

International Trade Committee

Oral evidence: UK trade negotiations, HC 127

Wednesday 1 December 2021

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Members present: Mark Garnier (Chair); Sir Mark Hendrick; Anthony Mangnall; Mark Menzies; Martin Vickers; Mick Whitley.

In the absence of the Chair, Mark Garnier was called to the Chair.

Questions 288 - 349

Witnesses

I: Andrew Goodacre, Chief Executive, British Independent Retailers Association (BIRA); Gavin Simmonds, Policy Director, Commercial, UK Chamber of Shipping; Michelle Wiese Bockmann, Markets Editor, Lloyd's List; and Tim Morris, Chief Executive, UK Major Ports Group.

Examination of witness

Andrew Goodacre; Gavin Simmonds; Michelle Wiese Bockmann and Tim Morris.

Q288 Chair: Good morning to our panel. Thank you very much for coming to this session today on UK trade negotiations. Before we get into the real substance, can I pass on apologies from the normal Chairman of this Committee? Frequent followers and fans of this Committee will know that I am not Angus MacNeil. Unfortunately, we have had the wrong type of mist on Barra, so he is not able to get his aeroplane out of the beach up there. One aspect this does throw up is that, although he was willing to be here and we have the technology to be able to bring him here, unfortunately we do not have the Standing Orders to allow the Chairman to chair this Committee from another part of the country.

Today we are continuing with our sessions on the UK trade negotiations inquiry and in particular we are looking at supply chain pressures around shipping containers. We have a fantastic panel. Perhaps if I can go through, if you can do sort of name, rank and serial number. Gavin, we will start with you.

Gavin Simmonds: Good morning, Chairman. My name is Gavin Simmonds and I am a director of policy at the UK Chamber of Shipping.

Tim Morris: Tim Morris, chief executive, UK Major Ports Group, the trade association for large port operators in the UK, including the operators of the deep-sea container ports.

Andrew Goodacre: Andrew Goodacre, chief executive, British Independent Retailers Association. We have about 4,000 small, medium, mid-size retailers throughout the UK.

Michelle Wiese Bockmann: Michelle Wiese Bockmann. I am markets editor, Lloyd's List, and a shipping analyst.

Q289 Chair: Let us get cracking. Gavin, perhaps if I could start with you. Container shipping and the associated supply chain is often described as a just-in-time model. By way of introduction, just to set the scene for this panel, can you briefly outline how that model worked back in the old days, before the pandemic, when everything was working well, or at least I hope it was?

Gavin Simmonds: It is probably necessary to make clear that the Chamber of Shipping represents all the different shipping sectors. We are very fortunate in the UK to have a strong and varied industry. In amongst those we still have major container lines. Within our membership we have Maersk, CMA CGM and Evergreen—just three major lines out of a significantly larger global population. But we are very pleased that the business environment is the right one in the UK to retain those important international companies in the UK.



HOUSE OF COMMONS

What do they do? They perform the maritime leg of the logistics chain on a very global basis. They are permitted to do that under a competition block exemption which we inherited from the EU when we left at the beginning of the year. There are equivalent block exemptions in place in other jurisdictions, and indeed for other industries—like the car and rail industry and also research and development—so it is not unusual for there to be a block exemption.

The block exemption allows carriers to liaise over schedules and capacity—but, most importantly, not on pricing—so that they can co-operate in providing very large volume, regular and efficient services around the world. For example, if we were to consider Far East to north-east Europe trades, there would probably be around 180 vessels serving a complex web of routes. Between them they provide the necessary capacity for essentially what are designed to be daily sailings from all the major Asian ports, and linking those ports to north-east Europe with a call at the end to drop off cargo into the UK. These are European services which call at the UK. Those are the very biggest vessels which are carrying around 20,000 TEUs each time.

Q290 Chair: That is arranged and agreed amongst the shipping companies themselves? Although, just to be clear, they cannot have a cartel on price, but they do work out who is going to do what routes in order to make the whole thing work really slickly?

Gavin Simmonds: Yes, it is analogous to different bus operators operating on the same route. The policy intent is that they can provide a level of efficiency which reduces the cost, and a quality of service which meets demand. Obviously your Committee is interested at the moment because the supply and demand is seriously out of balance. The efficient services which we have been enjoying for 10 years do not look particularly efficient at the moment. We could go into the detail of that.

Q291 Chair: What we are trying to do is, if you like, get a benchmark of what right looks like so it gives us an idea of what wrong looks like in comparison. Carrying on from that question, my other question is, how do the ports work? If I am looking across to, say, the aviation industry, the thing that dominates the aviation industry is the capacity of the airports. If an airport runs out of capacity you cannot fly into Heathrow, for example. Is it similar with the ports? How does that work? Do you buy a slot?

Tim Morris: In normal times you would have the big shipping operators—the carriers—contracting with ports and booking a regular series of slots. As this great bus route moves around, it is weather dependent but you have a reasonable degree of visibility and predictability about when these enormous vessels are going to arrive. You can then set up your landside infrastructure appropriately; the people working the cranes; the trains pulled in to move the containers on and off, and so on. It is very much that kind of well-oiled machine based on predictability and the alignment of resources against that.



That is for what is called the deep-sea container trade, that Asia to north-west Europe route, where there will be one UK stop and then a stop in Rotterdam, Hamburg, Antwerp, Marseille, perhaps. In the UK the very largest vessels are typically calling in three places: Felixstowe, London Gateway, Southampton, with some capability to call at Liverpool as well. Now the reason why you can name those places is that, for the very largest vessels, clearly you need quite a substantial amount of resource, space, equipment and landside capability in order to handle the transfer of what could be 5,000, 8,000, 10,000 box movements per vessel.

That is how it works in normal time. And then you have this complementary container business, which is called short sea or feeder containers. Those are vessels that will run from, typically, European ports into a much wider variety of UK ports as well. What you see is that the containers on the short sea will either be directly from Germany to the UK, or Belgium to the UK, or they will be what is called tracked containers that are transhipped. They come on the large vessels from Asia and, for whatever reason, the UK destination ones are transhipped in maybe Rotterdam, put on smaller vessels and brought into a large variety of UK ports.

That is what normally happens, or was happening until probably about 18 months ago.

Q292 **Chair:** Just one final question on that. The trade flows tend to be goods from Asia to Europe and then services from Europe to Asia. I believe there is \$20 billion-worth of empty container shipping going back. Can somebody describe, just very quickly, how that works in terms of these empty containers being brought back to where they are needed?

Tim Morris: Chairman, as you correctly characterise, we import more than we export, and indeed, what we export tends to be higher value, lower volume. You bring in a lot of containers with T-shirts in; you send back one full of whisky. Just to put it in simple terms.

Chair: Sounds like a great container.

Tim Morris: It is—you keep an eye on that one. But there is this large logistical effort that happens inland and then at the port and then all the way back to Asia, about what is called repatriating the empties, as they are called. What we have in this country is an imbalance, and one of the contributing factors—I may be jumping ahead slightly here—is that when the merry-go-round or the bus route stops or is disrupted, then an imbalance will be created about where the empties are, where the full containers are, how they are reloaded, and so on. So whether it is full or empty, the whole system needs to be able to operate as a whole, to be able to operate efficiently. It is not just an unexpectedly large demand for what is in the boxes—that occurred to us in quarter three last year—it is also this disruption to the supply of empties. That is also the case elsewhere in Europe and, for example, in North America.



Sir Mark Hendrick: Michelle, did you want to come in on that point before I ask my question?

