

International Trade Committee

Oral evidence: [The UK's international supply chains](#),
HC 760

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Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Anthony Mangnall; Mark Menzies; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; Mike Wood.

Questions 1 - 40

Witnesses

I: Professor Richard Wilding OBE, Emeritus Professor in Supply Chain Strategy, Cranfield School of Management; James Kane, Associate, Institute for Government; William Bain, Head of Trade Policy, British Chambers of Commerce.



Examination of witnesses

Witnesses: Professor Richard Wilding, James Kane and William Bain.

Q1 Chair: Welcome to the International Trade Committee's evidence session on the UK's international supply chains, a one-off session. We are speaking to three witnesses this morning, all of them virtually. Some of them are well-kenned faces, well known to this Committee. I think there is a debut this morning as well for this Committee. I am happy to have our three guests introduce themselves, starting with our debut, Richard Wilding OBE.

Professor Wilding: Hello. My name is Professor Richard Wilding OBE. I am emeritus professor of supply chain strategy at Cranfield University. I am also on the global board of trustees of the Chartered Institute of Procurement and Supply and was former chair of the Chartered Institute of Logistics and Transport. I also have a number of non-exec director positions, including that of Leidos Supply Ltd, which supports the commodities supply chain for the MoD.

James Kane: I am James Kane. I am an associate of the Institute for Government, which is a non-party thinktank aiming to improve the effectiveness of the UK Government.

Chair: Last but certainly not least is the very well-known William Bain. It is good to see you.

William Bain: It is great to see you again this morning. I am William Bain, head of trade policy at the British Chambers of Commerce.

Q2 Chair: Thank you very much, all of you, for taking the time to be with us; it is much appreciated. Professor Wilding and Willie Bain, what is the state of play with the UK's international supply chains?

William Bain: The latest evidence we have from ONS data, the business insight survey released earlier this month, which covers August 2022, is that 18% of UK businesses with 10 or more staff were experiencing global supply chain disruption. These were the lowest levels since December 2021. Of those 18% of companies, 34% were reporting shortage of materials as the main reason for the disruption, but there are sectoral differences.

For example, with the manufacturing industry, a third of companies were reporting global supply chain disruption. For construction, it was only 12.5%, and indeed that is the sector that has seen the largest fall in disruption over the summer—an 8% fall in disruption for construction. For wholesale and retail trades, there is 30% disruption. Also, in terms of the data and surveys we do at the British Chambers of Commerce, we would reflect that the impact of the disruption is particularly felt by SMEs. For example, a medium-sized manufacturer in Staffordshire recently reported to us that the supply chain of raw materials was currently 12 months plus. A small retailer in Sheffield said to us that the biggest challenge was



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the delays in the import of goods effected by the Covid outbreak in China earlier this year. Overall, there is an improving picture, but patchy among different sectors. Certainly for SMEs the burden is particularly high.

Q3 Chair: Professor Wilding, would you like to add to that? Is there anything? It was a comprehensive answer, right enough.

Professor Wilding: I will not look at the statistics. The best way to describe it at the moment is a terminology that is being used across the industry. They describe the supply chain landscape as VUCA, which is volatile, uncertain, complex and ambiguous. That has increased dramatically over the last couple of years. It is very important to recognise the strain this is putting on supply chain logistics professionals and procurement professionals in the industry.

We are starting to pick up on a lot of people who are quite stressed. You say, "Are things better today than they were a few years ago?" There may be more availability of things, but the nature of the work that those individuals are having to do is still very pressured. That is starting to take its toll on the number of people in the profession in certain key roles. We are starting to pick up on that as well.

The issue is that we have had to switch the nature of the supply chain. We used to talk about the bimodal supply chain. Mode one was all about stability. It was about lean supply chains. Mode two was about agility and having to deal with the whole issue of volatility, the uncertain and everything else. You could say in the old normal of 2019 you could have 80% of your business running quite happily on that lean, stable structure of a supply chain. We are now finding that many people are saying, "80% of our business is having to cope with that volatility". That has big implications for the way you structure the supply chains, the skills of the people in your supply chains, the information systems and of course the processes that we are having to do. That is why we are going through an awful lot of pressure at the moment.

Q4 Chair: You alluded to your mode one and mode two in the last couple of years. Thinking about just-in-time supply chains and the effect of Brexit, how easy is it to disentangle that from other things? Do you make comparison with other European countries that have not Brexited but have faced the other issues? Can you disentangle it?

Professor Wilding: It is very difficult to disentangle many of the effects. If I am working with some of the big, global organisations that are doing stuff around the world, we have to recognise that Brexit is seen as a small local disruption. It is just one of those things going on globally all the time, just as there may be challenges in the Middle East or South America and so forth. Yes, we have another one that is here.

The issue is that the pandemic has pushed supply chains into that new mode of operation. It does not matter which European country you are looking at. You are finding significant disruption in their supply chains.



Brexit is a cherry on a very nasty pie. At the end of the day, as a supply chain professional, I would love it if there were no trade barriers and no complications whatsoever. I just want to move stuff around the world and serve customers. That is ultimately what I am trying to do. Anything that gets in the way of that easy, frictionless flow of goods, and people of course, disrupts things. We recognise that that is never going to be the reality that we have globally with regard to various countries going into protectionism and different ways of working.

On untangling everything, the Brexit effect on global supply chains, from a UK perspective, for most big organisations is quite small. For SMEs, it can be very big. It really depends on the sector that you are looking at.

Q5 **Anthony Mangnall:** Professor Wilding, thank you very much for being here. Can I ask two things? We have had evidence from previous witnesses on this Committee about the impact of Brexit, giving small businesses the opportunity to prepare for the free trade agreements that we are signing and whether this is actually translating into improved supply chains. Can I ask you first whether businesses have had to rise to the challenge, and therefore are more able to improve this? Will that have a knock-on impact, in terms of international supply chains?

Professor Wilding: Critically, if you are looking at some SMEs, in a way they work on a principle of, "When that thing hits us, we will deal with it". People would like some certainty. It was very difficult to plan for Brexit, because nobody quite knew what was happening until the very last minute. There were certain big things that we could plan for and, unfortunately, many businesses did not even get round to thinking about that until really very late on, in terms of the process. There were some known knowns that people needed to deal with.

