House of Commons
International Trade Committee

The COVID-19 pandemic and international trade

First Report of Session 2019–21

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 23 July 2020
The International Trade Committee

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Summary

The outbreak of the COVID-19 pandemic caused an immediate and severe impact on international economic output, trade and investment; and this has been reflected in the UK, across both manufacturing and services sectors.

The pharmaceutical industry has been affected by significant and distinctive shocks to both supply and demand, compounded by trade policy interventions in some countries. While UK supply chains for medicines have proved to be resilient, they can only be stretched so far. The Government must ensure that buffer stock of medicines (which typically only lasts up to six months) is being replenished in case of a further pandemic wave. The Government should also evaluate the case for enabling compulsory licensing of therapeutic drugs or vaccines in respect of COVID-19 to make them available as quickly, widely and cheaply as possible.

The medical supplies (equipment and consumables) sector has been affected in a similar way to the pharmaceuticals sector; and UK supply chains for these products have likewise thus far remained resilient. The Government has undertaken overseas procurements for Protective Personal Equipment (PPE) on behalf of the whole of the UK, involving staff in overseas posts. We recognise that there have been different experiences with PPE procurement across the UK.

Despite some initial shortages caused by panic buying, UK agri-food supply chains have withstood the challenges posed by major global shocks to supply and are likely to remain resilient. However, this is dependent on their ability to engage logistics and respond to rapid changes in consumer behaviour.

UK manufacturing industries have suffered significant adverse effects from the disruption of international trade caused by the pandemic, with the flow of raw materials, parts and sub-assemblies seriously impeded, and the ability to sell finished products greatly curtailed. Different sectors of manufacturing have been affected in different ways, and this is illustrated by our case-studies of the automotive, plastics, and fashion and textile industries.

UK services trade has also been adversely affected. The type and degree of harm varies considerably between sectors, according to the extent to which they are dependent on their customers, or those delivering services, being able to travel, as well as their ability to provide services digitally. We heard evidence from the financial services and higher education sectors as case-studies of the impact of the pandemic on UK trade in services.

British businesses face trade finance challenges, due to: goods being delayed in transit, tying up cash flow; customers requesting extended payment terms; and borrowing costs increasing, due to a lack of market liquidity. We welcome the steps that UK Export Finance has taken to support businesses trading overseas and the announcement of “bounce-back” schemes for certain sectors, including specific support for SMEs.

We received evidence that export promotion “will matter as much as trade policy” in the recovery from the pandemic for businesses trading internationally. However, for businesses to benefit, they need to know what support is available to them. We
recommend that the Department for International Trade (DIT) improve the quality of its communication by ensuring it is adapted on a sector-specific basis and prioritising face-to-face engagement over self-service digital offerings.

The global response on trade during the pandemic has been led by the G20 and the World Trade Organization (WTO). However, we heard there has been “a lack of leadership” to date compared with the 2008–09 financial crisis. Some governments have imposed unilateral export controls on medical goods, pharmaceuticals and agri-food products; at the same time, some states have implemented import reforms, such as reduced tariffs on essential goods. While these measures are temporary, the introduction of new subsidy schemes could cause longer-term distortion to the global trading system. The Government must act at the international level to try and ensure that any trade-disrupting measures put in place during the pandemic do not become permanent. We also recommend that the Government seek to work with WTO partners and the WTO’s General Council on reform initiatives to be taken forward once a new Director-General is in place.

The emergence of several proposals for initiatives to support trade in medical goods, including plurilateral and multilateral agreements, is an encouraging development. The Government must set out a clear policy position on these proposals and use its influence to be a leading voice in seeking international support for them.

An issue that has arisen globally, across a wide range of sectors, during the pandemic is that of perceived vulnerabilities in supply chains, including in relation to alleged overreliance on certain suppliers. We heard the argument that, for this reason, there would now have to be a “fundamental shift” toward “localisation of supply chains”. On the other hand, we were told that, of the 151 types of medical goods that the UK imports, in only six cases did the majority of UK supplies come from China. The Secretary of State for International Trade told us that Project Defend is looking at vulnerabilities in supply chains for essential goods but indicated that “onshoring” is not being proposed as part of this.

There are a number of alternatives to onshoring, including: increasing diversity of supply; building in “redundancy” (overcapacity); stockpiling; creating trusted partnerships; sourcing from nearby countries; international collaboration; and less reliance on “just-in-time” production. Any proposed measures to bring about onshoring of production in the UK need to be approached with caution. The proposed creation of “parallel supply chains” for some medicines (building “surge capacity” into UK-based production) should be evaluated by the Government, as should the application of this approach across other essential-goods sectors.

DIT has a responsibility to provide inward investors with advice, support and assistance to help them deal with current circumstances. The Department should build on its hard work in this area and do more to communicate proactively to investors what help and information is available to them. The Government is reforming its Investment Strategy and we welcome the Secretary of State’s indication that we will be consulted over this.

The Government should set out its policy on updating existing UK Bilateral Investment Treaties, and on the terms of future International Investment Agreements, in light of
the challenges and issues that the pandemic has highlighted. We welcome the Secretary of State’s commitment to scrutinise closely investment chapters in future Free Trade Agreements with a view to preserving the Government’s right to regulate.

Some countries have put in place new screening procedures for inward Foreign Direct Investment, because of the reduction in asset prices brought about by the pandemic, and fears of losing “strategic assets”. Investment screening entails balancing national security against the need for inward investment. The Government must set out clearly the basis on which it will strike that balance in the planned National Security and Investment Bill; and it must clarify what role, if any, is envisaged for DIT in the proposed new screening regime.
1 Introduction

1. The outbreak of the COVID-19 pandemic caused an immediate and severe impact on economic output and international trade which seems likely to exceed that of the 2008–09 financial crisis. The pandemic triggered a “mutually reinforcing triple shock” in demand, supply and trade. There was a reduction in consumer demand, due to lockdown policies from governments and uncertainty over employment. Production was halted or greatly reduced in most sectors, in turn reducing demand for intermediate inputs and impacting supply. Further, the ability to ship goods became inhibited through border controls or restrictions on certain products.1 As a result of the considerable impacts on international trade, we launched this inquiry in March 2020, to consider how this was affecting UK consumers and businesses, as well as the global trading system more generally, and to scrutinise the response by the Department for International Trade (DIT).

2. We heard evidence about the impact of disruption on trade in essential goods (pharmaceuticals, medical supplies and agri-food products—see Chapter 2), trade in manufactured goods and services (see Chapter 3), and international investment (see Chapter 7). In addition, we examined how the UK Government has sought to support businesses to continue to trade internationally in an interrupted trading environment (see Chapter 4). Many of the measures taken in response to the pandemic were applied by governments unilaterally and with little advance discussion at the international level. Further, we received evidence that in the long term COVID-19 could result in a shift towards protectionism.2 We looked at the role played by international institutions in coordinating a unified response to the pandemic (see Chapter 5); and considered what long-term implications the crisis could have on the future of supply chains and trade (see Chapter 6).

3. The remainder of this chapter summarises the impact of COVID-19 on trade and investment, both internationally and in the UK.

Economic impact of COVID-19 on trade and investment

International outlook

4. While the full extent of the economic impact of the pandemic is only beginning to emerge, it has clearly caused significant economic disruption, both in the UK and internationally. In April 2020, the World Trade Organization (WTO) published a trade forecast which predicted a contraction in world merchandise trade of between 13% and 32% in 2020, based on modelling for optimistic and pessimistic scenarios. It said that trade would fall steepest in sectors with complex value chains; and services trade was likely to be most directly impacted by travel restrictions. Trade volumes were expected to decline by double-digits across all regions, but the WTO said exports from Asia and North America were likely to be hardest hit.3 The Organization’s updated forecast, published in June, found that merchandise trade contracted by 3% in quarter one of 2020 and is estimated to fall by 18.5% in quarter two. It said that “these declines are historically large, but could have been

1 UK Trade Policy Observatory (CVT0026)
2 National Pig Association (CVT0042)
3 World Trade Organization, Trade statistics and outlook: Trade set to plunge as COVID-19 pandemic upends global economy (8 April 2020), p 1
much worse” and indicated that its pessimistic scenario was now unlikely, as it implied sharper declines in quarters one and two.\(^4\) However, the Organisation for Economic Co-operation and Development (OECD) warned that the outlook for the economic recovery remained “highly uncertain and vulnerable to a second wave of infections.”\(^5\) Further, the WTO said “a slower-than-expected pace of economic recovery would weigh on trade growth,” resulting in trade growth well below the pre-pandemic trajectory.\(^6\)

5. The United Nations Conference on Trade and Development (UNCTAD) described the pandemic as a “supply, demand and policy shock” for Foreign Direct Investment (FDI)\(^7\) and predicted a “dramatic fall” in FDI due to the crisis.\(^8\) It forecast that global FDI flows would decrease by 40% in 2020, and it expected a further fall of between 5% and 10% in 2021, followed by a recovery in 2022.\(^9\) The crisis had caused a slowing down of existing investment projects, a re-assessment of new projects due to the economic uncertainty, and the implementation of new investment restrictions by governments in response to the crisis. While the impact was expected to be severe everywhere, UNCTAD said that developing countries would see the biggest falls in FDI due to their reliance on global value chain-intensive and extractive industries. Europe was expected to see the largest falls amongst developed countries.\(^10\)