Michelle Wiese Bockmann: I have some figures on the imbalance between the import and export, which shows that for every container exported, there are three containers imported, so that is quite a significant imbalance. Also in terms of throughput, you have figures for the first half of 2021, and they are at 60% of levels from the full year of 2020. You are seeing, as well as problems with a significant imbalance, a lot of pent up demand, year-on-year growth, that is on top of what you are dealing with at the moment.

Q293 **Mick Whitley:** As Gavin was saying, up until about 18 months ago everything was okay. There were no shortages, boxes were being delivered in the normal way, and we had this just-in-time situation. Covid obviously had a big impact over the last two years, but it is not going away. We have got this omicron variant coming in now. So, taking that into account, when will we get down to some kind of normality in terms of the shortages in components, chips for cars and things like that, or is the supply chain too long?

Tim Morris: That is a really good question. What has happened, as you correctly say, Mr Whitley, is that the fundamental characteristics that got us into this situation, largely speaking, still exist. The economic bounce back from Covid thankfully continues in many respects, but Covid remains a significant uncertainty and risk factor not just here in the UK but all around the world and, really presciently, in Asia as well, which is the loading point for all of these goods we are talking about. Why are we in a somewhat better position now than we were 12 months ago, albeit still stretched? It is because the system has adapted in certain ways to be able to cope.

From a port operator perspective—I will let the shipping representatives speak about shipping—we have moved to almost constant 24/7 working in the big locations. We have added more capacity, we have hired more people and we have more capacity coming online. That is in order to operate consistently at this much higher level. We have limited visibility on forward order books, maybe a quarter, two quarters ahead—those still look pretty busy. We still have more capacity, from a port perspective, to come online. Covid continues to throw curve balls, as the last week or two has demonstrated to us. We all need to keep adapting to what might not be the continuous new normal, but an extended period of both high demand and disruption is here to stay.

I am not sure that that necessarily is a fundamental all-time change, but nevertheless it is an ongoing pressurised situation, where we are currently operating at the high end of what you would call normal operating parameters. Not crisis, but very busy.

Q294 **Sir Mark Hendrick:** Mick has stolen a little bit of my thunder. Just coming back to Tim, could you give us your view on what has happened



with Covid in terms of shipping and shore-side supply?

Tim Morris: I will touch very briefly on shipping because there are people better qualified to talk about that than me but I can talk on the ports. There is obviously a lot of disruption worldwide. What that means is that that regularity, visibility and predictability of the vessel arrivals has basically gone out of the window. That is just because the whole thing is in such flux. To give you a sense of the scale, historically—pre-Covid—you would expect somewhere between 20,000 to 22,000 boxes per shipping containers a day to move in and out of the UK. When one of the very large vessels arrives, you are looking to move somewhere between 5,000 and 10,000 shipping containers on and off that vessel in a 36, maybe 48-hour period. If you get one of those vessels that arrives a day late or unpredictably, or you get two arriving when you thought they were going to be a couple of days apart, you will have a quarter to a third of the system, not just the port, but all the landside infrastructure as well, that are then having to flex very significantly in order to keep things going.

Then on the landside, we have worked incredibly hard to keep ports operational all the way through the Covid situation. We have not closed any ports because of Covid. It has had a productivity impact in some places. Clearly if you are going to be wiping down control panels in cranes between shifts it adds a little bit of extra time, so there is a slight element there. We have experienced some of the challenges in terms of truck driver availability and so on, which Covid has impacted, but there are other impacts as well. You just get this picture of the whole supply chain landside that is very busy and working at quite a high level of activity and a low level of contingency at the moment.

Q295 **Sir Mark Hendrick:** Have you had many complaints from people who were expecting shipments from abroad, and do they look to you to give them information, or to improve the situation?

Tim Morris: Yes, we are in a better place now than if we had had this discussion 12 months ago. In fact, we are in a better place now than if we had had this discussion three months ago. But understandably, people are, “Where is my stuff?” One of the reasons why we were busy, particularly around September time, was we got into a bit of a double whammy of people who had been through this last year ordering things early, and some people having containers full of things that they had ordered a long time ago that arrived. I went to a port in late September in the north-west in the rain, and they pointed to a stack of containers and said, “Those are full of garden furniture that have arrived late, that the buyer now no longer wants. Those ones are full of plastic Christmas trees that people have ordered early.” You get into this situation where it is a disrupted supply chain, with people trying to navigate their own way through it.

We do what we can to communicate with customers and, indeed, our supply chain partners on each side: the shipping companies, the freight



HOUSE OF COMMONS

hauliers, the rail companies. That is one of the keys to this: keeping talking and trying to keep that dialogue going to try and manage through what is a very uncertain and lumpy situation.

Q296 Sir Mark Hendrick: Finally, Chair, could I ask Michelle, what impact has Covid had on your business in terms of people being very angry or upset about stuff not arriving, and how has it affected your business?

Michelle Wiese Bockmann: I can give some global context to how the pandemic has impacted the supply chain. I have listed some things here. I have got spot rates, which is the ocean freight rate for a box on the Asia-Europe route, that is up 366% in one year. Longer-term contracted rates for the same ocean freight, that is up 465%. Vessel values, because of the shortage of capacity, that has the equivalent of a really old clapped-out car, they have soared five times their value in a year. The capacity shortage has increased rates to charter vessels. If you are container line and you need a vessel, you would have paid, say, \$25,000 a day, but you are now paying \$200,000 a day for short-term charters. Container lines are forecast to make about \$150 billion in profits because of the high rates they are receiving.

These are all unusual, unprecedented global circumstances that have led to the conditions that the other witnesses are talking about. That global context plays out differently at ports, depending on various issues. North America has its own challenges, there are challenges here. I can explain how we got here in a potted version but the lack of capacity is why. That is all due to Covid. It is due to factory closures in China, meaning that there have been what is called blank sailings—container ships do not sail if they have got nothing to carry. Then you have got pent-up demand and inventory restocking delays, repositioning empty containers—all of this is because of Covid.

Q297 Sir Mark Hendrick: Presumably in some way that all feeds through in some way to the cost of the products being transported?

Michelle Wiese Bockmann: Exactly.

Q298 Sir Mark Hendrick: Have you tried to measure, or is there any figure that you can give on what sort of contribution that has had to inflation on particular goods or items?

Michelle Wiese Bockmann: There have been some figures for North America, like the extra cost to a pair of trainers, for example. It is quite minimal because it depends on the value of the goods in the containers. But for some furniture it has added quite a large percentage, but for high-value goods it has been a smaller component. But it has added to manufacturing cost.

Q299 Chair: Andrew, do you want to add anything from the point of view of retail?



Andrew Goodacre: Yes, the inflation aspect. Quite uniquely for an association, we run a small buying group that connects our members with suppliers in homeware, giftware, hardware, cookware specialities. That gives us insight to what suppliers are struggling with. We have seen out-of-stock situations for a long time now, but not one particular category—it is across all the product range. It could be from silicon that you use to seal bathrooms, to garden furniture, as Tim alluded to. Inflation wise, much of what we are seeing is almost double digit—and in some cases more than double digit—inflation coming through in the cost of goods. I do not believe that is all due to shipping. There are elements of manufacturing, and the cost of raw materials that goes into manufacturing is going up, of course. But the inflation in the supply chain is much higher than the consumer inflation that you are seeing at 5%.

Q300 **Sir Mark Hendrick:** These price increases are not all being passed on then?

Andrew Goodacre: Not at the moment, and that is partly due to market economics that says that you could not just suddenly increase prices that much. But how long they can hold it down for it is a real challenge. It will filter down to the consumer at some point. This is actually the very busy period.