One key thing for a small or medium enterprise is to ensure that the information is readily available, and that they can actually take that in. We have to recognise that, if there are agreements being made, some SMEs' supply chains will not be impacted by this. This was the same with Brexit. Everybody panicked and went, "Oh no, we have Brexit coming. This is going to impact us". One of the key things, and one of the lessons learned really, was that you need to know the extent of your supply chain. You need to know where your suppliers—your first-tier suppliers, your second-tier suppliers—are positioned globally. You also need to know very clearly where your customers are.

When you actually know that, you can then start to see how exposed you are to some of these disruptions. As some organisations discovered, "Actually, we are not exposed to very much through Brexit at the moment directly, in terms of the flows of goods and materials". It might be in terms of people and employing people, or a disruption like that, but if I look at those flows and get transparency on them, I realise that there will be have very little impact. That is the key thing that organisations need to recognise. They have to understand the extent of the supply chain. There is legislation coming through in Europe that further



emphasises that principle and looks at ESG risks—environment, social and governance risks—which are moving up the agenda.

Q6 Anthony Mangnall: I want to jump in on this. There has just been First Reading in the House of Lords of the Electronic Trade Documents Bill. With that presumably comes the simplification of the use of documentation and how things translate across borders. Obviously, there is also a huge amount of data. I guess I am slightly trying to angle and ask whether you feel optimistic that this Bill will do a world of good for our supply chains and simplify the whole process from SMEs upwards.

Professor Wilding: I am not sure about the specifics of the Bill and how that is going to have an impact. Basically, getting things electronic, so we can move information rapidly, has a massive benefit for everybody. There is one key thing we have to think through, though. Rather like Making Tax Digital, it is a great idea, but I know, having a small business, that the costs are being pushed on to me. All of a sudden, the cost of being able to operate in that way has increased. We are having to now invest in accounting software and this and that type of software. For very small businesses, maybe microbusinesses, that is going to cost them more, so we have to protect those small entrepreneurs who are just setting up and then moving forward.

All these things are great. If we can get things as frictionless as possible, that is great. We have to remember that, to be quite frank, Europe is probably years behind many other environments in terms of having those clear, frictionless borders. We have not had to do anything about them for such a long time. Having a digital way of managing things is very important.

I was talking to one supply chain professional recently and he says it is actually easier and better to move things between various African nations, which invested in the technology because they had to, whereas Europe had not invested in the technology. We have to recognise globally that these are challenges. We have to start automating all these processes.

Q7 Mick Whitley: I was thinking about these international supply chains. Recently, we have had the Covid epidemic worldwide, which obviously had a major impact. China still has zero tolerance on Covid, which must have an effect on the supply chain and parts coming through. I was going to ask you about transportation costs and containerisation. It has exploded. It has gone up. At the end of the day, the SMEs are going to be paying for that. We have a cost of living crisis on our hands. Do you not think that some of these supply chains are too long?

Professor Wilding: Yes, we could say that these supply chains are too long, but we have to recognise that it does not matter. At the end of the day, the supply chain is there to serve customers. Over the years, the reason why we have, say, invested in the Far East and why, for example, China has some of the most advanced manufacturing facilities in the



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world is that, effectively, in UK and Europe we have been investing in that location because we are seeing, “Hey, we have an awful lot of customers out there, potentially.” They have the latest, most advanced manufacturing plants. The key concept that people are having to talk about is what we call cost to serve. How much does it cost me to serve a customer with a particular product? In 2019, the old normal, it was far more cost-effective to produce that in China and ship it across to the customers in Europe. That was the nature of the cost to serve. The cost to serve has changed.

The problem is that because we have not invested in our industrial infrastructure in that way locally, we do not have the most advanced manufacturing facilities, for example, and everything else. That is presenting real challenges. If we want to nearshore or onshore capability, at the moment we do not have the efficient and effective facilities to do that.

If we are looking at China, going back to my comment about the VUCA world we are in—volatile, uncertain, complex and ambiguous—one of the biggest challenges is these rolling lockdowns. If I am planning for what is going on in the supply chain and all of a sudden I have another region of China that has gone into lockdown, where I have manufacturing facilities and everything else, that ultimately will disrupt customers.

When it comes to containerisation and why the prices have gone through the roof, it is basically because all the containers are in the wrong place in the world at the moment. There are enough containers out there. They are just in the wrong place. The analogy I use often is that it is a bit like a supermarket. You want all the trolleys near the entrance to the supermarket. At the moment, they are all in the back end of the car park and somehow we have to move them back to the entrance of the supermarket. Effectively, all these containers have come out from the Far East. They are then getting held up because we have port congestion and everything else that is going on, so they are not getting back to where they are needed, so of course the prices have gone up.

The other thing was air freight. Somebody will say, “We will move over to air freight”, but then, a few years ago, all of a sudden, they said, “We are not going to fly anywhere. Nobody can fly anywhere.” We have to remember that, if we are looking at air freight, it is people upstairs and freight downstairs in most commercial aircrafts. That is the business model. That was not working, so we saw air freight prices going up. We have to remember that many fresh foods—berries and things like that—are being flown around the world.

All these things have disrupted the situation. Yes, there is a drive from a resilience perspective, because we have to think about procuring for resilience, rather than for cost. The problem is that that means it is going to cost us more to have a resilient supply chain, which means we can supply our customers. Of course, if it costs more, it increases inflation.



Q8 **Lloyd Russell-Moyle:** Professor Wilding and Mr Bain, what lessons have been learned over the last couple of years? You have touched on it with Brexit and Covid. Do those lessons help us going forward in the next few months, if not years, or, in fact, do we need to look back a bit longer to learn how to cope with this? Is there a problem, in that we have moved to a just-in-time kind of model, and actually we need to go back to understanding national security, resilience and the fact that products might be expensive when they are cheap on the global market, but cheap when they are expensive on the global market?

William Bain: That is a very interesting question. One key lesson that we have seen has been a slight move back from just in time to just in case. People are looking at additional options on top of China to get goods to the UK market in an easier way. I think later in the session we are going to explore friend-shoring and reshoring in a bit more depth.

Certainly one of the trends of the last couple of years, among particularly UK manufacturers, has been to source more raw materials, where possible, from the UK. Those are two important lessons.