**UK outlook**

6. According to the OECD, as a service-based economy, the UK is heavily impacted by the pandemic.\(^11\) UK GDP fell by 2% in quarter one of 2020 compared with the previous quarter and is expected to further decline sharply. The OECD’s UK-specific assessment said “investment growth is projected to remain subdued and the outlook for trade remains weak.”\(^12\) In the three months to May 2020, both UK exports and imports fell by £47.7 billion and £42.6 billion respectively. The services sector and manufacture of machinery and transport equipment, particularly road vehicles, were most impacted.\(^13\) Responses to the Office for National Statistics’ Business Impact of Coronavirus (COVID-19) Survey found that 73.5% of exporting businesses were exporting less than normal and 60.4% of importing businesses reported that they were importing less than normal.\(^14\)

7. The Purchasing Managers’ Index (PMI) and sector-specific indices have tracked the impact of the pandemic on different sectors of the economy.\(^15\) The PMIs for both

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7 FDI involves an overseas investor acquiring ownership of, or a controlling stake in, a business.
15 The House of Commons Library describes the Purchasing Managers’ Index (PMI) as “based on a monthly survey asking companies about output, new orders, stock levels, employment and prices. PMI compares the current month with the previous one. The PMI is produced faster than comparable official data. It often anticipates the direction of official figures, although the methodology is different.” See Economic Indicators, June 2020, Standard Note SN8956, House of Commons Library, 2 July 2020.
services and manufacturing experienced sharp declines between March and April 2020. Manufacturing output declined by 24.3% while the Index of Services recorded its largest monthly fall on record, a drop of 19%. The PMIs for both sectors recovered somewhat in May and June. For manufacturing, this was linked to the partial reopening of plants. In the service sector, new business activity continued to decline but at a less sharp rate than in previous months, with financial, transport and communication services the best performing. The exception was export sales, which continued to decrease at a sharper rate, due to ongoing international travel restrictions, logistical difficulties and heightened global economic uncertainty. The data for June 2020 concluded that manufacturers were much more optimistic about the outlook for their businesses than service providers.

Our evidence

8. Over the course of six evidence sessions, we heard from 26 witnesses, including the Secretary of State for International Trade, Rt Hon Elizabeth Truss. Our other witnesses included Ambassador Alan Wolff, Deputy Director-General of the WTO, academic experts, business representative bodies, journalists and civil society organisations. In addition, we received 52 pieces of written evidence. We would like to thank all those who took the time to provide us with evidence, particularly in light of the fast-evolving nature of the pandemic and related policy responses, and the short notice of our inquiry.

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16 Service industries account for 81% of the UK’s economic output and around 84% of the workforce, while manufacturing is around 10% of total economic output and 8% of jobs. See Economic Indicators, June 2020, Standard Note SN8956, House of Commons Library, 2 July 2020
17 Economic Indicators, June 2020, Standard Note SN8956, House of Commons Library, 2 July 2020, pp 14–15
18 Economic Indicators, June 2020, Standard Note SN8956, House of Commons Library, 2 July 2020, pp 14–15
19 Economic Indicators, June 2020, Standard Note SN8956, House of Commons Library, 2 July 2020, pp 14–15; IHS Markit / Chartered Institute of Procurement and Supply UK Services Purchasing Managers’ Index, Services PMI data continues to improve from April’s survey-record low, 3 July 2020, p 1
20 IHS Markit / Chartered Institute of Procurement and Supply UK Services Purchasing Managers’ Index, Services PMI data continues to improve from April’s survey-record low, 3 July 2020, p 2
2 UK trade in essential goods

Pharmaceuticals

9. The COVID-19 pandemic has seen the pharmaceutical sector affected by significant and distinctive shocks to both supply and demand. On the supply side, there has been disruption to the manufacture of drugs, much of which takes place in India; and of their active pharmaceutical ingredients (APIs), which is substantially concentrated in China.21 The resulting impact has been compounded by restrictions that some countries have imposed on the export of drugs.22 While reduced freight capacity has not significantly affected the supply of medicines, it has raised costs.23 Border restrictions imposed some friction on the transport of medicines; but in the EU such goods were able to pass through “green lanes”.24 Meanwhile, there were major spikes in demand for medicines to treat COVID-19 symptoms (particularly the over-the-counter analgesic paracetamol).25 There was also a substantial rise in demand (estimated to be a tenfold increase) for around 20 drugs that are used in the intensive-care setting.26

10. While these shocks have posed major challenges to maintaining adequate provision of pharmaceuticals, we heard that the UK’s supplies have, nonetheless, thus far been maintained at adequate levels. Dr Richard Torbett, Chief Executive of the Association of the British Pharmaceutical Industry (ABPI), told us that the supply chain for prescription-only medicines had “held up in an extraordinary way over the last few months, given the circumstances”.27 Dr Torbett said the particular challenge that existed in respect of a small number of intensive-care medicines was being addressed by the industry “scouring the earth” to find supplies, while also increasing production as far as possible.28 Dr Torbett said that, of around 12,000 prescription-only medicines used by the NHS, only one class had been the subject of a supply disruption notice issued by the Medicines and Healthcare products Regulatory Agency (MHRA).29 Dr Sam Roscoe, Senior Lecturer in Operations Management at the University of Sussex, emphasised the important role of “buffer stock” in the supply chain, which typically contain between three and six months’ supply of medicines.30

11. The NHS has helped to manage demand for drugs by ensuring clinicians do not write prescriptions covering unnecessarily long periods;31 and by giving clear advice on appropriate use of intensive-care medicines.32 The MHRA has worked with the pharmaceutical sector “to enable the speedy import of medicines in large volumes from other countries”.33 In March, the Government banned the “parallel export” (“when companies buy medicines meant for UK patients and sell on for a higher price in another country”)...
of 80 intensive-care drugs, including adrenaline, insulin, paracetamol and morphine. In April, when India’s restrictions on drug exports limited supplies of paracetamol, DIT intervened to secure the lifting of the restrictions, allowing the export to the UK of 2.8 million packets of the drug. (The Secretary of State for International Trade told us “we found out that virtually all our supplies of paracetamol came from India”). In addition, the Government informed the House in May that “we will participate in the current joint EU procurement scheme on therapeutics for covid-19 that is soon to launch”.

12. We heard that the pharmaceutical industry is playing a major role in developing therapeutic drugs, as well as vaccines, against COVID-19. We asked Dr Torbett about a recent editorial in the Financial Times which argued that, if necessary, compulsory licensing of such products “must be used”, to ensure they are “universally and cheaply available”. He told us that he did not agree. He was “not aware that patent rights have ever really got in the way of access on vaccines”. More fundamentally, he argued that without a system of such rights, financial markets would never grant the pharmaceutical industry access to the US$180 billion that it invests each year in research and development. Dr Torbett found it “disappointing to say the very least” that the Financial Times had raised this point, adding that he was “certainly very proud” of how the pharmaceutical industry was responding to the pandemic. We heard a contrasting view from Laura Bannister, of the Trade Justice Movement. She argued that any company developing a therapeutic drug or vaccine “would have a production monopoly on that product for quite some years. That is likely to very significantly increase prices.” Ms Bannister said that compulsory licensing would not eliminate a company’s patent; it would still receive royalties—but it would not have a monopoly on production. She added that pharmaceutical companies made “enormous profits”, substantially greater than their research and development budgets, giving them “huge wiggle room” in financial terms. Courtney Fingar, Foreign Direct Investment Editor at the New Statesman Media Group, told us there was “nothing wrong” with relaxing intellectual property protections in response to the pandemic. However, she warned that such measures should not become “a Trojan horse for an overall loosening of intellectual property rights that could be detrimental to the investment environment”.

34 Q12; “Crucial medicines protected for coronavirus (COVID-19) patients”, Department of Health and Social Care, 20 March 2020
35 Q4; Oral evidence taken on 24 June 2020, HC (2019–21) 534, Qq62, 65; Confederation of British Industry (CVT0049); “UK to receive nearly 3 million packets of paracetamol”, Department for International Trade, 14 April 2020. Early in the crisis, DIT and the FCO set up a joint Global Strategic Sourcing and Engagement Project (led by a Director General in DIT, Andrew Mitchell), with a remit to keep open supply chains for essential goods – Oral evidence taken on 24 June 2020, HC (2019–21) 534, Qq57, 62.
36 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q62
37 HC Deb, 5 May 2020, col 488; see also Rt Hon Dominic Raab MP to Tom Tugendhat MP, 26 June 2020
38 Qq16, 19, 23, 24, 27; Association of the British Pharmaceutical Industry (CVT0056)
39 “Coronavirus must not destroy an open world economy”, Financial Times, 27 March 2020. Compulsory licensing is “when a government allows someone else to produce a patented product or process without the consent of the patent owner or plans to use the patent-protected invention itself”. Such measures are permitted under the multilateral agreement on Trade-Related Aspects of Intellectual Property Rights on an emergency basis, subject to various conditions (including that the measure taken is temporary) – “Compulsory licensing of pharmaceuticals and TRIPS”, World Trade Organization; see also Q209.
40 Q25
41 Q206; see also Trade Justice Movement (CVT0007), Keep Our NHS Public (CVT0008), War on Want (CVT0039), Global Justice Now (CVT0045)
42 Q207
Conclusions and recommendations

13. The COVID-19 pandemic has seen the pharmaceutical sector affected by significant and distinctive shocks to both supply and demand, compounded by trade policy interventions in some countries that have impeded trade. Our evidence indicates, though, that UK supply chains for medicines have thus far proved to be resilient, partly due to actions taken by the UK Government.

14. However, supply chains can only be stretched so far, as indicated by the fact that buffer stock of medicines is not intended to last more than around six months. The Government must work with the pharmaceutical industry to ensure that buffer stock is being replenished to help cope with any further wave of the COVID-19 pandemic.