Q301 **Sir Mark Hendrick:** They are delaying it to stay in business?

Andrew Goodacre: Yes, retailers are going to make a judgment call, because if you put prices up too much at the consumer point then you lose sales, so you end up with product you cannot sell. It is a real tough judgment call. But it is definitely higher in the supply chain than we are seeing at consumer point.

Q302 **Anthony Mangnall:** The point that has just been made about passing on costs is really interesting, and I presume some of the bigger businesses have contracts rather than on the spot market. Presumably, they fared pretty well out of this because they have not seen a dramatic increase in their prices.

Andrew Goodacre: I do not know, in fairness. We also work closely with BRC—the British Retail Consortium. We meet regularly and supply chain comes up. I have not heard many large retailers rejoicing in the fact that they have contracts in place, in fairness.

Q303 **Anthony Mangnall:** But they would have had a fixed price; they would not be operating on the spot market, so the 300% increase on the spot market would not have impacted them?

Andrew Goodacre: I suspect it maybe would have done, though perhaps Michelle would have a better idea on that.

Anthony Mangnall: Forgive me, I mean on the dry side, would their contracts have changed if —



Michelle Wiese Bockmann: Longer-term contracts are usually taken as a hedge against the fluctuating spot price. But what we are hearing is that these longer-term contracts—which are being renegotiated now—are being renegotiated at levels which are more than 400% higher than they were a year ago. Contracts are typically renegotiated every 12 months, so depending on your mix, you are perhaps not as exposed to the wild fluctuations, but you are still paying a much higher cost than you would have pre-pandemic.

Q304 **Anthony Mangnall:** How does that factor in the order book of 276 new vessels? That is a lot of vessels coming down the line. Surely that will saturate the market and actually bring prices down, because there will be more available vessels. Is that being factored in yet or not?

Michelle Wiese Bockmann: Those vessels will not be delivering until 2023 at the earliest, 2024-25, and we do not know what the demand picture will look like. You also have to bear in mind that when vessels get to particular age they have to be scrapped. You have also got international regulations coming out in 2023 which may see the sailing speed of some vessels have to be reduced in order to meet emission standards, which, again, can lead to less capacity because you have more ships on the same route, sailing at the same —

Q305 **Anthony Mangnall:** 2023 is not that far away. How many vessels are likely to be scrapped, because there is a 15-year rule, generally, is there not?

Michelle Wiese Bockmann: Generally, but as I said earlier, 15-year-old vessels are selling for five times what they were worth a year ago.

Q306 **Anthony Mangnall:** Is that the scrappage price, or is that as second hand?

Michelle Wiese Bockmann: At the moment the steel price is quite high, but we have not seen any container vessels scrapped, obviously, because their earning capacity is so great. The scrapping is, once again, a feature of supply and demand. If the vessel is not able to earn as much as it can as its scrap value, that will dictate how everything is scrapped. Once again, if there is overcapacity and earnings drop, that will once again change that equation.

Q307 **Anthony Mangnall:** We are talking about the ships, but there is also the point on the containers, and we are talking about the problem with containers. Is the demand for new containers being met at the moment? Are we actually able to produce them as quickly as we would like, and are they getting on to ships as quickly as they can?

Michelle Wiese Bockmann: My knowledge base is not of container manufacturing, I am sorry.

Q308 **Anthony Mangnall:** It is just because that is part and parcel of what we are discussing here. A lot of the press around this issue and the slowness



HOUSE OF COMMONS

in supply has sort of focused on the UK. I have a coastal constituency. There were four container ships off my patch all heading to Rotterdam actually. It was strange to see them moored off my coastline, because there was not space for them to be heading to Europe. Has it been worse here, compared with other places, or is this really just that we are all in the same boat? Excuse the pun.

Michelle Wiese Bockmann: Much, much worse, so I think —

Anthony Mangnall: Sorry, the UK is much, much worse?

Michelle Wiese Bockmann: No, it has been much worse elsewhere. Los Angeles and Long Beach has had many headlines. They had up to 80 vessels waiting at anchor or drifting. That has very recently been reduced this week. In China, when there have been terminal closures as a result of Covid outbreaks or because there have been delays in quarantine and immigration restrictions, ships have had to wait two weeks. At one stage, there were 97 container ships at anchor off Shanghai and Ningbo. At three or four ports, about 4% or 5% of capacity all tied up at anchor. The problems that the UK has had are standard, but certainly no means as serious as elsewhere.

Q309 **Anthony Mangnall:** There is some sort of comfort in hearing that. But I guess the watchword for all of this, and we started off talking about the just-in-time model, is that no one could have ever expected a pandemic to throw off what is one of the most highly orchestrated global industries—for it to be impacted by a virus and to be in this scenario. The question is, how much has resilience now been built into the industry, and how comforted and capable is the industry now to weather future storms, both predicted and unpredicted?

Tim Morris: From a ports perspective, much like so many of us we have learned to do things very quickly that would otherwise have taken a long time. We are now a more resilient operation—not just the ports themselves—and new space has come on board faster than it would have done. There have been some changes to the way we work and it is now more flexible and adaptable. There have been more investments in equipment, which make us more resilient.

Now, the way we are working at the moment is a little bit above where you would want to be on a normal operating band, but nevertheless we are more resilient. Our hope from a ports perspective would be that one of the lessons from this is a wake-up call—for people in this building and in the Government—about the importance of freight and supply chains. Up until probably relatively recently, a lot of people used to regard the fact that stuff appeared on their supermarket shelves—or a brown cardboard thing appeared through their door—like magic. It just appeared. They don't think about this huge global machine, some very sophisticated planning and a lot of people working really hard in order to deliver that. Hopefully that new realisation gives freight, and some of the



less fashionable parts of industry, like warehousing, more of a prominence in strategic decision making for the for the UK.

Anthony Mangnall: Thank you. I have got other questions, but I will hand back to you, Chair.

Chair: Goodness. Mick.

Q310 **Mick Whitley:** Could you give us a sense of where we are now, in terms of issues facing UK ports and the outlook for the next few months?

Tim Morris: Okay, so where we are at the moment is at the upper end of what you might regard as being busy. Like any asset-intensive business, there is probably an operating range where you want to be. You want to be busy, but there is a level above that where it starts getting physically congested around your port and you start to become operationally less efficient. Just in a broad sense—it will differ from port to port—you probably want that ideal band to be somewhere between 70% to 80% full. Some ports have been as high as 95%, 96%, and then you simply do not have a lot of space to move things around, and you can almost imagine how things start to get much less operationally efficient. We are probably at that 80% to 85% band right now.

As Michelle has said, in this country we have fared and are faring better than elsewhere in the world. When I eyeballed my ship radar on my phone this morning—because I am sufficiently boring to have such a thing—there was one of the large container vessels waiting off Felixstowe, none off the Thames, none off Southampton. There were approximately 40 off Los Angeles, Long Beach, a couple off Antwerp, Rotterdam and Hamburg. So it is still very busy, we are in a better place right now but things can change quickly. As I said, I think to Sir Mark's question, you do not need too much to change unexpectedly for you to be back into that orange zone.

Are we keeping things moving right now? Yes, we are working very hard to keep it moving. Are we complacent about it? Absolutely not. Even the bad weather this weekend put some of those parameters out of spec. We anticipate being busy certainly into 2022. As other people have mentioned, the underlying conditions of high demand is good in many other ways, but, as you have said, Covid is still here—not just here in the UK, but elsewhere in Europe—so we are anticipating being busy for a while.

