

# International Trade Committee

## Oral evidence: The Covid-19 pandemic and international trade, HC 286

Wednesday 6 May 2020

Ordered by the House of Commons to be published on 6 May 2020.

[Watch the meeting](#)

Members present: Angus Brendan MacNeill (Chair); Robert Courts; Mark Garnier; Paul Girvan; Sir Mark Hendrick; Mark Menzies; Martin Vickers; Matt Western; Mick Whitley.

Questions 119 - 138

### Witnesses

I: Carlos López-Gómez, Head of Policy Links, Institute for Manufacturing, University of Cambridge, Stephen Phipson CBE, Chief Executive, Make UK, and Elizabeth De Jong, Director of Policy, Freight Transport Association.

II: Mike Hawes, Chief Executive, Society of Motor Manufacturers and Traders, Philip Law, Director General, British Plastics Federation, and Paul Alger MBE, International Business Director, UK Fashion and Textile Association.



## Examination of witnesses

Witnesses: Dr Carlos López-Gómez, Stephen Phipson and Elizabeth De Jong.

Q119 **Chair:** Hello. Thank you all for attending the International Trade Committee's inquiry on the Covid pandemic and its effects on international trade. Can I ask the witnesses on the first panel to introduce themselves, please, starting with Stephen?

**Stephen Phipson:** Thank you. Stephen Phipson, Chief Executive of Make UK, the national manufacturers' organisation.

**Elizabeth De Jong:** I am Elizabeth De Jong, Policy Director at the Freight Transport Association. We represent logistics businesses, representing all modes of transport, domestic and international.

**Dr López-Gómez:** My name is Carlos López-Gómez and I am the Head of the Policy Links unit at the Institute for Manufacturing, University of Cambridge.

Q120 **Chair:** Briefly before we kick off, I want to ask a question, maybe more for Make UK. Yesterday Michael Gove at the Lords Committee said the UK could maybe accept a deal with tariffs in order to avoid level-playing-field rules. I think the most important part of his quote was, "If it is the case that we ended up like CETA with tariffs on a small number of goods, we will regret that, we will think it is a missed opportunity, but if that is the price that we have to pay, then, there we go". A view on tariffs that might come in between the UK and the EU. First, I will go to Stephen but if either of the other two witnesses want a brief word on that feel free.

**Stephen Phipson:** On the issue of tariffs, obviously it is critical for the supply chain of the UK manufacturing base. We still have a high proportion of dependency on the supply chains with Europe. What we do not want to see is tariffs. It would be extremely difficult. Even though tariff rates tend to be rather low, we still need to avoid them if we can. Therefore our position remains the same on that, in that tariffs are not in the best interests of maintaining a productive manufacturing sector in this country.

Q121 **Chair:** Thank you for the brevity. Elizabeth or Carlos?

**Elizabeth De Jong:** Nothing further to add on that. We would support that position—as free trade as possible is what we are seeking.

**Chair:** You are in the same position as Make UK, is that correct?

**Elizabeth De Jong:** Yes, we are seeking trade to be as frictionless as possible.

**Dr López-Gómez:** Yes, I would point out some of the statements put out by the WTO in terms of trade. It has been monitoring the trade, and the statements that it has put out are very much in line with what has just



## HOUSE OF COMMONS

been mentioned. More tariffs could lead to a domino effect and it is worried about that.

Q122 **Chair:** Thank you. Moving on, the first question that I have been thinking of beforehand is a question to all. I am sure all Committee members will direct questions to you, which helps in the management of this because eye contact is not the easiest—I can be looking at one of the three of you and you do not know that.

What overall impact has the Covid-19 pandemic had on global trade and manufacture of goods and how do you expect the situation to develop in the medium to long term? We are looking for a Nostradamus act from the three of you with your respective professional hats on.

**Elizabeth De Jong:** Thank you. This could be quite a long answer. I will try to make it short. It depends how much depth we want to go into. Logistics volumes certainly can be used as a measure of the health of the manufacturing sector. Logistics tracks both supply and demand. There have certainly been very significant shocks in the supply chain caused by Covid, and there is going to be future fragility in the supply chain during an expected period of deep global recession.

Logistics is a very flexible system but there have been unprecedented challenges. There are two areas that I hope we can look into in some detail during this session. One is containers. For manufacturing it is very important to look at the container market, as it is the deep-sea shipping that transports 80% of global trade volumes. That covers manufactured goods and components as well as energy and raw materials.

The other area to particularly look at today is air. That tends to transport high-value manufactured goods—smaller electronics, specialist parts, even some machinery—and 35% of global trade by value is by air but less than 1% of volume. Those different two main pieces of logistics infrastructure have had significant impacts but in quite different ways. They probably have different futures as well and different reactions, which I am happy to go into in more detail.

**Dr López-Gómez:** In terms of the impact, we will distinguish between impacts that are happening in the short term. The key question is: what is going to happen in the long term? Globally the WTO talks about a fall in trade of between 13% and 32%. This is likely to happen across all regions. Particularly important for manufacturing is that it will affect those sectors where demand has been more affected, of course, but also those with complex supply chains like electronics and automotive. That is a point that was already made by my colleague. In the UK, manufacturing represents around half of all UK exports. According to the ONS, around 44% of manufacturers are saying that their exporting has been affected and similar figures in terms of their importing have been affected. That is significantly higher than other sectors.