15. Some governments have adjusted intellectual property provisions to allow for compulsory licensing of therapeutic drugs or vaccines in respect of COVID-19. The UK Government should evaluate the case for putting in place such enabling measures in order to make these drugs and vaccines available as quickly, widely and cheaply as possible.

Medical supplies

16. Witnesses told us that the impact of the pandemic on medical supplies (equipment and consumables) was similar to that in respect of pharmaceuticals, with major shocks to both supply and demand. Several categories of such supplies are critical in dealing with the pandemic, not least Personal Protective Equipment (PPE). We did not consider the availability of PPE at the front-line in health and social care settings, since it lies outside the field of trade policy.

17. Mark Roscrow MBE, Chair of the Health Care Supplies Association, told us that the situation was “almost a perfect storm”. The pandemic had begun in China, where “a significant amount of manufacturing capability and capacity” was concentrated, which was then closed down. The suspension of production in India and northern Italy during the pandemic also had an impact on the supply of medical products. We were told that the situation was compounded by several countries imposing restrictions on exports of medical goods, including PPE. DIT and the Foreign and Commonwealth Office (FCO) worked to overcome supply-chain blockages caused by other countries’ export restrictions, which, the Secretary of State told us, “resulted in the sourcing of 18.5 billion items of PPE”. Peter Ellingworth, Chief Executive of the Association of British HealthTech Industries (ABHI), told us that the two departments had “worked incredibly hard” in this respect; and the ABHI had spoken to the Secretary of State for International Trade, finding her “very helpful”. At the same time, the Government suspended import duties and VAT in respect of medical supplies. Disruption to freight services also affected supply chains, with consignments switching from sea freight to air freight (to expedite supplies) at a time

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43 Q34
44 Q50
45 Q 32, 38–39, 50
46 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q62
47 Q32; see also Q65
48 Professional Business Services Council (CVT0023); HM Revenue & Customs, “Pay no import duty and VAT on medical supplies, equipment and protective garments (COVID-19)”, 31 March 2020
of very constrained capacity and steep price rises in the latter sector.\footnote{49} At the same time, the imposition of border controls had also affected supply chains.\footnote{50} Mr Ellingworth said the increase in demand for medical supplies had been “exponential”,\footnote{51} with companies facing the risk of demand outstripping supply.\footnote{52} Demand for ventilators had increased three- or fourfold; and “several years’ supply” of PPE was being demanded all at once.\footnote{53}

18. We heard that the Department of Health and Social Care (DHSC), and the NHS had played a crucial part in planning procurement of supplies.\footnote{54} Mr Ellingworth said that companies supplying ventilators and other equipment for use in intensive-care units had proved to have resilient supply chains, which were structured so as not to be overly dependent on raw materials and components from a single location.\footnote{55} In urgently procuring large quantities of medical supplies from around the world, it had been necessary to exercise vigilance in respect of the quality of goods and the risk of fraud.\footnote{56} Checks on the quality of goods leaving China, while welcome, were causing delays to supplies.\footnote{57} The ABHI emphasised the importance of maintaining an ethical supply chain that “does not breach standards in terms of modern slavery, child labour etc.”\footnote{58} On this point, Ms Truss referred us to the Government’s Modern Slavery Strategy and said “this is something we are looking at very closely”, with DIT Ministers having been “involved in detailed discussions” on it.\footnote{59}

19. Mr Ellingworth noted the contribution of UK-based businesses in helping to fill gaps in the supply chain by assisting with the production of products such as ventilators and PPE.\footnote{60} We heard about the role of the MHRA and the Health and Safety Executive in facilitating the rapid development of new domestic suppliers of such goods.\footnote{61} We also heard about the part played by preparations for a no-deal Brexit in maintaining supplies of medical goods. While there had been a stockpile of supplies for this eventuality, its usefulness was limited by the fact that it contained “business-as-usual” products, rather than those that would specifically be needed in a pandemic.\footnote{62} One aspect of the no-deal preparations that had proved useful was the procurement of an airfreight facility to deal with potential port blockages.\footnote{63} We further heard about the role played by preparations for a flu pandemic. These included pre-arranged “just-in-case / just-in-time” contracts to supply medical products in the event of a pandemic;\footnote{64} and stockpiles containing a volume and range of products based on demand during the last flu pandemic.\footnote{65} However, the assumptions on which these preparations had been based meant that they were “trumped” by the scale and nature of the COVID-19 pandemic.\footnote{66}
20. We asked Mr Roscrow about the impact of the UK not participating in several EU joint procurements of medical goods (which the Government has said was due to “an initial communication problem”). He thought it was “doubtful” that this had left the UK at any disadvantage. He said, in the context of the EU PPE scheme:

The normal procurement approach probably does not fit what is required. We are looking at trying to get hold of product extremely quickly. We need to be agile. We need to be flexible and we needed to respond to that. A lot of companies are looking for upfront payment of a significant amount of money to support securing product, and we probably needed to be agile to be able to do that and not get caught up in any bureaucracy that would have hindered the ability to get product into the UK.

The Government stated in May that participating in these procurements “would not have allowed us to do anything that we have not already been able to do for ourselves” and that it would consider participating in future procurements “on a case-by-case basis.”

21. DIT informed us that “The UK Government’s overseas network is focussed on the purchase of PPE internationally based on requirements set out by DHSC which cover the whole of the UK.” Under an agreed UK-wide strategy, the UK Government had “shipped millions of pieces of PPE to Scotland, Wales and Northern Ireland”. Overseas procurements by the devolved governments were in addition to this UK-wide approach. In May, the Scottish Government’s Cabinet Secretary for Health and Sport told the Scottish Parliament’s Health and Sport Committee that DIT’s overseas network and the FCO were not assisting the devolved governments with new overseas procurement requests for PPE. The Scottish Government thought that overseas posts should be providing such assistance and the matter had been raised with the UK Secretary of State for Health and Social Care, Rt Hon Matt Hancock. The Scottish Minister for Trade, Investment and Innovation wrote to our Chair in July and said that:

Regrettably, Scotland’s Cabinet Secretary’s call for urgent official discussions, which was supported by other DAs [devolved administrations], was not answered by Mr Hancock, who responded by emphasising his unaltered support for the instruction given to the FCO/DIT overseas network. Rather than offering an opportunity to discuss the issue, Mr Hancock only offered assurances that orders made on behalf of the entire United Kingdom would be coordinated with the devolved administrations and fairly distributed.

22. The Northern Ireland Executive has confirmed that DIT was not involved in any procurement of PPE carried out by the Executive’s Department of Finance. The Welsh Government informed us that the NHS in Wales had “not sought Department for International Trade support for any internationally sourced orders of PPE.” The Welsh

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67 House of Commons Written Question 39538; answered on 30 April 2020. The Government has attributed the “communication problem” to the use by the European Commission of out-of-date e-mail addresses – Rt Hon Dominic Raab MP to Tom Tugendhat MP, 26 June 2020.
68 Q33
69 Q36
70 HC Deb, 5 May 2020, col 488; see also Rt Hon Dominic Raab MP to Tom Tugendhat MP, 26 June 2020
71 Department for International Trade (CVT0057)
73 Ivan McKee MSP to Angus Brendan MacNeil MP, 10 July 2020
74 Conor Murphy MLA to the Clerk of the International Trade Committee, 10 July 2020
Government’s own overseas office network had provided support in this regard. Less than 2% of PPE provided to health and social care settings in Wales had been supplied through UK Government procurement. A DHSC proposal “for a centralised UK-wide approach to PPE procurement” had not proved “feasible”, with the devolved governments being concerned about possible disruption to existing supply chains. The Welsh Government had, nevertheless, “continued to collaborate on a revised UK-wide approach to PPE procurement” and had “offered support to other parts of the UK through mutual aid”.

Conclusions

23. The medical supplies sector has also faced an unprecedented combination of shocks to both supply and demand, compounded by some governments’ trade policy interventions; and UK supply chains in this sector have also thus far proved to be resilient.

24. The Government has acted to try and ensure continuity of medical supplies by means including overseas procurements of Personal Protective Equipment for the whole UK, involving Department for International Trade staff in overseas posts and the Foreign and Commonwealth Office. We recognise that there have been different experiences with PPE procurement across the UK.

Agri-food products

25. The agri-food sector is the UK’s “largest manufacturing sector”, valued at £113 billion and employing nearly four million people. We heard from Bob Doherty, Professor of Marketing at the University of York, that the sector was highly integrated internationally, with the UK importing around 47% of its food, 30% from the EU and 10% to 15% from developing economies. It is made up of two subsectors—grocery and out-of-home. The grocery sector was very concentrated and retailers relied on “just-in-time” production methods. Despite some initial shortages caused by panic buying, we heard that the supply chain showed itself to be flexible and robust in the face of “a huge, unprecedented challenge.” Andrew Opie, Director of Food and Sustainability at the British Retail Consortium (BRC) told us that the biggest challenge was the speed at which things changed, and the influence that had on consumer behaviour. He identified the main issue as one of logistics rather than supply and told us: “There was plenty of food and we always knew that there was food out there. It was just about getting it to the shops and on to the shelves quickly enough.” He said the sourcing of food imports had held up relatively well, particularly regarding those from Spain and Italy, despite the heavy impact of the virus in those countries.