Q311 **Sir Mark Hendrick:** Following on from that, is there any evidence that firms in this country are looking at their supply chains and deciding to onshore or use alternatives? And what impact, if any, is that having on your ports?

Tim Morris: Very briefly on ports, and then I will hand over to Andrew, who can speak for actual companies. One of the reasons that we became so congested was basically ports were being used as default storage as people were trying to manage and hold inventory in different parts of



their supply chain, perhaps because their warehouses were full, so where else were they going to put it? We anticipate that warehousing aspect of our business to be structurally busier going forward—hopefully not just dumped on the side of a quay—as people hold a little bit more stock in their supply chains and work on other opportunities to make the supply chains more resilient, like data and communications, and visibility about where their stuff is. That is something that we are working with customers to develop. Andrew?

Andrew Goodacre: It partly answers the resilience question as well, in fairness, that retailers large and small have become used to quite an efficient supply chain, whether it was coming from Europe or the Far East. What the pandemic has done is completely disrupt that, and they made a fantastic effort—especially the large food retailers—to get this far, working with ports and so on to make sure that all their shelves are stocked up. But while doing that, I do not doubt that these businesses will also be looking at their supply chain and saying, “Right, okay, no one had pandemic in their risk analysis of their supply chain, but it is there now, and how do we make it more resilient?”. One way of doing that is to shorten that supply chain.

Onshoring is being discussed even at the local level. We had a meeting with our members last week and I was surprised how many members were talking about trying to source products in their business from British suppliers. That is generally going to be good for the economy. Some of it depends on the product, on the category. If the manufacturing process has lots of people involved, there is a high people cost so it tends to still be manufactured in Asia. But if it is a product that is less labour intensive and the manufacturing process can be easily developed in this country as well, then there is a chance that onshoring—or the shortening of the supply chain—will become more prevalent.

Another aspect that will drive that will be the sustainability drive. Obviously retailers are committed to being sustainable, and to do that they have to look at their supply chain as well, in order to comply with the Government commitment. It coincides with two key themes of activity: one about being sustainable and one about building a resilient supply chain that may be shorter.

Sir Mark Hendrick: If you will allow me, Chair—

Chair: Can we be brief as we are running slightly behind schedule?

Q312 **Sir Mark Hendrick:** Just very quickly, I was thinking more of manufactured goods. I have a missile manufacturer not far from my constituency who has built a great big warehouse principally to deal with what he thought were problems with supply chains from Brexit, but actually Covid has had a similar effect. Is that happening around the country and is it affecting the ports?



Andrew Goodacre: We have seen a resurgence in some of the textile manufacturing—I know that the east midlands and so on have got a booming market in textile manufacturing—as people have looked to source more locally. It could well happen with other categories of products. It is early days and probably too early at the moment for a complete switch, but it will be more built into the logistics of retail as they look to meet their sustainability commitment as well as becoming less reliant on just-in-time and a long supply chain.

Q313 **Anthony Mangnall:** I will be very brief, Chair, on this point about the environment. Distance travelled and carbon is interesting. I have had quite a few conversations with people who think that in future years you will get people like Amazon who will say, “Actually, when you buy your product, this is the amount of carbon used to create the product, this is the amount of carbon used to transport it”, and what that will do to supply chains. Presumably the majority of stuff that gets imported to the UK comes from China. That is a bit of a generalisation, but that will have a significant impact on that, and how we change our habits accordingly will be an interesting one.

Andrew Goodacre: It will be consumers who drive it, and it will be generations below us that drive it, because they are far more aware of their responsibilities to the environment and so on. I agree. As consumers change that demand for greener product and a greener supply chain, then retailers and manufacturers will respond accordingly.

Q314 **Anthony Mangnall:** Gavin, you started off talking about the fact that you increased capacity, built in more resilience. But ports operate on a 24 hour, seven days a week basis. That is not always the case for road haulage, is it? Has that changed over the course of this to try and meet up with the amount of ships that are coming in, the unloading of cargo, and making sure that the hauliers are able to work seven days a week?

Gavin Simmonds: That is a good question. I am not sure that somebody else on the panel would not be able to answer better about the road haulage side. It is worth acknowledging, from the shipping point of view, that shipping services were really quite flexible. I am very glad that Tim was looking at his shipping app this morning to see the number of vessels waiting. I think that is an illustration of the refinement in schedules that the recent challenges and congestion have forced upon the industry, so that the liaison between ports and the shipping lines is improved to reduce the number of vessels waiting. But once the vessel arrives in port, it is, as Tim was describing, pretty important that the cargo is offloaded and onloaded as swiftly as possible, before the vessel then resumes its schedule to another European port. We do see those schedules settling back down now, but the effect that that is actually having on regional local haulage needs would be better answered by somebody else.

Q315 **Anthony Mangnall:** Maybe you could comment on this, Tim. By the way, you are not sad for looking at marine traffic. I spend quite a lot of time on it as well.



HOUSE OF COMMONS

Tim Morris: I am glad it is not just me. Certainly the bigger port terminals operate 24/7, and that is actually one of the differences between us and Long Beach, where they have struggled to move to that model. All of the ports operate something that might be called a vehicle booking system, so you actually try to book a slot for your truck to access the port. That is to avoid big queues of trucks at 7.30 in the morning or 3 o'clock in the afternoon, as they try and do a double drop. It is not always very popular with hauliers—we acknowledge that—but nevertheless it helps spread them out. You would probably not be surprised to know that, at any one time, the busier slots are during the day; the quieter demand for slots is evenings and weekends. In some ways the current haulier shortage exacerbates that somewhat. I am not sure I am that fond of working night shifts myself, so I am going to take a rational choice about how I live my life and how I operate. But there is also the point about, are the inland warehousing and distribution centres either working 24/7 or able to work 24/7? Because we are one part of a chain, it is financially better for us to move boxes and store them, so we want to keep that flow going, but you need the whole chain, the hauliers, the road, the rail freight and so on, and the distribution centres.

Q316 **Anthony Mangnall:** Very quickly, do you think there is a shift in the hauliers in that direction to actually try and pick it up? And do we also need to look at cabotage rules around hauliers in the UK, and make sure that we have not got as many trucks running around that are empty from the drop-off points back to where they are meant to be going?

Tim Morris: I am not an expert on cabotage points. I think that there is a broader dynamic in the haulier industry at the moment, of which we are a symptom, not necessarily the cause. I would highlight the potential opportunity to do more on rail freight as well. One rail train is 70, 80 HGVs, and we are making progress on increasing rail freight. Certainly from our perspective, there is a lot more demand that we could put on to rail, which takes those trucks off the road.

Q317 **Mick Whitley:** This is to Andrew. What effect do delays experienced across the supply chain have on the country regionally? And are there some areas of the UK which are harder hit than others?

Andrew Goodacre: Everyone in retail, large or small, has suffered with challenges on getting the product they have ordered on time, and so on. The survey that we did that said 96% of members have experienced supply chain problems recently was national, and there was no indication that it was worse in the south-east compared with the north-west, or whatever. I do not believe it is isolated; I think it is a UK-wide problem. In fairness, from what I have been hearing, it is a worldwide problem that we have experienced. But in the UK the real challenge to the retailer is that they could probably help address some of the lorry driver shortage themselves. Tesco employ lorry drivers, and even some of the larger independents have started their own lorry driver part of their business to guarantee delivery. But if you solve that bit, you still have the challenge of getting the ships in, or the containers there, and so on, or then a



HOUSE OF COMMONS

manufacturer gets closed down because of a Covid outbreak. So, there is no one easy solution to the supply chain. But the retailers have gone into rail more and are building distribution centres which will have rail sidings so they can make more use of that in the future. They will typically be agile, I guess, in the way they view this.