## HOUSE OF COMMONS

However, in terms of the disruptions, it might be worth differentiating the immediate impact, which has to do with the closure of operations, factories that are not able to bring in their workers, and also in the long term there are some manufacturing sectors that have seen a spike in demand. Of course, you see immediately that we need more protective equipment. Food has been stable, but in the long term, despite those gains in a number of manufacturing sectors, we have seen overall that the impact has been negative, mainly driven by sectors like motor vehicles, transportation equipment. Overall the impact has been significant to manufacturing, so the question is: what is happening in the long term?

**Chair:** You were talking about manufacturing equipment. We met earlier with EU Commissioner Hogan. Apparently before the crisis there were only 10 companies in Europe manufacturing protective masks and now it is up to 550 or something like that, so there have certainly been some changes.

**Stephen Hipson:** We have just conducted some surveys so we have some recent data on the effect in the UK and we can talk a little bit about that. First of all, it is a patchy answer to start with. As has been mentioned, we have seen an acceleration of food and drink manufacturing, which, as you will know, employs about 500,000 people out of the manufacturing sector's 2.7 million total. That is operating at about 120%.

Medical devices continue on about the same level as normal. If you look at the whole of the manufacturing sector that is manufacturing medical devices, that has been sustained through the pandemic period. Other sectors, as you will also know, are at pretty much a grinding halt, including automotive. I know you are going to speak to Mike later. He will talk about the grinding halt in that sector and the effect on the supply chain there and the same for other parts of it.

We have seen a late decline in the aerospace sector. That was holding up quite well but recent announcements have meant a lot of cancellations in the aerospace supply chain recently. That is starting to affect quite a few companies that are at the high-tech end of the manufacturing in the country.

On the supply side it is supply and demand, if we look at it. One thing that is concerning is in the data we have seen around 50% overall of manufacturers reporting significant declines in economic activity, but around 80% now are saying their export orders are rapidly declining. Although when they come back to work we will see a little bit of an uptick because people will be producing what is in their backlog, what worries us at the moment is that the ongoing demand—particularly on export orders—has fallen off quite dramatically, so we can see people rebounding a little bit and then going back into a low level of economic activity if we are not careful.



## HOUSE OF COMMONS

The last point is around supply chains. Critically important supply chains for UK manufacturing revolve around Asia for electronics and particularly for Europe for sub-assembly work in different parts of our capital goods manufacturing. The release of lockdown by country will affect those supply chains being able to get up and running again. I know we will get on to this later, but there is a lot of thinking going on about the resilience of supply chains going forward and how they might be reconfigured. That is something that might be of interest to discuss a little bit later on.

**Chair:** We might talk a little bit about demand shocks and supply shocks that we might want to look at as well.

Q123 **Sir Mark Hendrick:** I want to focus on the impact on supply chains. How do people feel that the Covid-19 pandemic is disrupting manufacturing, looking at the areas in particular of industrial and heavy machinery, capital goods, high tech, semiconductor and consumer electronics? The impact, particularly in China, on manufacturing has had effects around the world. Could the panel give their views on that and about how justified fears of a second shock may be, resulting from lockdowns across manufacturing supply chains and, therefore, reduced consumer demand further down the line? Stephen touched on some of that in his comments earlier. Could each member of the panel flesh that issue out a bit?

**Stephen Hipson:** I think there has been a realisation. Among a lot of the national committees we are running with large and small businesses, there has been a wakeup call about resilience on single-source sourcing on the supply chain, particularly on long supply-chain items. There is one capital goods manufacturer that said to me they can source everything except for one small electronic subassembly that came from Wuhan, China, on a single-source basis. That gradually brought to a halt their whole production process because of that.

There is a lot of thinking going on at the moment about how we might build resilience into those supply chains going forwards, which means we start thinking about dual sourcing and in some cases on-shoring and in other cases making sure we have shorter routes of supply than we have at the moment. Over the last few years, there has been a tendency to go for cost and volume and making sure we can optimise those supply chains globally, which is great until you get a pandemic and then all the weaknesses come through very clearly. That is what is happening right now, so there is going to be realignment in that. The question around that realignment is: how long is it going to take?

To your second question, there is a lot of risk if there is a second wave of pandemic that some of those lengthy supply chains, which will persist—and some of them will persist for some time. You mentioned semiconductors. It is unlikely we are going to be investing in £1 billion fabs very quickly in this country, so thinking cleverly about how to resource those or how to build in resilience is going to be important, otherwise a second wave will have just as bad an impact as the one we are seeing at the moment.



**Dr López-Gómez:** You mentioned also the issue of China. It is very important that you have mentioned that because obviously China is a supplier. It is part of a supply chain of countries around the world. The effect in China that we saw in January and February combined was bigger than what happened before in the SARS crisis in 2002-03 or the financial crisis in 2008-09. We have heard about companies, as was just mentioned, such as automotive companies in Japan that are not able to produce because they do not get the imports, pharmaceutical companies in China that are not getting the imports and western European electronics factories that are not able to get Chinese parts, so the impact of China has been definitely important.

Thinking about future demand—and we probably will talk about this a bit later—what is interesting that we have been observing in our work is the policy responses in other countries to think about how the demand will be developed and what can be done to address the demand. Obviously we have the immediate crisis, the immediate shutdown of activity, the lockdown that reduces the demand, but a question that many countries are asking themselves is how sectors are going to recover in the future.

One key point to highlight here is that the response is very different for different sectors, as you mentioned. We have seen how the Koreans are thinking about their automotive industry of the future. China is thinking about its textile industry of the future. It is the same as we are seeing in other countries. The point is the response and the impact is very different in different sectors.