26. The pandemic also prompted the imposition of export restrictions by major food commodity exporters, such as Kazakhstan, and increased stock-holding by countries

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75 Eluned Morgan AS/MS to the Clerk of the International Trade Committee, 16 July 2020
76 Q69
77 Q69
78 Q99; see also Brexit: Trade issues for food and agriculture, Standard Note SN7974, House of Commons Library, 5 November 2019, Ch 5
79 Q95
80 Q98
81 Q99
to protect their own populations.\textsuperscript{82} According to the Food Policy Research Institute, by mid-April 2020, 15 countries had introduced export bans, across a range of 21 products.\textsuperscript{83} Fiona Smith, Professor of International Economic Law at the University of Leeds, told us these measures could cause “resilience problems going down the line” but that it was “outside the control of the UK.”\textsuperscript{84} In April 2020, the UK and a group of other WTO members, representing 63\% of global agri-food exports, issued a joint statement agreeing not to impose restrictions on their food exports in response to the pandemic.\textsuperscript{85} However, Professor Smith told us that rules on export restrictions were limited and WTO members could impose “a temporary ban on the export of critical foodstuffs.”\textsuperscript{86} She said that for future trade negotiations, it would be important for the UK to map export restrictions on foodstuffs onto supply routes, so there was a clear picture about the level of protection for imports and exports.\textsuperscript{87}

27. In addition to considering the supply of essential agri-food goods, we also heard evidence about the impact of the pandemic on UK food exporters. Ian Wright, Chief Executive Officer of the Food and Drink Federation, told us that the picture for exports was “patchy” and dependent on where the customer was: “If the customer is in retail, the exports have continued. If the customer is in hospitality, the exports have probably declined sharply or ceased.”\textsuperscript{88} Professor Doherty noted that exports to the EU had “held up reasonably well”, but there had been issues with exporting to countries where ports were closed, such as China and South Africa. He said there were concerns about price fluctuations and a price drop when products which had been stockpiled, such as pork, came onto the international market later in the year.\textsuperscript{89} Ian Wright highlighted a concern about access to freight transport in the future and said the industry would need the support of DIT and the Department for Environment, Food and Rural Affairs to restore the UK’s position on food exports as the pandemic eased.\textsuperscript{90}

\textbf{Conclusions}

28. UK supply chains in the agri-food sector have also so far successfully withstood the challenges posed by major global shocks to supply and demand, compounded in some cases by governments’ trade policy interventions. While agri-food supply chains are likely to remain resilient, this is dependent on their ability to engage logistics and respond to rapid changes in consumer behaviour.
3 Impact on UK trade in manufacturing and services sectors

29. Limitations of time did not allow us to look in depth at the impact of the pandemic on all aspects of UK trade in non-essential goods and services. However, we took evidence that provided an overview of the situation in the manufacturing and services sectors, and we heard directly from a small sample of significant industries.91 As we noted in Chapter 1, ONS data, PMI returns and sector-specific indices all clearly show pronounced impacts on these sectors in the UK; and this is amply confirmed and illustrated by our evidence. There are obviously important implications for the scale and nature of the Government response that is required (as discussed in Chapter 4).

30. We are likely further to consider the situation facing UK trade in both manufactured goods and services as the commercial effects of the pandemic become clearer and the contours of the economic recovery take shape.

Manufacturing

31. We heard that the pandemic had had a major impact on UK trade in manufactured goods. Dr Carlos López-Gómez, Head of Policy Links at the University of Cambridge’s Institute for Manufacturing, cited ONS data showing that around 44% of manufacturers had said that their exports and imports had been affected. He noted that this was “significantly higher” than for other sectors. Stephen Phipson CBE, the Chief Executive of Make UK, the national manufacturers’ organisation, said a survey of his members showed “around 50% overall of manufacturers reporting significant declines in economic activity, but around 80% now are saying their export orders are rapidly declining”.92 We heard that factors compounding the impact of the pandemic on UK manufacturing trade included disruption to freight transport93 and the imposition of border controls in Europe (with some alleviation of the latter by the creation of “green lanes”).94 It was emphasised to us that different sectors of manufacturing have been affected in different ways.95 We took evidence on three particular sectors as case studies: automotive; plastics; and fashion and textiles.

32. Regarding the automotive industry, Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders (SMMT), said there had been “generally an international stop” in supply chains. Since the UK automotive industry was “predominantly part of the European automotive industry”, it had been significantly affected by shutdowns in “Italy, Spain and Germany, the big manufacturing countries”. As manufacturers scaled down production, this then “flowed through to tier 2, 3 and 4 suppliers”. Further afield, “when the USA went into lockdown, China was coming out, so for some suppliers it was more of a seamless challenge”.96 A big issue for the sector would be how in due course to manage the restarting of production. This would require “a degree of co-ordination, and [that] is

91 We acknowledge that our colleagues on the Business, Energy and Industrial Strategy Committee are undertaking an inquiry into “The impact of coronavirus on businesses and workers”.
92 Q122, Q122, 124
93 Q127, 131, 132, 134
94 Q122, 123, 124, 125
95 Q140
not easy to achieve”;97 the supply chain was having to respond to “syncopated timing in different markets”, as the normal rhythms of supply were disturbed and interrupted at different points.98 And companies along the supply chain could face a shortage of liquidity when it came to meeting the costs entailed by restarting production.99 On the demand side, Mr Hawes stressed the importance of international markets for the UK automotive industry, with 80% of production being exported.100 The closure of car showrooms in many countries had meant a major dip in demand.101 At the same time, UK sales had fallen dramatically, with car registrations for April down by 97% compared to 12 months previously.102 Against that backdrop, Mr Hawes expressed relief that demand was already beginning to recover in China. Without the prospect of overseas sales reviving, “we would still be in total lockdown with no sight of where the demand will come from”.103

33. Philip Law, Director General of the British Plastics Federation (BPF), told us the plastics industry was highly varied and diverse, with over 20 different sectors within it. Supplies of raw materials had been affected by the pandemic. These “come in from all over the world, particularly Europe, the Middle East, Asia and the United States”. On the demand side, there had been a significant reduction in domestic demand for certain products (notably in the construction industry). On the other hand, there had been spikes in demand for “food and hygiene products, disinfectants, and so on”.104 Regarding export demand, Mr Law said this had “clearly dropped”. A survey of his exporting members showed that about 52% thought their export business would fall significantly over the next year.105

34. Paul Alger MBE, International Business Director of the UK Fashion and Textile Association (UKFT), said the impact of the pandemic on his industry had been intensified by the widespread use of “just-in-time” business models.106 The impact had been compounded by the lack of air freight capacity.107 A particular issue that had arisen in the industry was that of larger companies cancelling orders, refusing to pay for goods already in the supply chain and demanding extra discounts from suppliers. This was reported to have had a particular impact on suppliers in developing countries. Mr Alger said that such action “effectively passes the pain of this down to the smaller guys, who are less able to cope with it, and that then causes all sorts of problems further down the line.”108 A key risk was the danger of suppliers going completely out of business, leaving major holes in the future supply chain.109 On the demand side, Mr Alger said that his Association’s perception was that “online business will bounce back much more quickly than bricks and mortar”; but it was “too early to know what the trend will be”.110 Mr Alger also said there could be particular issues for businesses that belonged to the category of “born global”—

97 Q140
98 Q148
99 Q143
100 Q151
101 Q148
102 Q147
103 Q148
104 Q146
105 Q147
106 Q146, 147. The just-in-time model involves inputs to production being delivered by suppliers just at the moment when they are needed in the production process, with manufacturers holding little or no stock of inputs.
107 Q146
108 Q144
109 Q146
110 Q147
meaning “brands that are not particularly well known in the UK but which are great British brands, and where a major part of their production is sent overseas, for example, to the United States, Japan”.

Conclusions

35. UK manufacturing industries have suffered significant adverse effects from the disruption of international trade caused by the pandemic, with the flow of raw materials, parts and sub-assemblies seriously impeded and the ability to sell finished products greatly curtailed.

Services

36. In April, the WTO predicted that “services trade may be the component of world trade most directly affected by COVID-19 through the imposition of trade and travel restrictions and the closure of many retail and hospitality establishments.” Further, it warned that there were no inventories of services to be drawn down and restocked later, so declines in services during the pandemic may be lost forever. This contrasts with the 2008 financial crisis, when services trade was generally more resilient than trade in goods. John Drummond, Head of Trade in Services at the OECD, told us:

   it is going to be different this time around, in particular because the measures put in place for health precaution reasons—such as travel limitations and social distancing—are particularly pertinent and complicating for trade in services.

While many service providers are facing significant challenges, we nonetheless did receive evidence that some service industries have experienced a positive demand shock as a result of lockdown policies. This has primarily been the case for ICT, e-learning, telecommunications and digital payment services. We took evidence from two service sectors as case studies: financial services and higher education.

37. Miles Celic, Chief Executive Officer of TheCityUK, representing the UK financial services industry, told us that the impact of the pandemic on the sector had been mixed, but demand for financial and related professional services had remained “reasonably high”; and businesses had adapted to remote working well. He told us there was a focus on trade finance for essential goods in the banking sector and this was an area where the industry had been working with governments and international institutions to support the wider economy, including considering what help could be offered to micro, small and medium enterprises (MSMEs) in exporting. He also noted that there had been a focus on business restructuring, and the industry was working with the Bank of England, HM Treasury and others on how to recapitalise businesses after the crisis. However, mergers

111 Q149
112 World Trade Organization, Trade statistics and outlook: Trade set to plunge as COVID-19 pandemic upends global economy (8 April 2020), p 4
113 World Trade Organization, Trade statistics and outlook: Trade set to plunge as COVID-19 pandemic upends global economy (8 April 2020), p 4
114 UK Trade Policy Observatory (CVT0026)
115 Q166
116 UK Trade Policy Observatory (CVT0026)
117 Q168; see also Professional Business Services Council (CVT0023), TheCityUK (CVT0037)
and acquisitions activity had declined. Mr Celic said TheCityUK “was concerned about a rise in protectionism” and told us the financial services industry was “underpinned by an outward, internationally facing approach.” In seeking to recover from the pandemic, he argued that “we need to make sure that we have a regulatory system and a supervisory system that learns the lessons we are learning at the moment” in areas of e-commerce and digital trade, including avoiding data localisation and making the case for open markets. Further, he said the UK could play a strong role internationally making the case for greater data flows and reducing “behind-the-border barriers” such as regulation, taxation bands and data localisation.