To go back to the original question about normality, I do not think it is going to go back to what it was in 2018-19. I am no expert in what these guys do, but I just cannot see it reverting to what we used to have. I would not have thought that the custom containers will come down to 2018 levels in the immediate future.

Q318 **Mick Whitley:** Is there capacity for rail freight in the UK?

Andrew Goodacre: I do not know if there is capacity there, but I know the demand for it has increased. People have started to appreciate the benefits of it more because they have had to. One train meets the needs of 70 to 80 lorries and that makes a huge difference. So one of the aspects that will come out of this is that they will look at that as an option when they are building new warehouses, especially the super-large distribution centres. They will certainly look at that and say, "Is it wise to put all our eggs in the road haulage system to deliver this? Maybe we need options that will allow us to be more flexible." I think that is what you will see.

Q319 **Martin Vickers:** My question is for Andrew as well. We have seen media reports that many of the large retailers are chartering their own vessels. What about the smaller and medium-sized companies; how are they coping?

Andrew Goodacre: Even if we put them all together we could not charter a vessel, I am afraid. In fairness, large retail has a very fixed and defined supply chain. They order way in advance; they work with a number of suppliers that they have contracts with. The smaller, independent shops are far more agile. They will have a number of suppliers they work with directly; they will use wholesalers as well. If one bit of that falls down, there are alternatives they can turn to—or have in the past. It has been harder to find alternatives more recently but overall, while we have had gaps in products, there have never been rows of empty shelves. There have been challenges, but they are far more agile. If a lorry cannot deliver or a company cannot deliver, they will hire a van and go and collect. They just get on with it, I suppose, because they are not tied in to a just-in-time chain from that perspective.

Their challenge is always that they cannot hold lots of stock. They have not had lots of cash available to do it, generally speaking; they do not have the reserves available to do that. Once their stock is gone their challenge is often replenishment. So, the festive period—busy, busy period—lots of retailers will have been thinking, "What can I get? How can I get it?", taking a risk in some cases. Some of the larger independents are ordering more in advance, hence the Christmas trees



HOUSE OF COMMONS

waiting in a port that Tim referred to. But once that stock has gone for the festive period this year, there will be no replenishment and that will be their challenge. That is the missed opportunity because if demand is there—and demand has been there from the consumers—it is a missed opportunity for sales.

Q320 Martin Vickers: As a generalisation, who is coming out of it best—the bigger-built boys or the smaller retailer?

Andrew Goodacre: That is a very good question and I would not want to say. I think retail has benefited from pent-up demand; we have already seen that. The essential retailers that stayed trading through the pandemic period have done well. There has been a shift in consumer shopping behaviours because we have not been spending on holidays. There has been a lot more expenditure in and around homes and so forth. It is hard to say that one large retailer has done better than a group of smaller ones. I think those who have made the most of it and who have adjusted smartly, what they have in common is their business instinct that has allowed them to make those adjustments smartly and with agility. The challenge going forward is the supply chain inflation—if they are not able to pass that on, their margin suffers. That will be the challenge. I must admit I am not sure there are any winners from supply chain problems because, ultimately, you do not want them. You want to be able to meet the needs of consumers who want to buy a product.

Q321 Mick Whitley: I have a question for Michelle. Is it the consensus across the supply chain that the causes of delays and high shipping prices need to be addressed? Or are there particular winners from the current situation who might prove to be resistant?

Michelle Wiese Bockmann: Well, I think I mentioned earlier that container lines are banking record profits. CMA CGM put out their Q3 results and they made \$5.6 billion. So certainly container lines are earning a lot of money. This is expected to continue into next year although there is a caveat that this is perhaps a very short period of earnings as, in some cases, over the past 10 years they have made losses. There is an acknowledgment that schedule reliability and capacity need to be addressed. There are a lot of ships being ordered to meet demand. Is there an appetite among the container lines to have practices that drive lower freight rates? Of course not, but I think they are working very hard to improve schedule reliability because the repositioning of empty containers, for example, has been one challenge that has arisen from having global chaos across all the services they operate.

Q322 Mick Whitley: So, there are containers in the wrong place at the wrong time?

Michelle Wiese Bockmann: Yes. Well, what happens is because the schedules have been thrown out, a vessel may not have time to load empty containers back on because it has to be somewhere else, or they skip a port in order to meet times, or they miss a berthing slot. Then they



have to wait and all of these pressures just cascade throughout the entire chain.

- Q323 **Mark Menzies:** Just on that theme of things in the wrong place, if I can direct this towards Michelle. We can all think back to the images in March where we had a big green chunk of metal—the Ever Given—wedged into the side of the Suez Canal, blocking everything. Everywhere in the media it was about creating shortages in the supply chain, not just in the UK but across Europe. How big an impact did that have and how much of the shipping supply container issues are down to that incident?

Michelle Wiese Bockmann: First of all, I think the Ever Given highlighted the fragility of the supply chain. There were about 2 million containers that were impacted by that. I have here that 100 container ships were waiting to go through and it took several months to work through the European ports. But, of course, it was just one of a set of extraordinary circumstances. It was not really responsible for the congestion that we are seeing now but it did come at a particularly critical time—as the other witnesses were explaining. The pent-up demand and early shipment to try and avoid some of the congestion and delays that they had seen in 2020 amplified the impact and also highlighted the exposure of global trade.

- Q324 **Mark Menzies:** Given that that incident highlighted the fragility of the system—because it is almost so finely tuned that if anything goes wrong, there are big implications—what are the immediate takeaways that this Committee could look at in terms of how we could improve the resilience of our supply chains?

Michelle Wiese Bockmann: Most of the imports for the UK come from Asia so there is no avoiding the Suez Canal unless you sail around the Cape of Good Hope and factor in higher transport costs for that. That is not a shipping route that most container lines would take for reasons of profit, so you are really stuck using the Suez Canal. It has limited sizes. I think the Ever Given could carry 20,000 containers. That is probably the biggest you get through. But that is the route.

Mark Menzies: That is fair. Thank you.

- Q325 **Anthony Mangnall:** At the start you were talking about slower steaming times. I used to be a ship broker and I think that going around the Cape of Good Hope—I might get this horribly wrong—is about 15 to 20 extra days on a voyage.

Michelle Wiese Bockmann: Yes, about 14, depending on what speed you sail.

- Q326 **Anthony Mangnall:** If you are sailing at 12.5 knots current and you go down to 10 knots, which I think was being discussed at the time, that presumably extends your voyage. So, actually, you could still have vessels that avoid the Suez Canal, go around the Cape of Good Hope and still arrive at a time—sorry, I have made this very complicated—for those



HOUSE OF COMMONS

that end up doing a slower steaming speed?

Michelle Wiese Bockmann: Well, container ships are sailing as fast as they can.

Anthony Mangnall: At the moment.

Michelle Wiese Bockmann: At the moment. If you sail at a slower speed, then, of course, you need to have additional capacity in the market because of the extra time those voyages are taking. It can be organised but then you have got extra fuel costs as well that arise from the extra travelling time.

Q327 **Anthony Mangnall:** I think it is just looking at alternatives. Again, no one would have expected the Suez Canal to be closed for that long in that instance, but where do the alternatives come in? Are shipping companies prepared to look at those other routes quite quickly? Certainly, on the oil market we never were—not significantly anyway.