**Elizabeth De Jong:** Thinking about China, thinking about the container market and the volatility that that has been through in the shocks. Production was first hit in China, reducing volumes through our UK ports by about 30%. That was followed by a period of recovery of production, when the containers that had been ordered and the goods that had been ordered were sent off.

There has been what has been called famine-feast-famine, but in fact the feast is more about normal volumes, but we have been very concerned about receiving those as an industry. About 50,000 containers a week come into Britain but their end destinations, the retailers, the manufacturers, many of those were shut, so where are we going to store them? Logistics found a way through. The Government helped with that. They found RAF bases, one in Suffolk storing 20,000 containers. However, we are seeing and expecting a more permanent slump now until demand pulls back in the economy. To do that, we need to be able to safely shop as well as safely work and safely earn more money to get that back for Britain and around the world for exporters too.

Thinking about the second wave, I think the impacts will be less bad if we have future waves of this. For one reason, the pandemic will have gone from near the bottom of risk registers, given the likelihood we thought of it happening, to near the top. There will be lots of thought put into it. Our



safe working practices, we will have worked those through and what financial support optimises output in the economy and we will have proved in a number of areas. There will be price rises in order to pay for some of that. We have moneys that we have spent that need to be built up again to help resilience of different businesses as well, where we need higher levels of cash and so on and higher levels of stock to help for future impacts like this. There will be a lot of planning done around it this time.

Q124 **Mark Menzies:** How has the pandemic affected global patterns of demand for manufactured goods and how effectively have UK exporters been able to respond to any changes in demand?

**Stephen Hipson:** First of all, obviously there has been a large reduction in export orders. That has been the first example that we have seen. Also there is a little bit of concern about joined-up thinking in Government here. A lot of the goods are moved by sea freight and containerised freight, but there is a high dependency in this country on air capacity and airfreight, particularly for exports and for critical supplies. Certain parts of the supply chain depend on airfreight, so making sure we have a joined-up approach to restart at some pace and some quantity the airfreight side of it—making sure Heathrow is fully operational, for example, and making sure we have the right airlines, with all the difficulty around there at the moment, to sustain this going forward—is important.

What we are seeing is a number of other Governments taking action to make sure they are there. They are absolutely vital to many of the supply-chain issues are talking about. Although bulk items do come by sea, a lot of quick freight, particularly on responding to export demand, goes by airfreight. We are seeing other Governments intervening to make sure that they can have that capacity available. I know from the experience of talking to some of my European peers, some of them see it as a competitive advantage to restart. If they are able to respond quickly to export demand using airfreight, for example, that puts them in a very good competitive position and we need to be in the same place. This is one of the messages in terms of responding to this and in terms of export demand, in particular, that we are bringing to the attention of Ministers at the moment.

**Dr López-Gómez:** The first thing to say is that manufacturers, according to the ONS, are reporting that turnover is substantially lower than normal. Over half of manufacturers are reporting that compared to 63% in other industries. The immediate demand shock is real and is being felt across manufacturing industries. We talk about a number of manufacturing sectors or subsectors that have seen a spike of demand, like medical equipment, of course, and protective equipment, but the overall effect is negative.

An important question to address is also the long-term demand. Again, I will go back to these plans and strategies and thinking that we see internationally to start developing strategies and roadmaps to emerge



stronger. How do we address those drops in strategic sectors, like automotive, aerospace, and what is it going to look like? Because we cannot expect that, just as we lift the lockdown, the demand will go back to normal. Obviously many factories are still closed, people are not working and the lifting of the lockdown does not mean that demand will go back to pre-crisis levels.

Q125 **Mark Menzies:** Thank you. Could I return to Mr Phipson? How much has operational disruption such as reduced manufacturing capacity affected the ability of UK manufacturers to meet export orders?

**Stephen Phipson:** It is a mixed picture and again it depends on sectors. Generally speaking, we have seen a lowering of export opportunities, definitely. You can see that across the piece, you can see that in long-term order books.

The reason I mentioned the Heathrow and aviation example, in terms of responding to quick demands, that has been a real challenge. In the case of the reduced airfreight capacity, in some cases we have seen rises of up to 500% in airfreight charges. That has meant that some of those that can respond have not been able to. Again, it is a holistic approach to this. It is not just one sector. We need to look at the whole system to make sure we are fit to respond to these opportunities when they arise.

Q126 **Chair:** Can I pick you up, Stephen Phipson, on that last bit about airfreight? Is there a feeling that there is profiteering going on? We have had mixed messages. Last week's panel felt there probably was. What is your view?

**Stephen Phipson:** My honest answer is we do not sense that. What we sense is a severe restriction of supply increasing prices. There may well be some instances of that; I am not aware of them myself. There is a much greater concern about capacity, I would say, than there is about profiteering in this case.

**Chair:** That is a good answer. Can I turn now to Mick Whitley, and Paul Girvan is going to come in as well. Mick, can you unmute yourself, please? It is not often MPs silence themselves. It is probably a welcome thing by the general public.

Q127 **Mick Whitley:** What impact has disruption to freight transportation had on the ability of UK manufacturing businesses to import and export goods?

**Elizabeth De Jong:** I can start on that. Just before I do, I want to go into some of the issues on air, which are relevant to this question but also Stephen spoke about them earlier. I can give some stats around volumes. Freight airlines and freight air volumes have been very affected by the near curtailment in passenger air volumes of over 90%--we have been reading today about 99% in some areas—and 60% of airfreight is in the bellyhold of passenger planes, as I am sure you will know. The contraction overall was about 35% down year on year to March, but, by



## HOUSE OF COMMONS

the end of April, the figures that were release yesterday showed that the contraction was 29% down year on year, so there has been an increase in freight availability and I expect that we will see more of that as the logistics and supply chain adapt to where the money is.