38. Universities engage in international trade in services through the delivery of education services to international students. This occurs when non-resident students travel to the UK to study (Mode 4 supply) or where students undertake courses of UK universities overseas without travelling to the UK. Vivienne Stern, Director of Universities UK International, told us that the universities sector earns £6.9 billion per year from international student fees; and £20 billion in export earnings overall from education exports. She said that the process for “bringing onshore” prospective students had been “significantly disrupted”. Some universities were forecasting an 80% decrease in international student enrolments in the coming year, and for some universities, that would be of “existential” importance. Ms Stern cited the availability of flights, quarantine and social distancing arrangements as areas that will influence how well universities can adapt. Further, she said the Home Office could support the sector by allowing prospective students to apply for visas earlier than normal and offer reassurance that students who began their studies online would not be refused a visa later. She also noted that the impact of the pandemic on wider university activities, such as research, had been “enormous” and emphasised the need for financial support for the sector.

Conclusions

39. UK trade in services has also been adversely affected by the pandemic, although the type and degree of harm varies considerably between sectors according to the extent to which they are dependent on their customers, or those delivering services, being able to travel, as well as their ability to provide services digitally.
4 UK Government response

Trade finance and insurance

40. In addition to the sector-specific interventions taken to ensure the supply of certain essential goods (noted in Chapter 2), the Government has undertaken a range of other policy actions to help businesses trading overseas. Trade finance is used to finance international trade flows. According to the Global Trade Review, “it exists to mitigate, or reduce, the risks involved in an international trade transaction.”¹²⁸ A range of trade finance products exist, such as letters of credit, supply chain finance, export and agency finance, and insurance. It is estimated that 80% to 90% of global trade, valued at US$10 trillion, depends on trade finance.¹²⁹ UK Export Finance (UKEF) is the UK’s export credit agency. It works with around 100 private credit insurers and lenders to provide trade finance to UK businesses. It does not compete with the private sector but steps in to support exports which might not happen otherwise.¹³⁰ We will be examining the work of UKEF in greater detail in a forthcoming inquiry which will be launched shortly.

41. Trade finance is generally viewed as low risk, with low default rates; however, it has been vulnerable to financial shocks. Following the 2008 financial crisis, there was a US$1 trillion shortfall which created long-term access challenges for small and medium enterprises (SMEs).¹³¹ It has been suggested that the pandemic could cause a similar shortage. In April, the Financial Times reported that “trade finance appears to be drying up even more rapidly now, as international banks reassess risks and local lenders in some countries struggle to access dollar liquidity.”¹³² The International Chamber of Commerce said “the COVID-19 crisis therefore risks further exacerbating longstanding constraints in the trade finance market” and estimated that US$1.9 trillion to US$5 trillion capacity in the trade credit market would be required to support a V-shaped recovery.¹³³

42. The British Exporters Association (BExA) said the Government’s response to the impact of the pandemic on business “has been positive in message but has been lacking in delivery.”¹³⁴ It explained that British businesses were facing trade finance challenges due to goods being delayed in transit tying up cash flow; customers requesting extended payment terms on delivered and future orders; being unable to finance invoices where trade credit insurance is not available; increased short-term borrowing costs due to lack of market liquidity; and access to short-term working capital and banking facilities affecting both ends of the supply chain.¹³⁵ In response to these challenges, UKEF said it was working with HM Treasury and “taking a pragmatic approach to supporting businesses during this period.”¹³⁶ It emphasised that its existing range of products would be “vital in supporting UK exports.”¹³⁷ This included a guarantee of up to 80% of bank loans for exporters experiencing cashflow constraints through its Export Working Capital Scheme

¹²⁸ “What is trade finance?”, Global Trade Review, 2020
¹²⁹ “Trade finance - At the forefront of global trade”, Trade Finance Global, 2020
¹³¹ International Chamber of Commerce, Trade financing and COVID-19 (May 2020), p 1
¹³² “Trade finance hit as goods stack up”, Financial Times, 28 April 2020
¹³³ International Chamber of Commerce, Trade financing and COVID-19 (May 2020), p 1
¹³⁴ British Exporters Association (CVT0022)
¹³⁵ British Exporters Association (CVT0022)
The COVID-19 pandemic and international trade and guarantees to lending banks to support overseas buyers of UK exports. In addition, it was accelerating the launch of its General Export Facility and Export Development Guarantee to provide guarantees for working capital and capital expenditure. UKEF has also extended its Export Insurance Policy, which helps exporters recover the costs of an order terminated due to events outside their control, to cover 180 countries including transactions in the EU, Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the USA. The Secretary of State for International Trade said the purpose of this was “to help companies concerned about the impact of COVID-19 to export with confidence.” In evidence DIT told us that UKEF’s Trade Finance Division has received 264 applications for support since March 2020, of which 106 were approved for support by the end of June. 75 SMEs have also been supported over the same period. In addition, the Secretary of State told us the Government would be launching a series of “bounce-back export strategies” for the technology, agriculture, consumer goods and automotive sectors; including specific support for SMEs.

43. BExA welcomed UKEF’s ability to support transactions in wealthy countries but expressed concern that “the demand may overwhelm UKEF’s current resources.” The British Ceramic Confederation and Engineering and Machinery Alliance (EAMA) also said the extension of the Export Insurance Policy was helpful for their members. However, the EAMA noted that it was not yet clear how effective UKEF’s overall support had been. Further, the Confederation of British Industry (CBI) said that “business wants to work with UKEF to develop and promote new products, including those designed to support working capital for exporters such as the General Export Facility, and to bring in new sources of non-bank finance such as inventory finance.” BExA also called for UKEF to be more active in insuring UK exporters experiencing payment delays and improve its product offering “such as revolving lines of credit for smaller business and re-introduction of the Letter of Credit guarantee scheme.” A report by the National Audit Office (NAO) on support for exports by DIT and UKEF found that “UKEF does not conduct a customer survey, which could help it better understand the specific needs of smaller businesses.” In oral evidence, Ms Truss said:

UKEF is working on a number of schemes to support the recovery as well, to make sure that businesses have the guaranteed finance to be able to expand their businesses for export. We also want to make sure UKEF is serving small and medium-sized enterprises, so we are developing new products to support that as well.

44. The EAMA and CBI also highlighted access to Trade Credit Insurance as an issue, due to firms finding it difficult to assess credit risk and increased indebtedness. The CBI said: “without action to address this problem, there is a risk that export credit facilities will

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139 Rt Hon Elizabeth Truss MP to Angus Brendan MacNeil MP, 18 May 2020
140 Department for International Trade (CVT0058)
141 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Qq81–82
142 British Exporters Association (CVT0022)
143 Engineering and Machinery Alliance (CVT0029); British Ceramic Confederation (CVT0032)
144 Confederation of British Industry (CVT0049)
145 British Exporters Association (CVT0022)
146 National Audit Office, Department for International Trade and UK Export Finance: Support for exports (15 July 2020), para 20
147 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q80
come under greater pressure.”

On 4 June, the Business Secretary announced that the Government would provide a £10 billion guarantee to ensure continued access to Trade Credit Insurance. The scheme will be delivered through a reinsurance agreement, covers domestic trade, exports and imports, and will run to the end of the year (backdated to 1 April). In evidence, the Secretary of State indicated that she was satisfied that access to Trade Credit Insurance had been resolved and directed any businesses still facing difficulties to their local trade adviser.

Conclusions and recommendations

45. We welcome the steps taken so far by UK Export Finance to support businesses trading overseas and the Secretary of State’s announcement of “bounce-back” schemes for certain sectors, including specific support for SMEs. We commend the steps taken by the Government to ensure continued access to Trade Credit Insurance for businesses and welcome the Secretary of State’s assurance that this issue has been resolved. There is a need for continued vigilance about such problems, and swift resolution of them when they arise. The pandemic has created a range of unforeseen challenges for businesses. We recommend that UKEF be flexible in its response, to ensure that the widest possible range of sectors can avail themselves of its support. Further, we recommend that UKEF consult quickly and widely with businesses on the development and rollout of its new products, to ensure any feedback can be considered in the design phase.

Export promotion

46. We received some evidence which suggested that export promotion will be a key feature of the recovery from the pandemic for businesses trading internationally. The CBI said it “will matter as much as trade policy.” According to the Government’s 2018 Export Strategy, trade promotion for exports seeks to address “key market failures, such as the lack of information on the benefits of exporting or on international commercial opportunities, that deter UK business from engaging in or developing their export activities.” DIT is responsible for export promotion at the national level through a network of overseas and regional UK offices with field teams of sector-specific International Trade Advisors. In addition, it coordinates the cross-government delivery of the GREAT campaign, which is active in 144 countries and across 252 DIT / FCO posts globally, and forms a key element of the Department’s existing Export Strategy.