The third one is to bear in mind the impact on SMEs. It is a lot easier for larger companies and corporates to build up inventory and take out warehousing space. That is not an option for many SMEs. The impact of the friction we have seen in supply chains over the last couple of years has borne down particularly hard on SMEs. Policymakers have to have that in mind.

There is no silver bullet here. We cannot just shift everything to just-in-case supply and tell everyone to build up enormous stocks of inventory, because that is not going to work for small businesses. We need differentiated solutions.

We also see strategic relationships with suppliers overseas being reached, particularly by some manufacturers. That is a bit of a lesson and a trend that we are seeing from the last couple of years. The wider trend, if we look at the three causes of all this, which are the move from the single market to the trade and co-operation agreement, the war in Ukraine and the supply chain disruption from the pandemic, is that trade barriers add costs and delays. Digitalisation can remove some of these, so we at the BCC support the Electronic Trade Documents Bill that is going through.

We also need progress on areas such as single trade windows. We need to improve the efficiency of our customs systems, to make sure goods are not stuck at ports for unnecessary and lengthy periods. That is something that I know the UK Government, but also the EU and the US, have an agenda on. Single trade windows, potentially, are one of the ways in which we can take some of the friction out of supply chains.

Q9 **Lloyd Russell-Moyle:** You could almost say we need some kind of common market where we can have frictionless trade between friendly groups of countries that share a common aim and know that there is a



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common threat in the world, but I would not want to put words in your mouth.

Professor Wilding: There are a couple of absolute key lessons. First, all companies are talking about the relational side. William has already picked up on this. Collaboration is absolutely critical—managing relationships. I use the definition of supply chain management. It is about the management of relationships with all your key stakeholders to be able to increase value for your final customer and reduce costs for the supply chain as a whole.

The problem is that many companies do not manage relationships. If you are going to manage relationships, you need to put resource into that. You actually have to have key metrics and so on. The companies that have weathered the storms very well have been very good at managing those relationships. That is one of the key lessons that we need to learn to move forward: how we can help people facilitate the management of relationships and build relationships across the extended supply chain.

Q10 **Lloyd Russell-Moyle:** Do the Government not do that very well?

Professor Wilding: The interpretation of the way they go about that is how you support people in being able to build those relationships, so they are not just buying from a black box, which is the situation for many businesses. They see somebody and just get that stuff. The issue is understanding the nature of that supply area.

That links to the next thing, which is transparency and understanding the extent of your supply chain. In the last couple of years, we have seen new tools become available, basically using industry 4.0 or supply chain 4.0 principles. We are able to use big data analytics—use readily available information to understand the extent of the supply chain. With free data, you can start to see where the first-tier suppliers are, where the second-tier suppliers are and so on. That is one thing that many businesses are starting to do.

The challenge is how we can make that accessible to SMEs. Some will use it. There are various things that you can subscribe to, particularly relating to big shipping companies. You know what is going on in real time, so you have transparency. You know the flows, and you know when disruption occurs—maybe Felixstowe goes on strike, though I hope that does not happen again. You have notice of things like that and understand the consequences. People might then switch to Southampton, and you find that all the haulage migrates to that area, so when the port reopens, you end up with a shortage again. You get a knock-on effect between these areas. Understanding that becomes really important.

My key lesson is to manage those relationships. That has been absolutely key to coping with the volatility that we have been dealing with. Make sure you get transparency of your supply chain. Also, wherever possible, get continuous monitoring and intelligence on what is happening. That



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becomes really quite important for us, as the supply chains move forward.

Q11 Chair: Last night in the House of Commons there was an event marking National Lorry Week. Those at the Road Haulage Association were saying that the UK is short of 60,000 drivers. One other big takeaway was that European drivers do not particularly want to come to the UK because facilities for lorry drivers are so bad. Stops are infrequent. They are not good. They are not serviced. They do not have the showers, et cetera. Are you picking that up as much of an issue within the supply chains? The likes of Poland are far more advanced in catering for lorry drivers than the UK.

Professor Wilding: It is an absolutely massive issue that needs to be addressed. We are investing in infrastructure, but if we look at the whole challenge that we have for lorry drivers, it is incredible. The Chartered Institute of Logistics and Transport were for many years pushing to improve that.

If I talk to Polish lorry drivers and Polish freight companies, they say that nobody wants to come here because the conditions are really bad: "I do not want to sleep in my lorry, even in a safe location." We have to remember that if lorries are parked up in lay-bys randomly around, there is a very high chance in certain areas of the country that they will be robbed. That goes on. There are certain lorry routes where you are told not to stop because there are no locations to stop. This is the situation on the ground.

Q12 Chair: In the UK, there are lawless, no-go areas for lorries?

Professor Wilding: There are areas where you are told it is unsafe to park the lorry unless it is in an official area, because you are likely to have your lorry broken into. We have to think of the value of the things. If you are talking to the insurance companies, they will factor that in. There are certain areas where we need that.

A key thing is gender diversity in the profession. At the end of the day, we have to make it so that everybody feels comfortable driving these things, with decent toilet stops, and decent, safe, secure places to park up heavy goods vehicles, so they can actually move around.

The continent, if we are looking at mainland Europe, is far better than what we have in the United Kingdom. I was doing a discussion on BBC London around this and there was a Polish lorry driver talking. He asks, "Why do I want to come to the UK when I have to urinate in a bottle every night as I am driving around the country?" That is the situation that we need to start dealing with. In my area, where I am talking to you from, near Rugby, they are starting to improve things. Part of the challenge is whose job it is to do it. Is it the local authority or is this central Government? Things fall between the cracks and people do not invest in this.



Chair: That is what they were saying last night.

Q13 **Martin Vickers:** I have the port of Immingham in my constituency, so I am very well aware of the issues to do with the haulage industry, the constant demands for improved conditions for drivers and so on. You have just made the point about central Government and local authorities. If there is such a demand for it, why do you think the private sector has not seen the commercial opportunities of providing the facilities?