There has been an increase in freight-only flights, freighters, by about five times and some passenger aircrafts modified to take freight. You may be aware of Virgin, for example, coming from China three times a week to London carrying medical supplies. There has been a small increase in load factors but that has been around 5% as well.

Prices are increasing, though. Part of that is about rationing demand, part of that is about trying to get business cases. I have not been widely receiving reports of profiteering, so I cannot comment on that, but the fluctuations have been quite severe, last week 17%. Stephen mentioned some from Shanghai to Europe, and mentioned much bigger numbers.

The concern there is about recovery. In order to get a freight service to work, particularly in the less busy parts of the world and goods coming in from there, you generally need a business case that covers both passenger moneys and also freight moneys together in order to cover costs and cover this comprehensive network. Not being able to do that, because there are many hurdles still to restoring passenger flights, will impact on goods coming into the UK from that as well.

In terms of impact on manufacturing, maybe Stephen and Carlos want to talk more about that.

**Dr López-Gómez:** It is important to make the differentiation. The spike in demand in medical equipment and protective equipment and the impact on the supply chain has to do also with the fact that every country is trying to buy this kind of equipment and these kinds of goods. One of the interesting practices that we have observed around the world is trying to have a national supply-chain taskforce that is monitoring the shortages that happen in the short term in the country and trying to address those, either bringing in goods from abroad or redirecting and repurposing manufacturing capabilities—as you have mentioned, Mr Chair—of those companies that are repurposing their manufacturing companies to address that spike in demand. The demand, the transportation and the global supply chain has to do with that emergency need right now.

As I was mentioning as well, it is not necessarily the case that a spike in demand is just for a limited number of sectors and in the long term it is very different to other sectors whose demand has collapsed in the short term. In terms of manufacturing firms, we know that many of them are not operating now, but in terms of the number of factories that we see closing, that is in line with other sectors of the economy.

**Stephen Phipson:** I have two points. On the airfreight point, I completely agree with Elizabeth. One thing we have seen is the mix change towards medical devices for manufacturing has been a large



priority, and rightly so, in terms of what is being air freighted, and using that capacity. On freight more generally and to the question earlier, obviously there is a high dependence on European supply chains for UK manufacturing. Road transport in particular, when there is a lockdown and borders are closed, means that although many of our manufacturers could operate, they are unable to because they cannot get supplies of the components across the borders. The impact of the reduction in the freight transport volumes across borders in Europe has had a significant effect. It will continue for some while to have an effect on the ability of manufacturers to restart and to operate, a very significant effect.

**Elizabeth De Jong:** Stephen, you may be talking about demand and production through the borders, because we have been quite impressed with the intra-EU work around borders to speed border processing up. There have been some hiccups where there have been delays but mainly with green lanes, more EU documentation, freight transporters being recognised as key workers. We have been impressed how people have worked together on any border delays and they have not been as significant as perhaps they could have been.

**Stephen Phipson:** Sure. More of it has been around where they have closed complete facilities. In Italy, for example, where our automotive supply chain is dependent on certain components and nothing has been able to be shipped out one way or the other, so effectively that closes down our manufacturing because we cannot get a supply of the components.

**Elizabeth De Jong:** Because that factory or production unit is not working.

**Stephen Phipson:** Yes, and they will not let drivers in to pick up and that sort of thing. There is a combined effect there, I would say.

Q128 **Mick Whitley:** The resilience in the supply chain, does that mean dual sourcing would happen, or local sourcing of components?

**Stephen Phipson:** It means a really close look at that. In some cases we do not have the capacity here to produce certain parts that we need for our supplies. Then it is a matter of attracting the right investment into onshore. On-shoring is certainly one part of it. That is more, I would say, a medium to long-term economic incentive to get people to do that.

The other point is about dual sourcing. It is about going away from the wide practice that has been happening over the last few years about single sourcing. Because the supply chains and the freight system are so efficient, people have been able to single-source parts in China and rely on that for their production, and move to another wider point about making sure they can fit those into their just-in-time manufacturing systems.



One comment I am getting back from a lot of chief executives of the larger companies is that just-in-time will probably change substantially from this point onwards, as we have to do checks on delivery drivers as they come through gates, as we have to clean parts differently before they go into manufacturing. This will mean a rethinking of the whole way that those supply chains are constructed. We are going to see quite a lot of that being built into the purchasing decisions going forwards, I think.

**Q129 Paul Girvan:** On the back of that—and I thank the panel for the information they are giving us—in relation to the just-in-time approach that has been a culture that has built up within industry and throughout the UK and the world in general, and we are having to rethink that. The difficulty that we have is in relation to connectivity.

Yes, mention has been made in relation to converting and carrying materials in the bellies of passenger planes, but at this crucial time when we are trying to bring back some businesses that can meet with the distancing rules, because of lack of connectivity everything is making its way to certain hubs but the transport links that we have from those hubs to other areas, because—using the passenger planes as an example—we only have one flight coming in and out of Belfast per day to London and no other passenger planes coming elsewhere in and out.

We are heavily reliant upon road freight. We have a difficulty in ensuring that we have adequate road hauliers, because this is a problem. We are heavily dependent upon them. The haulage industry has a difficulty in meeting some of the requirements at a local level. That is impacting upon our ability to do international trade, because we have a very large pharmaceutical industry in my constituency that depends heavily upon getting chemicals from the other side of the world just in time. It is now being brought in—instead of coming into our local airport, where it would land in London, be transported in the belly of a plane and brought to a local airport here. I appreciate that 35% of value of goods but only 1% of freight is going in the belly of planes but it is a very important sector. How do we ensure that we have the resilience within our road haulier end of things to ensure that our international trade is not affected because of that aspect of it?