47. We received evidence that access to timely information about the support available from DIT, market intelligence, and sector-specific data for exports, is a challenge for businesses; and there is a need to strengthen the relationship between DIT, trade

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148 Confederation of British Industry (CVT0049)
150 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q80
151 UK Fashion and Textile Association (CVT0014); Confederation of British Industry (CVT0049)
152 HM Government, Export Strategy (27 August 2018), p 32
153 Both the devolved governments and local government are also involved in the delivery of export support services – The Policy Institute at King’s College London, Delivering economic growth through exports (November 2018), pp 13–14.
154 National Audit Office, A short guide to the Department for International Trade (October 2017), p 21; HM Government, Export Strategy (21 August 2018), p 39; see also National Audit Office, Department for International Trade and UK Export Finance: Support for exports (15 July 2020), paras 2.1–2.41
associations and local government. The difficulties in accessing information were highlighted in a recent survey of 924 business leaders on their responses to the pandemic, carried out by Opinium on behalf of logistics firm One World Express. This found that 51% of respondents felt they did not have the knowledge required to expand their businesses internationally and almost two-thirds were not aware of the support available from the Government. Further, the NAO said that DIT plans to target its bespoke support at larger businesses while directing smaller businesses to digital services on its website. However, it found that these services “are not yet meeting the needs of some exporters” and there was “evidence that businesses are using these services less.” Research by the Policy Institute at King’s College London previously found that firms had a preference for face-to-face engagement with export promotion services over self-service offerings. The Secretary of State told us DIT had been engaging with businesses during the pandemic via webinars, talks, the Department’s website and its network of international trade advisers. The Department’s “bounce-back” scheme for the agri-food sector includes additional initiatives, such as webinars produced in conjunction with trade associations and devolved governments; and one-on-one e-commerce export clinics.

**Tradeshow Access Programme**

48. The Tradeshow Access Programme (TAP) was highlighted in evidence as an area requiring revision to support export promotion in response to the pandemic. TAP provides grants to SMEs, research and education institutions seeking export opportunities towards the costs of exhibiting at trade shows overseas. The Programme has an annual budget of £6.5 million. Grants range between £500 and £2,500, and are limited to six per organisation. Frontier Economics is currently undertaking an evaluation of TAP due for completion in April 2021. Written evidence that we received made the following criticisms of the Programme: reduced levels of funding through grants in recent years; a limit on the number of grants available to organisations and all grants received since April 2009 counting toward the total; and a lack of multi-year planning for funding. The postponement of trade shows has disrupted TAP this year. UK Technology for Agriculture and Genetics (UKTAG) called for a fresh start for the Programme once it can resume and the removal of the six-grant limit. Export Partners UK (EPUK) said the Government should establish an “enhanced” TAP, which is “properly” resourced and “led by industry with government.” It argued that in the longer-term, it would like to see three-year

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155 Kent County Council (CVT0010); British Exporters Association (CVT0022); Engineering and Machinery Alliance (CVT0029)

156 “UK firms eye new export markets as COVID-19 forces strategy rethink”, *Global Trade Review*, 28 May 2020; “Brexit: Firms look to sell overseas as UK takes control of trade policy”, *Yahoo Finance*, 20 May 2020

157 National Audit Office, *Department for International Trade and UK Export Finance: Support for exports* (15 July 2020), paras 2.18–2.19

158 National Audit Office, *Department for International Trade and UK Export Finance: Support for exports* (15 July 2020), para 2.20

159 The Policy Institute at King’s College London, *Delivering economic growth through exports* (November 2018), p 2

160 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Qq82–83

161 “Bounce back: plan for agriculture, food and drink industry launched”, Department for Environment, Food & Rural Affairs and Department for International Trade press release, 22 June 2020

162 House of Commons Written Question 280261, answered on 31 July 2019; Department for International Trade, *Tradeshow Access Programme (TAP)*, 24 April 2020


164 UK Fashion and Textile Association (CVT0014); Association of British HealthTech Industries (CVT0019); UK Technology for Agriculture and Genetics (CVT0044); Pact (CVT0048)

165 Export Partners UK (CVT0020)
The ABHI said increased TAP funding and support “could do much to help kick-start company exports post-crisis.” It suggested an initial target of £15 million, a relaxation of the six grants cap, and early clarity on the scheme for 2021–22.

49. More immediately, UKTAG said “emergency funding is needed to bridge the gap in export promotion activity until international trade shows and events can resume later this year.” In oral evidence, Paul Alger, International Business Director of UKFT and chair of EPUK, told us that EPUK would like the Government to “wipe clean the Tradeshows Access Programme slate”, to enable businesses that have previously availed themselves of TAP to access that support again. He said EPUK had had “very good and robust” conversations with the Government and it had been receptive to the concept of online trade show and seminars. On 9 June, Ms Truss announced the Government’s “bounce-back” scheme for the technology industry, which includes a new DIT platform, due to be launched in September. It aims to:

supercharge UK tech engagement on the global stage and mitigate the impact on firms unable to attend international industry events and investor meetings. This will include a greater presence at international industry events and access to virtual trade shows and virtual event platforms to support international buyer-seller meetings and companies-to-investors introductions.

In questioning about TAP, the Secretary of State said DIT would be raising the limit on the number of times each firm could use the scheme and confirmed it is exploring virtual opportunities to sell products overseas.

Conclusions and recommendations

50. Export promotion will play a key role in supporting businesses to recover from the pandemic. The Government will need to think outside the box and find non-traditional, digital ways of helping to sell British products overseas. We welcome the innovations proposed in the “bounce-back” scheme for the agri-food sector, and the announcement that the technology industry will have access to an online engagement platform for export promotion from September. We look forward to seeing similar offerings for other sectors.

51. For businesses to benefit from export promotion, they need to know about what support is available to them. We recognise that DIT is making some headway with communicating its export promotion offering, but it needs to do better and be more effective. We recommend that the Department improve the quality of its communication by ensuring it is adapted on a sector-specific basis and prioritising face-to-face engagements with trade advisors (via digital platforms at present) over self-service digital offerings.

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166 Export Partners UK (CVT0020)
167 Association of British HealthTech Industries (CVT0019)
168 UK Technology for Agriculture and Genetics (CVT0044)
169 Q155; see also Q150, UK Fashion and Textile Association (CVT0014), Export Partners UK (CVT0020), UK Fashion and Textile Association (CVT0051)
170 Q155
171 “Liz Truss launches future trade strategy for UK tech industry”, Department for International Trade and Department for Digital, Culture, Media & Sport press release, 9 June 2020
172 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q84
52. We welcome the Secretary of State’s commitment to increase the limit on the number of grants that firms can access under the Tradeshow Access Programme. **Business is in need of support now, and we ask that an announcement be made on this as soon as possible, so that firms can have clarity on their eligibility for the scheme. The Government must also ensure grants are available for businesses to participate in virtual trade shows and seminars. These steps should be taken without awaiting the outcome of the TAP evaluation, which is not due to conclude until 2021. We recommend that this evaluation consider the long-standing issues with the programme, including the limit on grants and the level of funding available.**

**Digital trade**

53. The pandemic has accelerated trends in digital trade and e-commerce, with the WTO noting that it has led to increased use of electronic communications, online shopping and teleconferencing; and created growth in business-to-business e-commerce.173 The Professional Business Services Council said the pandemic had accelerated the acceptance of digitalisation by some services providers. TheCityUK said this had sharply increased data flows. Both organisations said these were trends which were unlikely to be reversed.174 John Drummond, of the OECD, told us that to maximise the opportunities of digital trade there is a need to invest in infrastructure and connectivity; strengthen and enforce intellectual property rights; and facilitate electronic transactions and access to payment systems.175 Vivienne Stern, of Universities UK International, cited regulatory barriers and help in promoting the quality of digital education through the Study UK strand of the GREAT campaign as examples of how the Government could assist the university sector to increase digital trade.176 When questioned about what export promotion lessons have been learned due to the pandemic, Ms Truss said that “I think a lot more international commerce is going to take place online” and “we need to make sure we are helping our exporters use that technology to get their products around the world.”177 She confirmed the Government would be launching a new Export Strategy (the existing Strategy was published in 2018).178

**Conclusions and recommendations**

54. The pandemic has accelerated the shift to online based trade. This presents huge opportunities and businesses must be supported to avail themselves of these. **In its forthcoming Export Strategy, we recommend DIT set out how it is adapting its support and advice for UK exporters in response to this; and what specific steps it will be taking to help exporters maximise the opportunities of digital trade.**

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174 Professional Business Services Council (CVT0023); TheCityUK (CVT0037)
175 Q182
176 Q185
177 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q86
178 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q82; see also Rt Hon Elizabeth Truss MP to Angus Brendan MacNeil MP, 18 May 2020, National Audit Office, Department for International Trade and UK Export Finance: Support for exports (15 July 2020), para 1.18
Cross-government approach

55. In a letter to our Chair, the Secretary of State outlined the steps DIT was taking to coordinate its response to the pandemic across government, including devolved and local government. These included ministerial and official attendance at the International Ministerial Implementation Group and the Economic and Business Response Ministerial Implementation Group; calls with counterparts in the devolved governments; and DIT’s network of International Trade Advisers working with Local Enterprise Partnerships, Growth Hubs and Chambers of Commerce.\(^{179}\) In seeking to work with the rest of government, the National Farmers’ Union stressed the importance of good lines of communication between DIT and the devolved governments and a coordinated approach on matters of devolved competence.\(^{180}\) Kent County Council echoed the need for “clear and concise communications” to be shared with local government and other local partners to ensure businesses can access information in a timely way. Further, it said DIT should take account of the information being fed back by businesses through local authorities and Growth Hubs, and use this to inform its strategies.\(^{181}\) The Provision Trade Federation also said that the crisis had seen a “proliferation of contact groups” within government focussed on domestic issues initially but DIT would need “to play its full part in discussions relating to medium- and longer-term recovery plans.”\(^{182}\)