Professor Wilding: Once again, it is going to be cost. Are people willing to pay for those sorts of facilities? This is what we need to bottom out. I have not really reflected on that. I guess I could hire out my drive or something. An HGV would not fit on it. At the end of the day, we have to think, "It is going to cost money. We have to invest in this". I would argue that, rather than investing in a bit of new road here or there, we might be better off investing in facilities where drivers can stay. It might take them slightly longer, because the road is not there, but at least they have a decent place to stop. It is about prioritisation.

Chair: One thing we were told last night was that planning gets in the way when private people want to do that. Kent County Council might want it, but some district councils do not want it and the planning is then thwarted. Regardless of wants by national Government in England, or by the county governments, the very local government structure can stop it. Regardless of who wants to put money behind it, if you cannot get planning, you cannot get the thing done.

Q14 **Anthony Mangnall:** Looking at the things impacting supply chains, you have the pandemic, natural disasters, insurance issues, accidents, infrastructure problems and geopolitical problems. We touched earlier, Professor Wilding, on China. Can we quickly pay a little bit of attention to that? It has a very ambitious objective, through the one belt, one road policy, but also through its suggestion that it would like to join CPTPP and its control of RCEP. There are significant things that it is in control of. How does the UK get into a position in which it is insulated from China's internal and external policies around trade? What more can we do to make sure we have long-term improved supply chains that are not likely to be impacted by China doing naughty things, such as looking far too closely at Taiwan?

Professor Wilding: The challenge is that you can argue that China is the manufacturing hub of the world. A lot of our raw materials or components are coming that location. We can look at some of the big companies that have started doing this. If you look at Apple, for example, it is starting to invest in India as well. It is starting to say, "We need to remove some of our total reliance on that nation."

This is part of a trend that we are starting to see. Companies are saying, "Can I onshore?"—that is an option—"Can I nearshore, or can I multi-shore?" It is quite important because, in procurement terms, we used to often talk about multi-sourcing, but there is no point having five suppliers



that are all in northern Italy and then the place gets locked down. We are having to say, “We need to multi-shore”. That is helping us manage the risk profile of the supply chain we are dealing with.

If we reflect on how we can improve the risk profile of the UK’s global supply chains, I do not think we are ever going to get away from some dependency on some components coming from China, not in the foreseeable future. We need to start investing in and looking at other shores, as it were, so we can start getting that network in place. That means building these relationships. If we are going to say, “We are going to look at India, China, South America and eastern Europe”, we have to start investing in different areas, looking around and building the relationships with suppliers in those locations, and supporting those suppliers.

Q15 Anthony Mangnall: I totally understand all that, and presumably that is why the Government’s objectives are so drawn towards new free trade agreements, and why we are going at the rate we are. How much faith do you have that CPTPP is the opportunity for us to diversify, or at least dilute our focus on China by interacting with other countries in the Asia-Pacific region?

Professor Wilding: To be quite honest, anything that will aid supply chains, so we can build relationships more effectively with other nations, is going to be beneficial. I do not think it will be a magic bullet to fix all the problems that we have, but it is a step in the right direction.

James Kane: There are a couple of points I would like to add on CPTPP. I generally agree with Professor Wilding that it is not going to be a magic bullet for several reasons. First, as you said yourself, Mr Mangnall, China may join the CPTPP, in which case it would frustrate the objective of separating slightly from China.

Secondly, even if China does not join, the mechanism of action, so to speak, of constructing alternative supply chains through CPTPP is probably going to be rules of origin. It is the creation of integrated regional value chains through simplified rules of origin that allow you to produce one part of a good in Vietnam, send it on to Malaysia, then send it on to Japan and end it up in the UK, so as to replace China’s very deep and integrated internal supply chains.

That is all well and good, but the big problem with that with the CPTPP is that, in many cases, CPTPP’s value content thresholds are quite low. In order to qualify for those preferential tariffs, you sometimes might only have to produce as little as 30% of the value of a good inside the CPTPP area. That means that, as far as we can see so far—and the data is quite limited, because CPTPP is not that old and much of the time was in the pandemic—China is still playing a major part in CPTPP supply chains.

That draws you back to the point that it is not going to solve all the problems. Indeed, at the end of the day, whether the UK joins it does not



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necessarily affect that development of regional supply chains in east Asia, which is what you are probably looking for if you are hoping to reduce exposure to China.

Q16 **Chair:** Also, it is a fact that CPTPP is going to involve paperwork and transactions, and will be no better than a Brexited UK in trade exchanges. Am I right there?

James Kane: That is quite correct. At the end of the supply chain, when the good hits the UK border, you still have to deal with the problems that the UK border creates, in terms of paperwork. That is a domestic problem for the UK Government. It is not something that you particularly talk about in trade agreements. There are agreements on trade facilitation, but improving the efficiency of the border is principally a domestic policy issue.

Chair: That was a nice, efficient answer.

Q17 **Mick Whitley:** Mr Bain and Mr Kane, to what extent have the UK's international supply chains adjusted to disruption caused by the Russian invasion of Ukraine?

William Bain: It has been a difficult process. Particularly in manufacturing, in the automotive sector, there has been considerable reliance on Russia for metals and other raw materials going into particular car parts. We are looking at commodities such as aluminium, nickel, palladium and vanadium that have been affected. Before the war, Russia produced 45% of global palladium stocks—that was a fifth of global exports—15% of global nickel exports and 15% of global potash exports, which goes into fertiliser.

That has caused, particularly in those sectors that are unable to source quickly from elsewhere, significant disruption. We are also looking at disruption in areas such as cement. Construction and other sectors have reported problems with being able to replace Russian-sourced cement. Paper as well has been an issue with shortages. Timbers and other woods from Russia, but also from Belarus, have been affected.

All this has led to a very difficult position, where people have had to try to re-source and diversify their suppliers at a very quick pace, with no sense that the crisis is going to end any time soon. There has been significant disruption caused. This is where the UK may want to look at the way that it calibrates its trade policy, the trade agreements that it might want to make in the future, and perhaps improving our access to other markets, such as South Africa and South America, that may be sources of supply for the kinds of raw materials that we have mentioned.

James Kane: Mr Bain has given a fairly comprehensive overview. The only point I would mention is that of course the big change in supply since the Russian invasion of Ukraine has been the reduced availability of Russian energy on European markets, which has produced massive price increases felt throughout the supply chain.