Michelle Wiese Bockmann: Well, in terms of the Ever Given there were about 20 container ships in total that we tracked diverting either south-bound from Europe around the Cape to return to Asia, and also west-bound heading through the Suez that went around the Cape in order to escape the delays. But it was really a trade-off about how many days they would be waiting to get through versus how many days it took to get around, so they were able to do that.

Q328 **Anthony Mangnall:** So when it comes to the winners it was a lucky broker who suddenly found this?

Michelle Wiese Bockmann: Yes.

Q329 **Chair:** Michelle, should we be worried about other pinch points in the global shipping routes in the Panama Canal, Strait of Hormuz, Malacca Straits? These areas presumably can have similar problems—either accidental or political problems.

Michelle Wiese Bockmann: Oh, completely. The Strait of Hormuz is a well-known choke point. Twenty million barrels per day of crude and refined products go through there. There are a lot of geopolitical uncertainties and a couple of years ago we had explosions in the port of Fujairah. Recently, there was the Mercer Street, which was a product tanker that was attacked by drones and a UK citizen was killed. So that is quite a key choke point. On the sensitivity to the UK, a lot of your energy comes from Qatar, jet fuel from Middle East refiners, and some diesel.

Q330 **Chair:** That is at Hormuz, but there are interesting tensions developing in the Panama Canal and the Straits of Malacca, so the same applies pretty much everywhere.

Michelle Wiese Bockmann: Yes, all the container ships will go through the Malacca Strait on their way out to Europe.

Chair: Interesting. Anthony is desperate to come in.



Q331 **Anthony Mangnall:** I am just very interested because during his Budget the Chancellor made a big thing about the tonnage tax and the British ensign flying from container ships and oil tankers and so on. Am I right in thinking this does not work because they cannot get insurance under AWRP, as armed war risk premiums will not cover vessels with the British ensign on it?

Michelle Wiese Bockmann: I have not heard that, no.

Anthony Mangnall: Fair enough.

Q332 **Martin Vickers:** A question for you, Tim. There is a presumption to this question and that is that we return to normal, or, as we keep talking about, new normals. But let us assume we do return to normal. What needs to change to ensure greater supply chain resilience?

Tim Morris: I think that is a really good question, and Mr Menzies has flagged it as well. There is a stack of stuff that business is doing. Andrew has already talked about retailers; I have talked a little bit about port operators and so on. I think there is a question—I assume, putting it to this Committee—which is, okay, what is the role of Government in that? Because it is in businesses' interest to develop their own businesses to be more resilient. A combination of Covid, the Ever Given and Brexit—all of these point to one thing for businesses, which is, "How do I make my supply chain more resilient?" So I think you can be absolutely confident that businesses are working on this themselves.

For Government—and this is a discussion that we do have with Government—as we point out, if someone parks their container vessel sideways across the Suez Canal there is not a whole heap that the UK Government can do about some of these global aspects. What it can do is look at how the freight system, the logistics system, work in the UK, and what are the right enabling actions that the Government can take to help that system add capacity and adapt.

We have talked about rail freight, and Mr Whitley's question is, "Do we have enough rail freight capacity?" The answer is no. We certainly have more demand than we have capacity right now. There is an opportunity there about how, in a new normal for passenger rail perhaps, there is a greater role, greater capacity, for rail freight. Some of the issues are around supply chains and warehousing and some planning issues around that and around truck stops as well. Truck stops are a tragedy of the commons, right? They are in everybody's benefit but nobody's responsibility. That is one of the reasons we have got into this situation at the moment.

And then on Brexit, we have an extensive network of ports here in the UK. You will be very familiar, Martin, with the extensive operations on the Humber that are there and have additional capacity to handle trade to and from Europe. But can we move towards putting in place the right regulatory and process conditions that allow that extra capacity to be



used efficiently? I think there are not enormous amounts you can do about people shutting ports in China, but adaptability and capacity here in the UK for that landside freight and logistics operation to be able to adapt and change is a really key area of focus.

Q333 Martin Vickers: Thanks. Andrew, what is the retail sector looking to the Government to do through this situation?

Andrew Goodacre: Well, I think the Government have already made good steps regarding the HGV drivers—not the temporary visa scheme, which I think was always doomed to fail, in fairness, but the fast tracking of training. There is more work to be done as Tim has alluded to. One of the reasons people have turned away from HGV driving is that the circumstances and conditions of it are not great. Retailers have improved pay. They have been dragged into that, in fairness, though I think they recognise the value now of good haulage drivers, but the infrastructure to support that network needs investment as well. It needs ownership and that is something that needs resolving if we are going to retain the new drivers in that industry going forwards.

They are investing in warehousing—we have alluded to it before—and Government can make things easier with planning to ensure that happens. I do think rail is an opportunity, but I guess we have to be careful because are we just seeing a demand caused by short-term problems in an established supply chain? If you make the investment in rail, is it sustainable? I personally think it is, but there would need to be some work in that to make sure that is right.

I think we would all probably look at the skills involved with logistics as well. Have we got the right skills coming through? Logistics is a very vibrant area of the economy; it is a very skilled area and I guess we would need to be sure that the right people are going to be trained and developed and coming into that role because I think we all now appreciate the value of logistics.

Q334 Martin Vickers: Michelle or Gavin, do you have anything to add on what the Government should be doing?

Gavin Simmonds: There are obviously many different things that different partners in the logistics chain should be looking at. I was just trying to link up with some of the work we have done about increasing UK resilience based on better dataflow and IT exchange. We have not yet mentioned how a better understanding of what is actually being carried in ships would help reinforce national resilience.

One of the lessons that we did learn from the Ever Given incident was that it took a long time to find out what was in those boxes and what strategic and vital components were lost to various industries in the UK for the period where she was detained in the Suez Canal, which was from March until July. That had a very considerable knock-on effect. So it is exchanging data and having a better understanding of where our national



priorities are in terms of the goods which are on their way to us. That is the sort of work that we have been doing with Government, and certainly better data, faster data exchange, would help.

Michelle Wiese Bockmann: I just had one thing to say on a related issue. During the pandemic there were about half a million seafarers that got stranded on their vessels because they were unable to facilitate crew changes. While that situation has eased, anything that the Government can do in order to vaccinate seafarers when they call here or to ensure that their keyworker status means that they can use England or the UK as a hub would definitely be appreciated simply because they are the unsung heroes of the pandemic. Despite the global supply disruptions, everything is still moving because of them.

Q335 **Mick Whitley:** Just going back to Gavin, forgive my ignorance but don't they have a manifest which should say what is inside the containers? Are we saying we do not know what is in that container?

Gavin Simmonds: Yes, I did say that. There is a manifest, but the requirements to manifest your cargo are not particularly onerous and many exporters and importers will just give very general descriptions to their cargoes. This is obviously a problem when it comes to applying tariffs and other preoccupations that Her Majesty's Revenue and Customs might have, as well as security aspects from the fact that we do not know precisely what is in them. It is a fact that the manifest is a useful summary of what the ship is carrying but is, I would say, insufficiently detailed to meet the data requirements.

Q336 **Mick Whitley:** What particularly surprised me there is dangerous cargo. What is deemed dangerous cargo?

Gavin Simmonds: That is subject to a separate international regime. I was not suggesting that there was any misreporting of dangerous cargoes. We know that some exporters are not as reliable as they should be with their dangerous goods declarations, but that is a quality control problem in certain countries which we trade with and that is an ongoing problem which is very tightly regulated.