HM Trade Commissioners

56. In 2018, DIT established a network of nine regional Her Britannic Majesty’s Trade Commissioners (HMTCs). The Government’s Export Strategy said HMTCs would “lead the Department for International Trade (DIT) overseas network at a regional level.”\(^{183}\) Further, it said HMTCs and their teams, alongside Ambassadors and High Commissioners, would play a role in export promotion by utilising “their government-to-government relationships and local insight to open new markets, reduce market access barriers, provide market insight, and support UK businesses to reach new customers.”\(^{184}\) On 16 June 2020, the Prime Minister announced that oversight of HMTCs was to be transferred from DIT to the new Foreign, Commonwealth and Development Office.\(^{185}\) In questioning seeking clarity about the movement of HMTCs and the future of DIT, the Secretary of State told us there was a need “to speak with one voice internationally” and that HMTCs were working closely with local ambassadors and high commissioners.\(^{186}\)

Recommendations

57. **We believe it is important that DIT seek a cross-UK government response to the pandemic and also engage with devolved, regional and local government to ensure businesses trading internationally are adequately supported as they seek to recover from the pandemic’s effects. In light of the recently announced changes to the Machinery of Government, we recommend that the Government clarify the role of HM Trade**

\(^{179}\) Rt Hon Elizabeth Truss MP to Angus Brendan MacNeil MP, 18 May 2020

\(^{180}\) National Farmers’ Union (CVT0031)

\(^{181}\) Kent County Council (CVT0010)

\(^{182}\) Provision Trade Federation (CVT0025)


\(^{185}\) HC Deb, 16 June 2020, col 667

\(^{186}\) Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q8
Commissioners in the new Foreign, Commonwealth and Development Office; and set out how their work will align with that of DIT staff in overseas posts, the administration of the GREAT campaign and the forthcoming revised Export Strategy. We would also welcome clarification of whether the work of HMTCs will now be examined and included as part of the Integrated Review of Security, Defence, Development and Foreign Policy.
5 International response

58. How governments respond to the pandemic collectively will have an important impact on international trade, which is at risk from rising protectionism and movement away from a rules-based trading system. The global response on trade has been led by the G20 and WTO; however, we heard that there has been “a lack of leadership” to date compared with the 2008–09 financial crisis.187 We have seen the unilateral imposition by some governments of export controls on medical goods, pharmaceuticals and agri-food; at the same time, some states have implemented import reforms, such as reduced tariffs on essential goods (as discussed in Chapter 2). The WTO began publicising notifications received from its members (see below), while the Global Trade Alert began tracking measures announced by governments.

59. While the number of interventions recorded were of a similar level to 2019 (the most active year for trade interventions in a decade), export controls were used in greater numbers. We heard that these measures were temporary and, in the case of some export controls, were already being withdrawn.188 However, business representatives were concerned about the potential for further protectionist interventions, such as hardening border controls, domestic stimulus packages and limits on imports for goods; and measures impacting regulation, taxation and data localisation for services.189 Professor Simon Evenett, of the University of St Gallen, told us that the introduction of new subsidy schemes in response to the pandemic were likely to cause longer-term distortion to the global trading system and would be more extensively used in the future.190 He said that this was an issue which had been building up over time, with “under-the-radar subsidies” emerging following the financial crisis, despite commitments not to engage in protectionism.191 Alan Wolff, Deputy Director-General of the WTO, acknowledged that WTO rules on domestic subsidies “are pretty weak”,192 while Marianne Schneider-Petsinger, of Chatham House, said there needed to be more focus on these rules to adapt to Twenty-First Century trade.193

G20

60. Efforts by governments to coordinate responses to the pandemic have, for the most part, taken place through the G20 group of countries. G20 leaders held a virtual summit on 26 March 2020, following the WHO notifying COVID-19 as a pandemic earlier that month. They agreed that the pandemic required a “transparent, robust, coordinated, large-scale and science-based global response” and said they would “do whatever it takes and to use all available policy tools to minimize the economic and social damage from the pandemic, restore global growth, maintain market stability, and strengthen resilience.”194 G20 Trade and Investment Ministers have also met virtually in response to the pandemic. A ministerial statement, issued on 30 March, said that emergency trade measures taken in response to the pandemic “must be targeted, proportionate, transparent, and

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187 Q230 [Marianne Schneider-Petsinger]; see also Q241
188 Qq216–217
189 Qq131, 182
190 Q231
191 Qq217, 230
192 Q241
193 Q237
194 Prime Minister’s Office, G20 Leaders’ Summit - statement on COVID-19: 26 March 2020, 26 March 2020
The COVID-19 pandemic and international trade

The Ministers noted their concern about the likely impact on vulnerable developing and least-developed countries in particular. On 14 May, Ministers met again and endorsed a list of actions drawn up by the Trade and Investment Working Group to alleviate the impact of COVID-19 in the short-term through trade facilitation and transparency; and in the long-term to support the multilateral trading system, build resilience in supply chains, and strengthen investment.197

61. In evidence, the CBI said “the international community is still a long way from launching the kind of coordinated response seen after the 2008 financial crisis.”198 It said the G7 and G20 should be limiting any export restrictions on essential goods, reporting their own restrictions at the WTO and trying to build consensus for reform of the WTO.199 Soumaya Keynes, Trade and Globalisation Editor at the Economist magazine, indicated that these types of measures would also help developing countries respond to the “combination of shocks to their economy and shocks to export demand.”200 Marianne Schneider-Petsinger said that the collective response of the G20 “has focused on pledges and declaring a common purpose” but overall could have been more ambitious.201 Ms Truss told us she would have preferred a more ambitious G20 statement but indicated that, given the “protectionist rhetoric across the world” and different opinions on the issues, it was positive that a statement was agreed.202 She also said the UK had implemented the actions agreed by the Trade and Investment Working Group and said an officials’ working group had been established to monitor progress.203 In written evidence, DIT said G20 Trade Ministers would receive an update on implementation of the actions by all G20 countries in October and the Secretary of State would inform the Committee of the progress made following that meeting.204

World Trade Organization

62. Throughout the pandemic, the Director-General of the WTO, Roberto Azevêdo, has encouraged its members to maintain open and predictable markets, foster a positive business environment and cooperate to achieve a faster recovery.205 In addition to its usual work, the WTO secretariat has taken a three-fold approach to support its members to respond to the pandemic. It has prioritised the production of timely data tracking the extent of the crisis, publishing its Trade Outlook for 2020 in April, with an updated forecast in June; and its Goods and Services Trade Barometers, which aim to provide real-

195 G20, G20 Trade and Investment Ministerial Statement (30 March 2020), p 1
196 G20, G20 Trade and Investment Ministerial Statement (30 March 2020), p 1
197 G20, G20 Trade and Investment Ministerial Meeting Ministerial Statement (14 May 2020), p 1
198 Confederation of British Industry (CVT0049)
199 Confederation of British Industry (CVT0049)
200 Q228
201 Q223
202 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q87
203 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q88
204 Department for International Trade (CVT0058)
205 World Trade Organization, Trade statistics and outlook: Trade set to plunge as COVID-19 pandemic upends global economy (8 April 2020), p 2
The COVID-19 pandemic and international trade

time data on global trade trends.\textsuperscript{206} It has also published a series of short reports on the impact of the pandemic on various aspects of international trade. WTO agreements seek to promote transparency in trade-related measures and members are required to notify the WTO of any measures taken. The Organization has emphasised the need for transparency throughout the pandemic and established a dedicated webpage to publicise up-to-date trade information and notifications received.\textsuperscript{207} Furthermore, the secretariat has worked with other multilateral institutions to coordinate responses by these organisations. This included working with the WHO and UN Food and Agriculture Organization to minimise the impact of border restrictions on trade in food; and the World Customs Organization to facilitate trade in essential goods.\textsuperscript{208}

63. In questioning about the WTO response to the pandemic, we heard from Professor Evenett that the WTO secretariat “has been very forthright in articulating why open trade is needed at this time” but it is a comparatively weak international institution.\textsuperscript{209} This has been evident in the reporting of trade-related measures where Professor Evenett’s Global Trade Alert identified more countries adopting export controls and import reforms than reported by the WTO.\textsuperscript{210} He reasoned that “the WTO secretariat is in some ways limited by the willingness of member governments to notify them of policy changes, and this may account for the differences in the totals that we find and that they have found.”\textsuperscript{211} Ambassador Wolff, of the WTO, addressed transparency in his evidence telling us that: “There are a lot of shortcomings in the notification of subsidies. Notification of standards is excellent. Notification of the export restrictions has been pretty good but not perfect.”\textsuperscript{212} He explained that there was a process of consulting with members to verify data and get permission to report official measures. Peter Ungphakorn, former Senior Information Officer at the WTO, said that while the WTO might not report as many trade measures as projects such as the Global Trade Alert, “there is still quite a high degree of transparency as a result of the secretariat’s own initiative.”\textsuperscript{213}

64. The role of the WTO as a forum for discussion and negotiation during the pandemic and the need for reform were also highlighted in evidence. Marianne Petsinger-Schneider told us that it would be “the natural forum for more collective action”, but this had not occurred due to the pressure the Organization was under on multiple fronts. She indicated that the pandemic might be an opportunity to move forward WTO reform efforts, as the crisis had shown the need for a rules-based international trading system with a properly functioning WTO at its core.\textsuperscript{214} Peter Ungphakorn said there was a need to distinguish between the WTO secretariat, which supported the work of members, and WTO members themselves. He said that there were constraints on what the WTO could do, based on what members want to do; and there was a lack of understanding of what it meant for the