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Even if you think about a courgette for instance, I saw an article a couple of days ago pointing out that there are going to be problems with the supply of courgettes this autumn. Often, you get supply from Dutch or Belgian greenhouses, which are powered by Russian gas, so that issue of energy is feeding through the supply chain.

The only other point that Mr Bain did not mention is around oils and fats in the food sector—the other type of oil, but it, too, has been quite seriously affected by the Russian invasion of Ukraine, given Ukraine’s important role in the supply of that. The prices of those commodities have started to fall back towards lower levels, but we are still looking at prices that are about 50% of where they were before the pandemic at any rate.

Q18 Mick Whitley: If the invasion is to continue into next year and beyond, what would the impact on the UK’s international supply chain be?

William Bain: It would be considerable. It depends on the ability to source those key raw materials and commodities in a reliable way that can be futureproofed, which cannot be done easily overnight. This is where DIT’s trade policies need to assist the industrial strategy of the UK and what businesses, small and large, are trying to do. There is considerable disruption and considerable effects on prices, which is of course the last thing that any of us want to see at the moment.

James Kane: I do not think I have anything to add to that. The disruption would obviously be considerable.

Q19 Anthony Mangnall: Mr Bain, this is in relation to Mr Whitley’s question as well. With Russia and China, the UK’s Government’s position is that they are looking at renewable energy, but are also looking at nuclear. How comfortable do we feel about our actual supply of components for nuclear power stations, given China’s position in buying up strategic assets across Latin America and Africa?

William Bain: We are working through our submission to BEIS in terms of the future energy mix, so we will be able to discuss that in more depth with you and with the other committees in due course, but you raise a very legitimate concern. The issue around our reliance upon China and supply chains is also an issue for trade policy. We look at what the United States has been doing recently, in terms of semi-conductors. Quite a considerable impact has been made on the global market there. There is also what the EU is doing in terms of its Chips Act.

In areas like that and areas like carbon border adjustment mechanisms, it is possible, through your trade policy, to influence the amount of Chinese imports that you are having into systemically important sectors, such as steel and semi-conductors. It is important to look at the interplay between these trade policy instruments that are at your disposal and the mix of imports that we have coming into the UK.

Q20 Mark Garnier: Mr Bain, can we dig deep into Brexit now and the effect



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Brexit has had on the UK supply chain? If we change the trading relationship with 47% of our total trade, what effect does that have?

William Bain: It is considerable. If we look at some of the ONS surveys over the last 18 months, one in 20 UK businesses have reported they have made changes to supply chains after the end of the EU transition period. The main reasons for that are clear. It is customs declaration, regulatory duplication in areas such as REACH for chemicals, and the impact of import VAT. These have been some of the key factors around imports.

As well as that, there have been some issues around the Dover-Calais crossings. Four in 10 companies reporting to the manufacturing industry said that disruption was causing catastrophic or major disruption to businesses. There has been a degree to which suppliers in the EU have found it too difficult to continue exporting to the UK and have therefore ceased. There has been a degree to which manufacturers and other importers in the UK have decided that the importing process is too complex and they want to look at suppliers within the UK. With increased transportation costs and increased friction, it has caused significant changes around the composition of our imports.

Q21 **Mark Garnier:** Would you be able to put a number on that as a percentage of total trade? This is more of an economics question, but somebody was suggesting that, as a result of Brexit, our GDP has dropped by 4%. Coincidentally, had we kept that 4% of activity in the economy, that would plug the gap in our fiscal deficit at the moment of around £40 billion, which, as you know, is hot on the front pages of just about every newspaper at the moment, with what is going on here in Parliament.

William Bain: If we look at some of the various doppelganger models that can be looked at in this respect, the Centre for European Reform's research indicates that between 12% and 15% of goods trade has been lost as a result of the TCA. The experience that I can give you, in terms of small businesses, is that it has had significant dampening effects on their desire to get involved in importing goods from the EU and their capacity to do so.

As the Committee will be entirely aware, small businesses are very time-conscious. Time is money. In terms of the additional paperwork, for some it has simply not been worth the time of trying to source goods from the EU, given the additional customs declarations and VAT implications that have come as a result of the introduction of the TCA.

Q22 **Mark Garnier:** Is this more of an import problem than an export to the EU problem?

William Bain: It has been both. If we look at the import controls, there have been fewer import controls because, effectively, for SPS goods and agri-food, there has been an open border, as it were. The experiences that exporters have faced have been much more profound and difficult.



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Trade is always a two-way process and the desire of EU suppliers to send goods to the UK has been markedly reduced because of the increased red tape as a result of moving from the transition period to the TCA.

Q23 Mark Garnier: Is there any hope for the future? Do you think it is going to improve? Are people going to get used to it and get better at it, or is technology going to change things? A future Government may want to take us back into the EU. Who knows?

William Bain: There are some hopes in terms of the impact of initiatives we discussed earlier, like single trade windows. The EU and the UK are both doing this at the same time, so that should cut some of the requirements for paperwork. A lot of it will be more digitalised. It should cut some of the delay times, but there are some risks coming down the tracks.

We know that the ETIAS scheme is going to be introduced in 2023 for UK nationals entering the EU—the requirement for photographic evidence of arrival at the EU border being taken. If it is introduced in a bad way, that could lead to increased delays. That is the most significant short-term risk. Of course, there is going to be a UK-inbound version of that. Ensuring that HMRC, Border Force and other authorities do that in the least intrusive ways possible is going to be very important to avoid further disruption in the short term.

In the longer term, there are relatively achievable fixes, if the political will is there, that can be done around VAT and SPS. We have called for them in our report *The Trade and Co-operation Agreement: One Year On*. These are the areas that we would urge policymakers to invest time and effort in. If we can build more trust into the UK-EU relationship, we can make these improvements and ensure that SMEs have less of a burden. Then we can begin to restore more of that trade that has been lost.

Q24 Mark Garnier: Can you give a quick yes/no answer? Can the fudges be as good as being a member of the single market?

William Bain: Self-evidently, there is a major difference between any trade agreement, even with some fixes, and the degree of integration in the single market. Clearly, there would still be reduced economic benefit, even from a fixed TCA, in comparison with the single market, but that is an issue for policymakers.