Tim Morris: If I could just follow on, I would like to try and reassure you slightly because I happened to be looking at a physical loading schedule at a port-related rail hub yesterday, and definitely one of the columns on that was "dangerous goods—yes/no". It does not say what is in the container. What you have is reference numbers and you actually have the ship name, where it is going, where it is coming from, when it needs to get loaded on the train, but there is definitely a column that says "yes/no". There is a lot of data around and there is a big challenge in who can see what and actually collating that data so that it becomes information and something you can act on. That is the crucial bit to work on.

Q337 **Anthony Mangnall:** I like this recommendation about freight on rail, and



HOUSE OF COMMONS

I hope the Transport Committee is going to invite you all to come forward and make these points because it is certainly one that needs to be made, regardless of where the demand is at the moment. It is just a more sensible way for us to go and undoubtedly it would be a good help to our railway networks.

I have a question for Michelle about data. The shipping industry is remarkably behind the curve when it comes to data and I know lots of people have tried to modernise it. Has there been a greater act to modernisation over the course of the last 18 months? And is there the data available to make sure that we can look at the pinch points and problems that are still being faced by the industry regardless of Covid?

Michelle Wiese Bockmann: Well, a lot of the data has been monetised, which means that it is behind a paywall. In terms of the specific cargo data, I do know that in the US they have a commercial database that gives chapter and verse what is inside the containers. I do not know one that exists here in the UK or a source for that. There could be commercially, but I am not sure. I did know prior to Brexit, Eurostat had very granular data about imports and exports that obviously the UK is now not contributing to. The volume data is also behind a paywall. There is a lot of data about automatic identification systems—so the location and the tracking of vessels—but in terms of actually what is inside the boxes, I think that is the biggest challenge.

Q338 **Anthony Mangnall:** And there is a benefit to doing this. I spoke to a Department for Transport official the other day who said the shipping industry is one of the most overlooked areas, but it is also one of the only profitable sectors that they deal with. Trains and aviation right now are not particularly profitable, whereas shipping is doing quite well. If anyone from the Department for Transport is watching this, do you think there is anything they should be aware of, or is there anything for which you should be asking for the shipping industry?

Michelle Wiese Bockmann: I think the shipping industry knows what is happening, but they tend to keep the data very close and tight. Even fixture information as a ship broker—that fixture information is what ship has been chartered by whom and for how much—is closely held information as well. Shipping is not good on sharing data, so there is that factor at hand.

Anthony Mangnall: Well, perhaps they can spearhead something on that.

Q339 **Chair:** Tim, just carrying on with this conversation about using rail. You may not be the right person to answer this question, but presumably the journey of a container, if you like, arriving at Felixstowe gets unloaded, loaded on to a lorry, then the lorry takes it to the destination and it gets unloaded and distributed and whatever. To what element of that journey is the expense of transferring it from one type of transport to another? If you take it off a ship in Felixstowe, put it on a lorry, take it to a railway



HOUSE OF COMMONS

station, take it off the lorry, put it on to a train, move it to a railhead on a crew juncture or something, take it off that and move it. Although it is probably more efficient in terms of carbon output, does that add to the cost in terms of the handling?

Tim Morris: All of the big ports have their own railyards. What you are effectively doing is you unload the box from the vessel, you shuttle it into a holding area where it will sit for a day or two—hopefully not much longer than that, but unfortunately at the moment in some cases quite considerably longer than that, because people do not want their garden furniture or whatever—but then it will go from the stack and be directly loaded on to a train. It would be done by what looks like a quite specialised bit of lifting and carrying equipment, so there is no truck movement involved at that end. Then the train, the container, meanders its way through the UK rail network. For example, I heard yesterday that it takes 10 hours to get a shipping container from Liverpool to Birmingham because it goes slow—it has to wait, it has to go into sidings when passenger trains go past and so on. That is just one thing to mention. But it arrives in Birmingham and then there is a road leg at that point. There is an additional handling element, which is railhead to final destination, but it is not that there is that initial multiple handling aspect involving a haulier. It is all an integral part of the port operations. That is probably too much detail.

Q340 **Chair:** No, it is very helpful. The big debate about HS2 was less to do with speed and more to do with capacity. So, presumably, if you have more capacity it is not taking 10 hours to get from Birmingham to Liverpool?

Tim Morris: Yes. So, it is a question of how you use what you have already got and how you judiciously invest in order to de-bottleneck what you have. It is a physical reality that many ports tend to be at the end of a road or a railway. So, there are definitely some de-bottlenecking things that need to go on as well as “the big projects”. The same would be true about trains across the Pennines, for example.

Chair: I think Andrew wants to come in.

Q341 **Anthony Mangnall:** This is less necessarily about the trains, but just generally in terms of the movement of goods. As we have got a new variant quite a few countries are shutting down travel in and out, and I wonder whether that is already showing any impact on this sector. That is for anyone who wants to say anything.

Andrew Goodacre: I guess we will watch it very carefully from a retailer point of view because we suffered the pingdemic that happened earlier. Obviously the self-isolation rules have changed for people with omicron, and if it is very spreadable and very contagious then we would monitor that carefully. It is not just in the shops; it is distribution centres where the orders are created, the lorry drivers and the whole thing. So yes, we



will be watching it very carefully because of what we experienced in the summer with the pingdemic.

Q342 **Anthony Mangnall:** Sorry just to push, but I spend my week going up and down either the M4 or A303 and I see those signs for truckers to go through the testing centres before they go on to mainland Europe. Are they working? Have we got a system that is actually in place that is helping people move more freely? Certainly, it was set up at speed and at pace.

Andrew Goodacre: In fairness, I do not know and cannot comment massively on that. I always judge something by whether I hear negative comments about it and I do not hear negative comments about it. I guess from that point of view, the message is getting out. It is quite right we have the message in there. I have not heard people say that they cannot get through ports because of Covid.

Gavin Simmonds: Could I just add a comment on that? The industry has worked really closely with Government in the last 18 months. In terms of international travel, we know that there are issues about business travel and travel for holidays. Freight drivers have been exempt. This is mainly in respect to roll-on roll-off services bringing regular supplies of fresh produce and other goods in from the EU and they are very closely monitored and tested. The fact that we have managed to maintain their exemption is because their actual positive testing rate has been very low indeed.

What I wanted to emphasise was that on the back of our experience of 18 months when we had the latest variant forced upon us at the weekend—unfortunate timing—nevertheless the response by Government and by industry was prompt and appropriate. At the moment we do not actually see it will have any more significant effect than the previous variants, which have been dealt with by the existing Covid measures which are in place.

Anthony Mangnall: It is quite reassuring to hear this—the speed at which you are able to respond and the way in which you have now got systems in place. It takes a crisis to be able to update and modernise a system but it sounds like it is—

Q343 **Chair:** Moving on. Andrew, perhaps if I can finish off with you. You mentioned earlier that there was quite a lot of inflationary pressure building up within your sector. I am trying to get a sense from you whether you think it is something that is going to work through and then it will go back to normal, or whether this is potentially a big flood coming through of inflation in prices?

Andrew Goodacre: That is really hard to answer at the moment because the forces driving the supply chain inflation are many and varied. Think of a container. It used to cost \$2,000 and now costs \$15,000 to \$20,000. And while it depends what articles are in there, invariably, it



HOUSE OF COMMONS

just feeds through there. The cost of fuel has gone up. It is all these other aspects that really feed into the inflation chain. I have been listening to retailers who have been in their sector for a long time and who were actually trading through inflationary periods in the past. It is interesting—we only discussed this last week at our board meeting—that not many retailers have done actually. We have had very low inflation for a long time, so it is a new experience for some. It adds a spike and then it levels down, but possibly some of these costs that we are seeing increased will not revert to what people had in 2018-19. The cost of containers will not come back down to those levels for a while.

