to businesses to plan, as much as possible, for the unpredictable. For now, businesses can only hope to put the crisis behind them as soon as possible and draw the lessons for future similar events.
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