Q25 Mark Garnier: That was a fantastic politician's answer when the answer apparently seems to be no. Professor Wilding, I have a very quick question. We were talking a little bit earlier about the conditions of lorry drivers. Has the free movement of people into and out of the UK from the European single market contributed to the loss of lorry drivers here?

Professor Wilding: I would say probably not. The pandemic has probably had a much bigger impact on what has been going on. A lot of people just went home and found other work, which was easier.



Q26 **Mark Garnier:** We cannot blame Brexit for that.

Professor Wilding: I do not think it helped, but it is more from the perspective that people were seeing that they were not welcome. At the same time, people just went home. If you look at Poland, it has massive shortages of drivers. France has similar challenges, Spain as well. This is global. Look at the US as well. We have to recognise that it is not just the United Kingdom. This is a global phenomenon.

Mark Garnier: Automation: the driver of the future.

Q27 **Chair:** Willie Bain, the Secretary of State for—loftily titled—Brexit Opportunities, Jacob Rees-Mogg, described import controls as an act of self-harm to trade and to the UK economy. Do you think export controls could be described as an outsourced harm by the UK as a result of Brexit?

William Bain: There has certainly been an asymmetry. Some exporters, even among the SME exporting community, are beginning to notice that asymmetry. The sense is that having the kinds of changes in a more integrated border strategy, which HMRC has pledged to bring in from the end of 2023, would be welcome. That would apply to goods from the rest of the world as well.

We have been very clear. In terms of supporting our SME agri-food exporters, we want to see an SPS agreement. That would, at a stroke, remove the requirement for things like export health certificates. It would ease the situation in respect of goods moving from Great Britain to Northern Ireland. We hope that that would be achievable, if political will is there, even before the first review of the TCA in 2026, but certainly no later than that. That would be a much needed improvement for SME traders.

Chair: As you know, I will be hoping for major constitutional change in the way particularly Scotland relates to Europe before 2026, but we should maybe avoid that interesting avenue at the moment.

Q28 **Mike Wood:** Professor Wilding referred to reshoring. Do we have any assessment as to how much reshoring is taking place now in UK supply chains? What change in that do we expect to see in the medium term? What are the impacts, particularly on British producers and consumers?

Professor Wilding: There is evidence that people are trying to move things on shore. Part of this is being also facilitated by supply chain 4.0, which is the application of industry 4.0 technologies, automation and so forth. Giving one example, a large sports goods manufacturer had a supply chain that was employing about 120,000 people in Asia. They have built a new highly advanced manufacturing facility and that employs about 2,000 people now.

One big implication of this big shift in terms of technology is that all of a sudden you are able to onshore things and keep your costs at a



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reasonable level. Part of the challenge, though, is that the cost of those facilities is very high in terms of the wage costs, because the skill level of the people running them is much higher. Going back to that situation that I just described, all of a sudden you have—120,000 people to 2,000 people—118,000 people who are no longer employed in that specific supply chain. There are some big social implications for reshoring and onshoring as we move forward. Yes, it might benefit our nation, but the numbers of people employed in that transition will be less so.

There is one important point that is worth mentioning. We have been talking about commercial supply chains. If we look at public procurement, you are basically constrained and you cannot say, "Geographically, we want to buy from this location", if that makes sense. You cannot have "let us all buy British". You might say, "We want it in a short lead time". I can fly stuff halfway round the world in 12 hours.

We have to think through as well some of the public procurement regulations that are in place if we are going to be able to address that issue, particularly from that context. You cannot say, "We want you to buy British and onshore everything", because you cannot actually do that. You cannot actually say that. There are some nuances and things that need to be managed out for us to be able to say, "Yes, we want to do far more onshoring if that makes sense".

Q29 Mike Wood: Mr Bain, do you have any sense of the scale of reshoring at the moment?

William Bain: Yes. Around 60% to 70% of UK firms are using more UK suppliers and have moved to diversify their supply chains. We are seeing this particularly in areas like transport and storage businesses. They have increasingly moved to diversify in the last couple of years.

For larger businesses, it has been a smart tactic in order to try to minimise the disruption from Brexit and the pandemic in order to build up inventory and to get it from suppliers either within the UK or geographically very nearby. That has proven to be a way to cut the risks of consumers running short of items over the period of the pandemic and that rolling area of extensions to the Brexit departure date. We are seeing significant numbers of companies looking at nearshoring and friend-shoring.

Q30 Martin Vickers: Can we continue where you left off there, Mr Bain? We have been talking a lot about reshoring, but you just mentioned friend-shoring, and could we add nearshoring to that? What sort of evidence is there that businesses are in fact looking at their supply chains and near and friend-shoring as well as onshoring?

William Bain: In terms of manufacturing, three-quarters of companies have increased the number of their British suppliers within the last two years. In manufacturing, that trend we just identified is particularly pronounced, and even above the average of 60% to 70%. Almost half of



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companies in the manufacturing sector are saying they intend to further boost their UK supply base within the next two years.

We can see the trend, as companies recognise the experience they went through in terms of perhaps trying to get goods from the Far East, the shipping costs going up sevenfold or eightfold, the times of transit going up almost by a factor of four. They are looking to minimise any further exposure to that.

Here is one of the consequences—not good consequences, but consequences nevertheless—of what is likely to be a tough year for global trade next year. Two weeks ago the WTO downgraded its forecast for global trade growth to just 1% for next year. That will allow some of the supply lanes to clear, which will make it easier for goods to get from the Far East to northern Europe and the western seaboard of the US. Notwithstanding that, companies, particularly manufacturers, have made their choice and are looking much more to diversify their supply, looking at onshoring or looking at friend-shoring as well.

Of course, the issue is that if you do friend-shore too much then you end up potentially seeing lack of choice for consumers. There could be an impact, longer term, in prices. Our sense from BCC is that friend-shoring can be part of the mix, but there is a multi-solution answer here to supply chain issues. Simply changing our basket from China to one other country might have impacts on prices for consumers in the long term, so we need a multifaceted approach.

Chair: That was the earlier point of the cost to serve, where the only place that may be able to serve, regardless of cost, is China, given the manufacturing investment that has been done and the resources that are there.

Q31 **Mick Whitley:** What can the Government do to alleviate friction in the UK's international supply chain?