**Elizabeth De Jong:** We have been looking at Northern Ireland and are quite active in that area. Northern Ireland is one of the areas of the UK that has met the very high bar for sector-specific support. There is rightly a high bar for Treasury support of specific sectors in our area. I know there has been some funding for GB-Northern Ireland ferries and Belfast airport as well.

Over time I think we are going to find quite substantial changes to our relative costs. We run generalised cost models looking at time, looking at distance, looking at fuel costs, looking at backhauling and efficiency of our loads and they are going to change in a number of ways until the demand in the economy returns. It will be quite a bumpy period but logistics is very flexible and we will find a way through. It is a very active



## HOUSE OF COMMONS

area that we are going to have to continue to monitor as well, and we are monitoring those with Government about the different areas and what demand and what prices and the financial performance.

**Q130 Chair:** Again this morning, when Commissioner Hogan was speaking about the EU's thinking on this, there is a big issue at the moment about self-sufficiencies or the just-in-time supply chains. The thinking is moving to a third wave—I am in danger of quoting Tony Blair here—of looking at the vulnerabilities and maybe the parallel supplies to see where the real vulnerabilities are. In Make UK are you in that sort of area as well? You have intimated there is going to be some sort of change going forward. I am interested in a little fleshing out of that in about 30 seconds.

**Stephen Phipson:** Sure. I think we are going to be moving away in manufacturing from purely cost-driven decisions on sourcing to cost and quality, which is where most of those sourcing arrangements have been thought about, so introducing risk into the discussion. We are going to see a lot more risk assessments being made in terms of the supply chain than we have seen previously. As I said, we are going to see a lot more people thinking about dual sourcing and we are going to see a lot more people focusing on what is possible to onshore. That is a really good opportunity for the UK because that means we can rebuild some parts of our manufacturing capacity that have been lost to this globalisation over a long period of time. Even though the logistics systems are extremely efficient, the pandemic means, as Elizabeth said earlier, it will raise the risk profile up the risk register so that this is part of the decision-making going forward. That will drive a change in behaviour, definitely.

**Chair:** Hopefully my last quote from Commissioner Hogan today—just backing up Paul Girvan there—he said that 10 of the top pharma companies in the world are based in Ireland. There is certainly a concern that there is stuff to be got in and out of Paul Girvan's neck of the woods.

**Q131 Matt Western:** Thanks for that. It was very interesting. I would love to talk about the vulnerabilities of UK manufacturing another time. This whole reappraisal of supply chains and so on is very interesting.

I want to look briefly—with two quick questions—at how the Government have responded to the impact of the crisis on UK manufacturing and specifically how it has identified the challenges that have been faced by UK manufacturers and how it has responded to them, particularly those manufacturers that trade internationally, and what further support or measures you feel the Government could be taking. That is to Dr López-Gómez and Mr Phipson.

**Elizabeth De Jong:** And me.

**Matt Western:** Yes, of course.

**Dr López-Gómez:** We have been monitoring international policy responses focusing on manufacturing supply chains from around the world. Of course, the disclaimer here is that we have not evaluated these policies. Everything is changing and we do not have full visibility of what



## HOUSE OF COMMONS

is going on in the UK, so these examples perhaps are to stimulate a debate more than anything else.

Again I will distinguish between those responses to the short-term emergency and responses that are looking like they will be needed long term. In terms of immediate responses, short-term responses, interesting practices that we have seen internationally have to do with a co-ordination mechanism, a national supply-chain taskforce that is monitoring the supply shortages and how we might address those. We have examples from the US. The Federal Emergency Management Agency team has been dealing with these kinds of issues in the past and it has created a new Covid-19 supply-chain taskforce. We have similar examples from Taiwan and China and Korea that there have been more details on.

More importantly, going beyond the crisis, some practices that I will highlight have to do with the thinking that is going on. It is very much related to thinking about resilience and thinking about the manufacturers, thinking about understanding the capabilities of the country, practices and roadmaps to emerge stronger, and how can countries think about growing their manufacturing capabilities into the futures. For example, in Singapore, the response is called Emerge Stronger. It has a number of components. It includes supporting emerging sectors, actions to rejuvenate current sectors and support for the adoption of digital technologies, for example.

Korea is interesting as well. It is looking at boosting private demand, private consumption, in next-generation products and industries in which it believes it can be a player. For example, it has a comprehensive strategy for the car industry into the future, given the effects and the shocks that its car industry is feeling right now. It is also giving some refunds for purchases of high energy efficient home appliances, for example, which it thinks it can stimulate demand to pull the manufacturing sector in that direction. Even China is encouraging clothing companies, textile companies, to move into higher value-added sectors such as protective equipment and protective clothing for the space industry.

Part of the response that we see, of course, is understanding more of the risks. There are many examples and some interesting examples of how you might do that but that is coupled with understanding the capabilities as well. Interestingly, mainly driven by the United States Department of Defense, for example, it has done this assessment of risks across 17 different manufacturing sectors. It is very different for different sectors but one of them is single source. That is probably the most immediate one that it is going to be focusing on.

You have other kinds of risk, for example, just relying on a single region, for example China, of course. You will see countries like the US, like Japan, thinking to take their subsidiaries around, even if it is in the same



## HOUSE OF COMMONS

region, so that they can also operate, for example, in south-east Asia. There are different types of what they call risk archetypes and they have very different answers for different sectors depending on the length of supply chain, depending on the management, depending on their current capability.