Chair: Definitely not?

Andrew Goodacre: That is the suspicion from the retail perspective that it is unlikely to fall there, because if it stays at that level or falls back slightly then the business model readjusts itself to that cost and it accepts that as being part of it.

The other factors are just the cost of raw materials, and as the demand for raw materials dissipates then, hopefully, that comes down in there as well. So, we can expect this spike and probably about 12 months of that. How much of that gets passed on to consumers? I will go back to my previous answer that the retailers will have to make that choice of what they think they can pass on reasonably, what they think the consumer will pay, and where else could they readjust their business to compensate for lower margins. It is really hard. It is definitely there and it is not being passed on fully at the moment, and I do not think it will ever be passed on fully.

Q344 **Chair:** But any business that is trying to absorb extra costs and potentially reduced demand can only do it for a certain amount of time. Ultimately, at some point it has to break. A question that our constituents who are watching this are trying to work out is: is the price going to go up before Christmas or will we not get any Christmas sales? Was Black Friday really as black of a Friday as we hoped to see or whatever? But it seems to be quite problematic and ultimately something is going to have to give if the container price is not going to come down and there is a business problem. By the way, I am going to come to you, Michelle, if I may on that point in a minute. Ultimately, if you are not going to charge extra for the consumer, you are going to have to pay less to your workers or employ fewer people. And you have huge challenges from obviously Amazon and the online retailers.

Andrew Goodacre: I think what will change and alter is how much of the increase in raw materials are driven by demand and how much of it is just the cost of the person supplying the raw materials and the cost of labour to do that. As demand falls down from this spike, and even demand is lumpy— Because we have had lockdown periods, we have had the successive spikes of demand, then we locked down, then there was a spike in demand and then a lockdown. Now, thankfully, we have had almost eight concerted months of being open from a retail perspective—



all of retail being open—and yet we are still seeing quite high demand. Inconsistent demand is what I would call it.

Regarding businesses, I think you are right: make those adjustments, make those calls, and what will give will be that demand will fall back and then people will start to say, “Well, we cannot keep charging these prices.” At that point, shipping costs may come down; at that point, transport costs may come down. But on the cost of employing HGV drivers, if you have already increased the salary to £53,000—as Tesco or someone like that have done—that is going to stay at £53,000. That is not going to fall back. Some of those costs are naturally in there and it will not all be passed on to consumers. They will look again at their business model, large and small. For the smaller retailer, it is less of a challenge for them because they are more agile in their purchasing in many ways, and already are that bit more expensive than the large retailers, so people tend not to use them just for cost. It is more convenience; it is more part of that community and local shopping, so it is slightly different dynamics going on in there.

Q345 Chair: Do you think the Government should be doing a lot more to roll the pitch ahead of any problems coming, or, indeed, to try to help encourage a change in stock purchasing habits, for example, among retailers?

Andrew Goodacre: I am not sure. You could argue that Government policy is probably adding to it at the moment. We had this meeting last week with several members and it is not just Government policy. The cost of energy running a shop is probably tripling at the moment, and people do not go into cold, dark shops. So, that is probably another £8,000 to £10,000 a year at a small business level. The cost of employment, due to national minimum wage increases and NI increases, is probably another 6%. The cost of supply chain inflation is probably, let us say, 10%. So, all this is adding in, and I am not sure, other than the national minimum wage aspect—and I am not against people earning more money, by the way—what Government could do. It is really difficult to know how the Government could ease any of that because part of it is beyond their control. The energy one, could they introduce a cap on business energy? The risk there is that the cap on domestic usage is going to drive up business costs in the short term.

Q346 Chair: Michelle, just on this point about container prices and whether they are going to come down or not. We had a discussion a bit earlier about displacement and buying cheaper stuff from overseas. The problem, as I understand it, lies with this. If the cost of your container has gone from \$2,000 to \$20,000 then in order to make it economically less inflationary you want to ship more valuable stuff so it is a smaller proportion of the value of the whole container. But this almost flies in the opposite direction to Adam Smith economics where a nation like the UK, which is highly productive—we would like it to be more productive, but it is highly productive—is exporting all that low value manufacturing to Asia



HOUSE OF COMMONS

because we want to concentrate on graphene and carbon composites and silicon chips and pharmaceuticals. The problem is if we start transporting that low value manufacturing back to the UK because the container costs are going through the roof, we end up reversing everything that has been done since Adam Smith published his *The Wealth of Nations* in 1776, if I remember rightly—not that I was there. Discuss. What do you think?

Andrew Goodacre: Good luck.

Chair: Or is that too philosophical?

Michelle Wiese Bockmann: Well, I think in terms of container prices, obviously demand exceeds supply of vessels to ship it, and that situation is seen continuing into 2022. And then, of course, you have the new variant. If you look at what happened with the delta variant in China, for example, they had a zero-Covid policy, which meant that there was one terminal that had one worker that was diagnosed with Covid and it shut down for 11 days. That worsened congestion and that accelerated and amplified supply chain disruption. There is a possibility of that outcome happening next year. Container lines outlooks are certainly expecting that they will be just as profitable in 2022 as they were this year. There are new ships being ordered. I think 276 was mentioned, but the existing fleet is 4,700 so that additional capacity is not likely to meet all the demand, which is largely being driven by North American consumerism, not so much the UK. Although there is demand growth, the majority of it is in North America and that is the impact of that being met on the Asia to US west coast lines. The impacts are cascading through on other trade lanes.

Q347 **Chair:** The fact that the tonnage prices in terms of capacity and the containers have all gone up, presumably people are going to manufacture more of them to be able to meet that demand?

Michelle Wiese Bockmann: They have got to have ships to put them on.

Chair: But presumably we will be building ships as well.

Michelle Wiese Bockmann: The shipyards are already full, so they cannot take any more.

Chair: They are already full. Okay, so it comes back to the same capacity problem.

Michelle Wiese Bockmann: Yes, exactly.

Q348 **Chair:** So they can work their socks off but there are not enough socks to work off—I suppose that is a rather bad way of putting it.

I think we have more or less covered everything. Is there is anything else anybody would like to raise? Is there anything, by the way, that we have not raised that you think is a burning issue, any of you?



Tim Morris: I was just going to come back on the point about greenness and shipping and highlight the fact that, according to the Government's own statistics in terms of emissions intensity, the amount of CO₂ per tonne per kilometre from shipping is much, much greener than any other freight mode. So, if you want to reduce your emissions it is better to put your tonne on a ship than on a train or certainly a truck, and certainly in an aeroplane.

Q349 **Anthony Mangnall:** What about other emissions? Sulphur, for example, is a big problem.

Tim Morris: Yes, I think that there is a GHG equivalent element to it as well. I think there are some very significant changes that have happened and that will continue to happen on sulphur and shipping fuel, and I defer to Gavin and Michelle on that. But nevertheless, I think it is not a bad choice putting it on a boat.

Anthony Mangnall: Just to be specific —

Tim Morris: Emissions intensity.

Chair: Anthony, you are very enthusiastic but we are going to have to draw this to a close.

Anthony Mangnall: There is plenty of time. We go on until 12, Chair.

Chair: No, we go to 11.30. Listen, thank you all very much for coming. It has been very helpful. We could easily go on for another half hour but we are not going to. Thank you.