James Kane: I have two preliminary points and then three suggestions. The first preliminary point is that there is not a single answer, and you can see that from the range of issues that are causing supply chain disruption. There are different answers if supply chain disruption is caused by problems at the border, freak weather conditions, disease outbreaks or geopolitical conditions.

The second point is that it is often a matter for businesses themselves to reduce friction in their supply chains and to plan in advance. Supply chain risk is a business risk, like many other risks, and the Government can support businesses, but to a great extent it is their own issue.

There are probably three big things that the Government could do. The first one is to minimise existing barriers to trade and to avoid creating new ones. The Government has already produced some useful initiatives. For instance, the new UK global tariff has targeted tariff reductions on inputs like screws and bolts, where the tariff has been reduced to zero.



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That is useful for reducing friction in supply chains and costs further down the production line.

There is more that can be done there, although you would always have to consider whether reducing a particular barrier is actually going to cause problems down the line. For instance, there have been suggestions from people like the British Veterinary Association that keeping import checks on animals and animal products low might compromise the UK's future animal health record, and therefore food production. Where those barriers are necessary, they can be simplified and digitised. Again, the Government have already been producing some useful initiatives there. You have the Border Strategy 2025. There are proposals that we have already discussed around a single trade window. HMRC has been doing some exploratory work around increasing the use of blockchain for some time. There is more that can be done around that.

A lot of the supply chain disruption of the empty shelves and so on, particularly in 2021, was caused by labour issues. Although the Government have made a decision against free movement, even if you have a more controlled immigration system there are things you can do to make that simpler—digitising processes such as sponsorship applications for visas and so on.

The third thing that the Government can do to reduce friction is to build resilience in companies. As I said, that is principally a matter for those companies, but there are things the Government can do, particularly with smaller businesses. The number of businesses that import in the UK is quite large. It is about a quarter of a million, and the overwhelming majority of those are small businesses.

There are twice as many importing businesses that are sole traders—no employees at all—as have more than 250 employees. Those businesses might often need support to make plans for the resilience of their supply chains. There are some useful things that have been done in Australia that the Government might like to consider.

There is a national Office of Supply Chain Resilience as part of the Australian equivalent of the Department for Business, which has a framework for considering supply chain issues in terms of vulnerability, criticality and so on, and then an established toolkit of approaches it can take to resolving those issues. The Government have already begun co-operating with Australia and the Office of Supply Chain Resilience there, but there might well be things that the Government could learn from the Australian approach.

William Bain: That was an excellent list from James. The one addition I would make to it is in perhaps using the next tranche of trade deals that the UK might want to make with other countries to look strongly at issues of supply chain resilience among the factors in those we would select.



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For example, the agreement we have with South Africa—the SACUM-UK agreement—could be strengthened to give us access to more raw materials from there on better terms. We could also look to strengthen some of the agreements with South America, principally with Chile, in order to improve the terms on which we can access raw materials from that country.

Q32 Mick Whitley: Is there any significant risk that any such Government policies raise costs for the consumer?

James Kane: Yes. Introducing added capacity to a system, with buffers, is always going to create new costs. If it did not, then it is arguable that the companies would have done it already. It is like buying insurance. It is always cheaper not to buy insurance, but then you are exposed to the risk if it materialises. There is always going to be increased cost for making the system more resilient, and that will probably end up being paid by consumers at the end of the day.

William Bain: For us the key consideration would be not to put all our eggs in the friend-shoring basket. There is need for friend-shoring and nearshoring in some commodities and goods, but in other commodities it needs diversification and looking to a broader basket of countries to get the raw materials we need for things like our automotive sector and other manufacturing sectors. One person's friend-shoring can be another person's protectionism, and lead to higher tariffs and higher costs for consumers.

Chair: That was a very good point there at the end, Mr Bain.

Q33 Mark Garnier: Professor Wilding, are you entirely comfortable that you know what the Government's trade strategy is?

Professor Wilding: I will be quite honest: no, I am not entirely comfortable about it, which reflects a little bit on the trade strategy, because if I am not clear on what it is I am sure lots of other people will not be clear on precisely what it is.

Mark Garnier: We are trying to get to the bottom of it ourselves. We will crack on with it.

Chair: Answers on a postcard.

Q34 Mark Garnier: Do you think the trade strategy—such as it is or such as it should be—can play a role in strengthening the UK's resilience to international supply chains, or is this an irrelevant thing for the strategy?

Professor Wilding: When you actually look at what supply chain resilience is all about—and I apologise for a bit of an academic definition—it is the adaptive capability of a supply chain to prepare for unexpected events, respond to disruptions and recover from them by maintaining continuity of operations. There are three things there: prepare, respond and recover.



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If we are looking at any particular trade strategy in supporting resilience, it needs to help those SMEs and those larger organisations prepare for things that could happen in the future, perhaps providing frameworks or approaches that are good preparation so that we are ready for whatever comes at us, be it a volcano, a tsunami or another geopolitical challenge, but then having clarity of how to respond as well.

If this happens, how do we respond? Many of the organisations that have done particularly well have run scenario plans. They have a playbook that was there, and it might have been developed around consequences other than the pandemic, but then they were able to roll that out. The pandemic just meant people could not get to work. Well, a snow day can stop people getting to work. Some companies actually planned for that and then rolled those plans into their pandemic, and they were able to respond very quickly to what was going on.

The recovery side of things becomes quite important. "Okay, when we have a disruption, what are the things that need to be in place for recovery?" That is one of the key things that we need to look at and understand. Many people up until two years ago had no idea about supply chains, or about supply chain risk management and resilience, and it is something that is a massive risk to the business. I have therefore been encouraging people to get up to speed on supply chain resilience.

Q35 Mark Garnier: You would certainly recommend that this Committee holds the Government's feet to the fire on this in terms of making sure that the trade strategy—such as it is at the moment—has resilience built in it.

Professor Wilding: Yes, I totally agree. It needs to be a theme embedded within that trade strategy, thinking about prepare, respond, recover.

Q36 Mark Garnier: James Kane, to what extent can food security be integrated into the Government strategy? This is obviously quite a contentious thing, because it throws up the endless debate of making sure our producers are safe and have a market they can sell into, but at the same time potentially denying the opportunity for consumers to have greater choice of price where they can get cheaper stuff from overseas. It is one of these quite difficult conundrums: corn laws on one side and consumer choice on the other. How do you think the Government should adapt their trade strategy to take that into account?