**Stephen Phipson:** Two broad points I would make on that. First of all, Government response domestically has been good. We have been working very closely with Government on all the support schemes, which are about keeping our domestic capacity around us, the job-retention scheme and those sorts of things. That is not the subject of this Committee but there has been a lot of work with Government on that on a daily basis—and over the weekends recently as well—which is iterating those programmes to make sure we do come out of this with a manufacturing capacity that is intact, which is important.

There are two themes we need to focus on from an international perspective, which is important. One is this focus on keeping trade barriers low. We must do that going forwards. What we must resist, and what we are starting to hear from some of our peer groups in Europe and in the US and in other countries, is discussions around hardening of borders, hardening of border controls—to the point Carlos made—around stimulating packages for their local industries, precluding the import of overseas parts maybe from the UK, trying to boost their own production, making sure that is the priority first.

We must be alive to these issues and make sure we intervene at the right stage to make sure those measures that are brought in by other Governments do not preclude our exporters from being able to access those markets. That is going to be an interesting almost protectionism-type theme that we are going to see over the next 12 months. We need to be really, really clear about our policy position when we are presented with those kinds of barriers.

**Elizabeth De Jong:** I agree. Domestically we have been very, very impressed with the amount of engagement, both through trade associations and also businesses at very senior levels, almost continual, in fact. There have been some very, very useful general decisions as well about key workers, cross-borders and focusing on those throughputs at borders through e-documentation. Some help as well on duty, delaying duty if that is needed.

Now we want that focus on restart and recovery, getting demand up, careful phasing out of the financial support, keeping the borders open, airports and ferries in particular, and work on the border speeds around green lanes going forward, as passenger demand, particularly on roads, could become more congested. We have lots of questions around quarantine processes through borders and for freight staff as they go through borders and how they will get their health checked to still work on with Government as well, those safe operations without quarantine or



## HOUSE OF COMMONS

delay. We are now beginning to look with Government at what projects we would want to do for the longer term that would increase the productivity of our sector, change what we prioritise there, change how we operate in our ports and so on, and also talking about the importance of trade deals, to pick up a point that Stephen made there.

In terms of international policies, the UK and EU have been delivered—there was a United Nations Commission for Trade and Development. It gave a 10-point plan for international trade facilitation and support. I was looking through the 10 points in those plans and broadly they have been delivered in both the UK and the EU. There has been a lot of focus on both domestic trade and international trade as well.

**Q132 Chair:** You mentioned there, Ms De Jong, the quarantining. There has been an issue there. I certainly know that people from Scotland who are working in the Norwegian sector are quarantined for two weeks going into Norway but there is no quarantining at all when they are coming back. I am talking the Norwegian sector, the North Sea oil. In freight and transportation, you have touched on that there. What are the issues there?

**Elizabeth De Jong:** It is still not quite settled. There is a lot of discussion about passengers being quarantined as well, just as you pick up. Although we have had some commitment around freight operators not being quarantined if they are asymptomatic, as long as safe operations are in place, we need to know what those safe operations are and what is the testing and the tracking. Because the delays for doing that at the borders or for taking key members of the whole supply chain out for periods of time would be another interruption that our economy and businesses could do with working through so it does not happen.

**Q133 Chair:** Thank you. A small issue I am not sure was covered is on trade credit insurance, which is about the supply of fuel to airports and ports and airlines and shipping companies. Is anybody able to enlighten me on that? We have had a few submissions on trade credit insurance.

**Stephen Hipson:** We have been working quite a lot with BEIS and the Treasury about the credit insurance market in general. This is slightly off-piste here but we are looking that through the CBILS loan scheme. The reason why sub-£45 million companies in manufacturing are not able to access it is because they are using invoice discounting through the credit insurance market. I know there is a piece of work going on with ABI with Treasury at the moment about what Government can do to intervene in that, but I am not familiar with the issues around the air freight fuel costs and things like that. Maybe that is something Elizabeth knows something about.

**Elizabeth De Jong:** Not in the detail that would be required, but if you have a specific question I am happy to follow up in writing on that.

**Chair:** That is excellent, thank you very much.



**Q134 Sir Mark Hendrick:** I want to focus on policy responses in other countries and also the question of international co-operation. The World Economic Forum has recently pointed out that if the global economy is to avoid prolonged economic distress, we need a co-ordinated policy response, as advocated by the UN in multilateral policy institutions. Obviously, the WTO would seem to be the natural forum for that co-operation on trade matters.

Stephen touched on it in one of his responses. At the moment, an international co-operation environment is the best way forward. Looking to the medium to long term, all this talk about on-shoring and a degree of protectionism starts pulling in the other direction as a response to the sorts of things that we think we need to do now to get through this.

What lessons do you think can be learned from actions that Governments from other countries have taken to support their manufacturers trading internationally, and how effectively do you feel that the UK Government have worked with global institutions and trading partners to mitigate the negative impact of the pandemic on manufactured goods?

**Elizabeth De Jong:** The EU made a number of recommendations to keep borders flowing around the green lanes and more e-documentation. We have seen a few delays inside the Schengen area. I am talking about the border processes. That is the area that we are looking at rather than supporting the whole manufacturing sector and whole supply chain. I imagine all these things can be improved and co-operation is something we definitely would be supporting and wanting to see.

