

Selling Short: Is There Business Interruption Coverage For Losses Caused By The Global Chip Shortage'

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A prolific global crisis, originating overseas, causes supply chain disruptions limiting corporate activity for a period initially thought to be weeks, which stretches into more than a year. This is not a description of the COVID-19 pandemic. This is the global chip shortage. Microchips and semiconductors are not only essential to complex goods like cars, computers, phones, major appliances and industrial equipment, but even more mundane consumer products like toasters, toothbrushes and thermometers. According to analysts at Goldman Sachs, 169 U.S. industries embed semiconductors in their products. And now, the brains of every smart device on the planet are in significantly short supply. The global microchip shortage will cause delays for car buyers and higher prices for smartphones and other products. It will also cost chip-dependent manufacturers billions of dollars in lost revenue.

Unfortunately, the shortage and its attendant losses cannot be cured, in the short run, just by making more microchips. Bringing additional manufacturing capacity online to meet current demand—particularly for the smallest, most sophisticated semiconductor wafers—requires proprietary intellectual property, extraordinary investment, and time. Capital expenditures for existing manufacturing equipment has surged, both domestically and abroad, even before the pandemic, but resources are limited. In the aggregate, “chipmakers increased spend on used equipment by 54% from 2019 to 2020.” Despite these investments and increasing prices for semiconductor products of all types, by one estimate, demand will exceed supply for computer chips by an average of 20% until at least the fall of 2021, or perhaps early 2022.

The shortfall in chip supply over this period will mean billions of dollars in lost revenues for affected industries. Ford Motor Company, for example, projects a reduction of \$2.5 billion in adjusted pretax profit this year from the shortage. Other automakers and manufacturers will also sustain heavy losses as the dearth of chips continues. As major manufacturers limit production, upstream suppliers, downstream distributors and ancillary businesses will further magnify the loss of revenue resulting from the semiconductor shortfall.

Read the full article [here](#). (Note: [Law360](#) also published this alert as an "Expert Analysis" piece.)

If you have any questions about contingent business interruption coverage or about insurance recovery in general, please contact one of Haynes Boone's [Insurance Coverage Practice Group](#) partners listed below.