James Kane: Would that it were that simple, with just a straightforward option between producers on the one hand and consumers on the other. We need to be very careful of what we understand by food security. When we start talking about food security we tend to come across this figure of the UK's self-sufficiency ratio, which is usually quoted at around 55%. If we are a little more sophisticated we will start saying that the UK's self-sufficiency ratio in native-type foodstuffs is close to 70%,



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maybe even a little higher. In fact, both of these figures are highly deceptive, for two principal reasons.

The first reason is that they do not take account of exports. If you divide the amount of food produced by the UK by the amount of food consumed in the UK you get about 55%. That does not actually mean that 55% of what we eat is domestically produced, because there is something going out and something coming in. If you get widespread supply chain disruption then you will see problems in adapting to that, even if ultimately the balance works out.

The second reason—and the bigger reason, really—is that the food does not grow out of thin air, not even if it is in a hydroponic garden. Since a couple of months ago the UK does not produce any of its own fertiliser anymore, and it imports about 50% of its feed for animals. Even if you have a product that appears to be produced in the UK, in many cases it has been produced using imported inputs. That raises questions as to how secure the food actually is.

Take a chicken, for instance. Brazil is the lowest-cost producer of chickens in the world. If you ask a chicken farmer in the UK what they are really afraid of, it will probably be a trade deal with Mercosur that will allow Brazilian chicken into the UK. Would that reduce the UK's food security? It is hard to say, because almost all UK chickens are fed on Brazilian soya anyhow. Whether the chicken is fed on Brazilian soya in the UK or on Brazilian soya in Brazil might make a difference to the security, but I am not wholly convinced as to the degree of that difference.

To offer an answer to the question of how food security fits into the UK's trade strategy, food security is fundamentally a domestic problem. Before we start arguing about whether that 55% figure should be higher or lower or stay about the same, I would like to see some action by the Government to think about our dependence on imported inputs, which we have already seen, of course, have an effect in terms of the role of Russian gas in driving up fertiliser costs. I would like to see that existing figure of 55% put on a more solid footing before we start arguing about whether any new trade deal will make it higher or lower.

Q37 Mark Garnier: It sounds like you are suggesting that if you were to take into account the inputs going into this food—phosphates from Morocco and all that kind of stuff—then it could be far less than 55%. If you were to take all of those inputs out then you might find our ability to produce our own food drops dramatically from where it is now.

James Kane: The UK's food system is highly globally integrated and is heavily dependent on imported inputs. If you were talking about a total removal of imported inputs then you would be talking about something equating to a total conversion of the UK to organic production, because we do not have any domestic sources of phosphate apart from the phosphate that is already in the phosphate cycle. We do not have any



domestic producers of nitrate fertiliser, and we have increasingly limited supplies of the gas that you would need to produce nitrate fertiliser. Yes, the UK's actual self-sufficiency—to the extent that that can be equated with food security—is probably rather lower than that 55% figure, not because of our exposure to imported final products, but because of our exposure to imported inputs.

Q38 **Mark Garnier:** Does it keep you awake at night?

James Kane: No, it does not, actually, because fundamentally the UK has been dependent on international supply chains of food for the last 200 years. Even during the two world wars there were not really significant challenges to supply in terms of calorie balance. We always had enough not to die of hunger, and I do not see that changing in the foreseeable future. The UK is a relatively rich country. It will probably be able to supply itself from international markets. That does not mean there will not be any disruption, but the kind of disruption that we have seen over the last few years has been to quality, availability and choice, not actual calorific content. No one is going to die of hunger because of problems like that with food security. If you are looking at hunger then you are probably looking more at domestic questions that were discussed in the national food strategy as well.

Mark Garnier: In summary, we are always going to be able to eat. We just may not have strawberries on Christmas Day.

James Kane: That is it. In terms of trade strategy, the days of the international supply agreements where we committed to purchase 50,000 tonnes of butter from New Zealand at a fixed price, and it was all organised between Governments, have been gone for decades. The New Zealanders during the Second World War and afterwards were prepared to restrict their own consumption to supply us. Those days of Government-to-Government transactions backed by coercion of domestic populations are not going to come back.

To the extent that trade agreements do contribute to food security, it is probably more about lowering existing barriers and facilitating diversification of the sources of supply so that we are not so dependent on any given source of supply, whether that is international or domestic. Of course, an excessive exposure to domestic supply is in itself a risk to security. Suppose we have some sort of freak weather event or an outbreak of animal disease. In that case, you will need to increase your import dependence to preserve supply, and free trade agreements can contribute to that by building existing international supply chains.

Professor Wilding: To pick up on this point, if you think about nitrogen-based fertilisers the by-product of that is carbon dioxide. We are now no longer producing carbon dioxide in the quantities required in this country. That will also have a significant impact on our food supply chains.



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Mark Garnier: That is very interesting. Thank you both very much.

Q39 **Chair:** James Kane, to go back to you very briefly before we end, you mentioned that if there is a total collapse of external inputs the UK would be on organic production. We know the organic production is an awful lot less, but can you put a figure on that as to just how little would be produced rather than is currently produced? You have had a lot of data and figures; I am just trying to see if we can get another bit.

James Kane: I do not have one to hand, I am afraid. I will look at my notes and see if I have one to provide the Committee later, if I may.

Q40 **Chair:** It is safe to say it would probably be less than a half, about a third, maybe even a quarter.

James Kane: If you took away all imported fertiliser and feed from UK food production it would be a very substantial reduction.

Chair: Thank you very much to all the witnesses this morning for their time and for a fascinating discussion about the UK's international supply chains, what is affecting them, what is giving pushes and pulls, and some of the anchors. We have talked of cost to serve from China, which is an advantage, but of course there are a lot of anchored materials and productions there. Even when costs go up they will leave no options, because people have oriented in that direction for a while.

You have raised an awful lot. There is a lot to chew over for us, and we are very grateful. Thank you, all three. It is particularly great to see William Bain again, ex of this parish, of course. It is nice to see the other witnesses, so thank you both for coming along. I wish you all very well. Thank you and good morning.