Likewise on the UN Commission for Trade and Development and its recommendations, they have broadly been taken in both the UK and EU to make sure that those shipping and border processes are as uninterrupted as possible and ports are open, customs clearances, trade facilities, trying to do it as paperless as possible. We do not have a list at the moment of recommendations for improved international work that would affect our businesses. I am sure that we may learn things in the longer term around that.

**Dr López-Gómez:** I want to highlight some international responses in the short term. The WTO has had a key role there to play to make sure that the global supply of critical goods is distributed fairly and obviously trying to direct those to the most affected areas internationally. That is the short-term need. A lot of the discussion internationally is around that.

Just as it is a discussion within countries, nationally you need to distribute also to those areas that are more affected. You see responses, for example, in the US again, thinking of the national visibility of, "How much are we producing, how much are we bringing in, what is the gap and how might we co-ordinate this between the federal and the state Government?" Again, FEMA is an interesting example. It has a project bridge, for example, that is in collaboration with the different agencies in the US, over the cost to fly in supplies to the US. That also reduces the



## HOUSE OF COMMONS

time that it takes to bring in these critical items from weeks to days. That is an interesting practice.

I will point out that the initiative in Taiwan, the Team Taiwan, which is collaboration between the machine-tool industry and medical device manufacturers and also with the public technology centres so that they can ramp up the production of masks. They have managed to triple the production of masks within six weeks. Now it is one of the main producers of masks in the world.

The key lesson here is the role of innovation and technology in the short term, but also in the long term in terms of practices, what we are seeing are roadmaps to emerge stronger, how these industries can be rejuvenated, how they can go to higher value-added segments taking into consideration their current capabilities. Also there might be very good opportunities at this point to think of how countries may be able to tackle global challenges. The issue of international innovation is quite important and we need to tackle issues around energy efficiency and climate change. They are global problems and require global responses.

**Stephen Hipson:** It is a really interesting time. There has been the starting of some very interesting international responses to what has happened here. Building on the point that Carlos was making about Team Taiwan, if we look at the New Zealand-Singapore initiative around medical devices, which eliminated tariffs, removed all the export restrictions between them and then basically any other non-tariff barriers that were there. The joining of that initiative by Canada, Australia, Chile, Brunei and Myanmar made a bloc there that is now trading in a very different way around critical medical supplies.

The question is: are there going to be more of these groupings formed and can it go outside of just the medical supply area? If it is possible to do it there, surely it is possible to do it in other aspects of global trade. We are interested to watch and to receive directly from those countries information about how those new initiatives are developing. In the UK sense, we should be considering the same sorts of approaches if we can.

Q135 **Mark Garnier:** Stephen, I want to ask some questions about the concept of near-shoring or indeed on-shoring production. You speak on behalf of manufacturers within the UK. One of the important economic points about the way we manufacture in this country is that we offshore all that stuff that is low productivity, those cheap things to manufacture, and want to concentrate on exciting things like graphene and carbon composites and all those things.

The problem is if we start on-shoring all of this cheap stuff that we have shifted off to China or India or whatever, we will not have the capacity to be able to take on all of that cheap stuff, and of course your members are now going to be confined to manufacturing stuff that is not going to make them a lot of money. What are your thoughts about the possibility of de-reducing the productivity of the UK economy as far as it relates to



manufacturers?

**Stephen Phipson:** You are completely right. The chances of us on-shoring white goods and consumer electronics are minimal. We are not going to be doing that. There is no way we have the capacity to do it, we cannot do it in the volumes that we are talking about. That has to remain an international trade.

What we are talking about is that the UK manufacturing sector is, as you say, a high-value manufacturing sector now. We produce innovative products; we are very good at integration. If you look at our car plants, they are basically integration plants. Long gone are the days of big machine shops and everything else supplying onsite. It is really about examining the criticality of parts. I can cite some capital goods makers where that one component, because it was a few pennies cheaper, they bought it from China rather than a local supplier and now that stops the shipment of £250 million worth of capital goods because of one component. It is that sort of thing that will be re-examined in great detail now in terms of building resilience into that supply chain.

Do I think the structure of manufacturing will change as a result? No, I do not. Long gone are the days of us building £5 radios in this country in massive volumes. We are just not set up in many aspects, both economically from a labour perspective or anything else, to do that. The value-added that we produce in manufacturing is at the higher end of the scale.

It is at the innovative end, as you say. We are not quite at graphene yet but certainly aerospace components and electronics for the professional electronics market, aside from automotive, where we have carved out a very important consumer goods role in terms of what we are able to do in terms of logistics and integration there. The rest of it is high-value manufacturing. It is going to be about making sure that is sustainable, reliable and is not impacted by things like pandemics going forward.

Q136 **Mark Garnier:** Thank you very much, Stephen. That is very helpful. Elizabeth, if I can turn to you, you are also very much part of this whole problem in terms of the supply of everything. You mentioned in an answer earlier about stockpiling to try to get around some of these problems that you are seeing at ports and all the rest of it. It is a similar question when it comes to capacity. Ultimately, do we want to start dedicating huge amounts of warehouse space to stockpiling goods because we are not entirely certain about how free the ports are going to be? Were I to dare to enter this hackneyed old area of Brexit, we still do not have a trade deal with the European Union, so we do not know what the barriers to entry will be in terms of port usage as of 1 January next year. What is the answer to this?

We have had a lot of problems thrown at us over the last two or three years, including by the pandemic. The problem is that the answer seems to be slower supply chains, more stickiness at ports, more warehousing,



more stockpiling. This is not sustainable because it comes back to the productivity element; you cannot tie up your capital in piles of stuff that is not moving through your manufacturing process. Discuss.

**Elizabeth De Jong:** It was not quite stockpiling, it was increasing stocks. I do not think any of us would want to have condoned—even though we were tempted ourselves—stockpiling food because we were concerned a little while ago. The natural response in the shorter term to this issue is to increase your stock levels, for resilience, and also increase your cash levels.

As an industry, we are very efficient. We are always seeking efficiencies. That is why we have margins of 2%; we want efficiency all the time. Over time that need for efficiency will get better, longer-term solutions, which will not involve so much cost because that is what we are always trying to focus on, and we will trade off cost resilience until we do find ways through and solve problems. As manufacturing and logistics industries, we enjoy solving problems.

As for Brexit, we as an industry want to get stuck in now so that we can deliver things by the end of the year. There is so much to do, still to agree, and to plan for.

Q137 **Mark Garnier:** Hang on. You have six months to go. I can remember having a conversation with the port authorities three years ago. They said they would happily—well, they were not happy about it, but they would do whatever was needed to do it—smooth computerised customs processes and all the rest of it, but that it would take them three years to deliver it. They still do not know what they need to deliver. Potentially, we will not be able to have smooth computerised customs processes until the middle of 2022. That is a big problem for you and your customers at Make UK, and the SMMT, who are coming up next.

**Elizabeth De Jong:** Yes. At the beginning of the year, Michael Gove said that there were going to be two types of borders, one was an operational border by the end of the year and then we would have a more e-border, smoother border, as a project to come. We have very suddenly become better at doing e-types of delivery, so there may be opportunities to bring that forward. Also, a lot of our transition period has been lost because both Government and industry have been focusing on Covid and that has taken a large chunk of the preparation period. We have written in to say that we are concerned about how much needs to be done to get us even operationally ready for the end of the year, and whether or not we are now thinking that an implementation period might be a sensible thing to have. No one wants sticky borders. We want it to work.

**Dr López-Gómez:** I want to respond a bit about the issue of stockpiling. Perhaps I can bring it back to the importance of the manufacturing engineering capability in the country.



## HOUSE OF COMMONS

Manufacturers have come together to address that issue by repurposing. Manufacturers are now producing critical supplies. That has to do as well with the need to have visibility of supply chain shortages and what can be done, given our collective ability. That also is important because of the issue of productivity and growth that you mention. Manufacturing has a key role to make sure that we have the capability in the country to scale up those new technologies—like graphene that you mentioned—and those high value-added, productive jobs stay here in the country.

We need to move from thinking that manufacturing is just 10% of the economy today because it still, on average, has high value-added jobs. The pound per hour in manufacturing is higher than in most service sectors. We can only get growth and productivity back if we increase the number of sectors that make up the economy that have high value-added per capita.

**Chair:** I will pull in Martin Vickers now on this one, and can I apologise as well for what is known in the trade as “a charring malfunction”.

Q138 **Martin Vickers:** On this occasion, Angus, I will let you off.

I recognise that we are overrunning our time, so perhaps I could invite each of the witnesses to consider the lessons that we have learned from this and how we will use those lessons when it comes to responding to future shocks against the system, and perhaps comment on what lessons the manufacturing sector has learned and also what advice you would give to Government.

**Stephen Hipson:** The most important point of learning going through the whole sector at the moment is around resilience; it is about the fact that we have spent the last decade or so building very complex supply chains and depend on very efficient logistics systems to deliver just-in-time manufacturing. It has worked extremely well and created a lot of value, but when things go wrong like this then resilience becomes the watchword. Resilience becomes the issue. People are very concerned that very high value manufacturing operations are stopped by very small-value parts coming from the other side of the planet. Whether there is another way of dealing with that issue will be on the minds of most people.

As far as Government advice is concerned, one of the key issues that we have talked about today—which I would underline again—is to make sure that trade barriers are not erected in this time of recovery as people seek to stimulate their own domestic demand, and look to try to create jobs locally in a depressed environment. You do not want to see the result of that being trade barriers going up and increased protection. That would do untold damage to the exporting prospects of the very valuable part of the 45% of exports that is manufacturing in this country.

**Chair:** Thank you, and as they say on “Newsnight”, you have 30 seconds, Carlos.



## HOUSE OF COMMONS

**Dr López-Gómez:** I will just probably highlight a couple of points. The lesson is that there is a need to better understand the supply chain capabilities and the manufacturing capabilities in the country. Some sort of supply chain task force would be important and that requires—perhaps, from the Government perspective—more policy evidence going into the decision-making process, which maps, per sector, the kinds of risk and what can be done.

I will go back to the points about innovation and technology. We have learned that innovation and technology can help us today to address those emergencies and increase the capacity to produce, but also in the future there is something that needs to be done to rejuvenate the current sectors and think about the industries of the future. Where will their higher value-added, agility and economic growth come from?

**Elizabeth De Jong:** I will give a closing thought. We have been focusing on the supply chain. The other part of that is, of course, demand, which fuels the supply chain. My recommendation going forward will be to look at ways that we can come through these types of events again without impacting on demand as severely as we have done.

**Chair:** I thank the first panel. We are left with a number of things there. I was particularly struck by the quote from Stephen Phipson about large-value manufacturing being stopped by small-value components coming from the other side of the world. Maybe that is the riddle that needs to be undone in future.

I thank you all for coming. I know that as consumers we are all dropping demand at the moment—perhaps airlines are a good example—and when we want to demand again, will the supply be there? That is a question that will be all over the economy in various bits and pieces: perhaps it is one of the more easy things that consumers can understand.

Again, thank you for your time.