\textsuperscript{206} World Trade Organization, \textit{Services Trade Barometer} (11 March 2020); World Trade Organization, \textit{Trade statistics and outlook: Trade set to plunge as COVID-19 pandemic upends global economy} (8 April 2020); World Trade Organization, \textit{Goods Trade Barometer} (20 May 2020); World Trade Organization, \textit{Trade statistics and outlook: Trade falls steeply in first half of 2020} (23 June 2020);

\textsuperscript{207} World Trade Organization, \textit{Transparency - why it matters at times of crisis} (7 April 2020), p 2

\textsuperscript{208} “DDG Wolff: COVID-19 crisis underlines need for more multilateralism, not less”, World Trade Organization, 7 May 2020

\textsuperscript{209} Q220

\textsuperscript{210} Qq216–219

\textsuperscript{211} Q219

\textsuperscript{212} O246

\textsuperscript{213} O246

\textsuperscript{214} O223
WTO to be “working”. He contended that “the [WTO] system in general is, behind the scenes, working quite well but there are obviously problems with negotiations, decision-making and dispute settlement.” Ambassador Wolff identified the legislative function (the ability to make rules) as the main aspect in need of reform. He said this would have been a corrective to the issues with the judicial function. Further, he indicated that a restoration of the Appellate Body (the Dispute Settlement Mechanism’s appeals body) was not imminent and there was likely to be a long experiment with the interim appeal arbitration arrangement. The Secretary of State told us that “the reality is that the WTO is in desperate need of reform” and there were instances where WTO rules were not being followed in areas of transparency, forced technology transfer and subsidisation using state-owned enterprises.

**UK Government engagement with global forums**

65. The UK Government’s international response on trade issues has sought to emphasise the need for continued free, open trade and express support for the WTO. On 28 April, the Secretary of State co-authored a newspaper article with Trade Ministers from Australia, New Zealand and Singapore, arguing that export controls and trade measures on essential goods harm the response to the pandemic and reiterating the G20’s statement that any measures necessary should be “transparent, time-limited and proportionate.” In correspondence with the Committee, Ms Truss said she was active in encouraging G20 Trade Ministers to express a commitment to avoid protectionism and was emphasising the need for proportionality and transparency in trade measures when communicating with WTO Members. Julian Braithwaite, the UK’s Ambassador to the WTO, has also stressed that the Organization “has a major role to play” in the response to the pandemic as “the world’s leading platform for discussing global trade.” Further, he said:

> it is the place where the impact on COVID-19 on the global trading system should be discussed, where ideas and solutions should be shared, and were [sic] initiatives to mitigate the global economic crisis to come, launched.

Ambassador Braithwaite has also called for the process of appointing a new Director-General to be undertaken with a sense of urgency.

66. We heard from Professor Fiona Smith, of the University of Leeds, that the “UK is showing real leadership” in seeking to keep markets open through the G20 at the WTO. She cited rules on agri-food exports as an area where the UK could seek to lead further
reform. TheCityUK said that the Government had been “encouragingly clear about the need for a coordinated global response” and called on it to “continue to build coalitions of countries that favour strengthening the rules-based trading system.”

Conclusions and recommendations

67. We welcome the UK Government’s engagement with the international response to the pandemic in relation to trade issues. However, we are concerned at the lack of a coordinated plan of action from the wider international community early in the pandemic (in contrast to the situation when the financial crisis broke out in 2008). The Government must act at the international level to try and ensure that any trade-disrupting measures put in place during the pandemic do not become permanent.

68. During the pandemic, the World Trade Organization (WTO) has sought to encourage its members to retain open and predictable markets. Its Secretariat has been a useful source of data publications and information; however, there are constraints on what it can do as a member-led body. The Organization is further hampered by the poor functioning at present of its negotiating and dispute-settlement functions. We recommend that the Government seek to work with World Trade Organization partners and the WTO’s General Council on reform initiatives to revive its negotiating and dispute-settlement functions, to be taken forward once a new Director-General is in place. We recommend the Government advocate for these reforms as a pressing need and report to us at regular intervals on progress made.

Agreement on trade in medical goods

69. During the inquiry, we heard evidence about the potential for a multilateral or plurilateral agreement on medical goods. Since the outbreak of the pandemic, several initiatives have been proposed including New Zealand and Singapore’s Declaration on Trade in Essential Goods, open to all WTO members, which seeks to eliminate tariffs, and import and export measures, on essential goods. The UKTPO said the UK should sign and promote the declaration. It maintained that, by doing so, the UK would show a “strong commitment to tariff elimination; prohibition of export restrictions; removal of non-tariff barriers; and trade facilitation in essential goods for combating the COVID-10 [sic], all objectives explicitly espoused by the government.” Further, it said that the UK’s support would encourage others to join.

70. Professor Evenett and L Alan Winters, Professor of Economics and Director of the UKTPO, have also proposed a “trade bargain” on medical goods. Under this proposal, “in return for importing governments agreeing to keep their import restrictions at their current low levels, exporting governments agree to qualify the extent to which they can restrict shipments abroad.” This could be achieved through “a straightforward, WTO-consistent, time-limited commitment on policies towards the medical products associated
with COVID-19 that countries can publicly adopt at any time.” Professor Evenett told us the proposal has been discussed by ambassadors at the WTO and was being considered by the UK Government. He said:

Essentially what I think people are looking for is some way of making something of this desire to open up markets where we probably should never have been taxing imports in the first place and to have an early harvest where we can lock in some of the reforms that we have seen. Maybe this could be a first step towards a plurilateral agreement among countries on medical supplies and medicines, which the European Union and others have been advocating. Professor Winters and my proposal is very much a first step, an early harvest, towards a more elaborate agreement that could be negotiated once the goodwill exists at the WTO to try to do so.

Furthermore, trade policy journal Borderlex reported that EU Trade Commissioner Phil Hogan was considering “launching a more comprehensive negotiation of a plurilateral agreement” which could include the permanent liberalisation of tariffs on medical equipment. The proposal was discussed at an informal meeting of EU Trade Ministers in April and won support from the governments of the Netherlands, Sweden and Denmark. The Dutch Government had circulated a paper calling for an “Essential Health Goods” agreement in advance of the meeting. In addition, in June members of the Ottawa Group of countries asked the WTO Secretariat to “advance analysis and consideration in order to identify what steps WTO members could take to facilitate trade in medical supplies” to ensure members have access to medical supplies and are better positioned to deal with future health crises.

71. The Secretary of State told us that she was “in favour of the principle” of a multilateral agreement on medical goods. Ambassador Wolff said it was possible for there to be a tariff-free agreement on medical goods, but WTO members “have to decide that is what they want to do.” He indicated that an issue could arise if major members did not wish to pursue an agreement and other members have to decide if they still wanted to go ahead. We also heard of the need for caution in approaching the proposals. Soumaya Keynes warned that “there is a slight tension between the idea that the world is about to throw open its borders to trade and the more populist impulses to make sure that medical supply chains are brought back home”, which will need to be resolved (see Chapter 6 for further discussion). She was sceptical about an agreement being done in a quick and easy way. Marianne Schneider-Petsinger agreed, saying that she did not see “a huge appetite in the current environment for advancing plurilateral efforts in a time of protectionism.”

234 “A trade bargain to secure supplies of medical goods”, UK Trade Policy Observatory, 12 June 2020
235 Q224
236 “Commission makes case for international health trade agreement”, Borderlex, 16 April 2020
237 “Commission makes case for international health trade agreement”, Borderlex, 16 April 2020
238 Ottawa Group, June 2020 statement of the Ottawa Group: Focusing action on COVID-19 (June 2020), p 4. The countries involved were Canada (which leads the Ottawa Group), Australia, Brazil, Chile, the EU, Japan, Kenya, Mexico, New Zealand, Norway, Singapore, South Korea and Switzerland.
239 Q89
240 Q251
241 Q251
242 Q232
243 Q232
Conclusions and recommendations

72. The emergence of several proposals for initiatives to support trade in medical goods—including plurilateral and multilateral agreements — is an encouraging development. We consider that there is a strong case for such initiatives. *We recommend that the Government set out a clear policy position on each of the proposals as a matter of priority. We hope that the Government will use its influence to be a leading voice in seeking international support for such initiatives.*
6 Ensuring future supply-chain resilience

Addressing supply-chain vulnerabilities

73. As is apparent from preceding chapters, an issue that has arisen globally, across a wide range of sectors, during the pandemic is that of perceived vulnerabilities in supply chains. Dr Roscoe, of Sussex University, told us that:

What the pandemic has made very clear is we have these hugely complex, globally dispersed supply chains that have a number of points of failure within. A supply chain is only as strong as its weakest link. When one area or one geographical location stops manufacturing, such as when China shut down its manufacturing, the rest of the global supply chain suffers.244

Companies had prioritised “cost and efficiency over flexibility and responsiveness”. Redressing that balance would tend to mean “localisation of supply chains, being closer to the market and being more responsive”. A “fundamental shift” towards localisation of supply chains would now be seen across sectors. Dr Roscoe thought this was “not anything to do with protectionism”; it was “just good business sense”, given that “The longer your supply chain is, the more irresponsible your supply chain will be.”245

74. By contrast, Professor Evenett, of Global Trade Alert, warned against “gut reactions” and “reflexive thinking” taking the place of “evidence-driven policymaking” in arguments about the purported need for onshoring.246 He said that “the UK imports 151 different types of medical goods and in only six cases do more than half of the UK’s imports come from China”. He thought that vulnerability due to such overreliance on particular sources of goods was “a problem that has been grossly exaggerated” and warned against changing “a generation of trade policy” on the basis of “emotional responses”.247

75. Courtney Fingar, of the New Statesman Media Group, told us the pandemic had “accelerated and heightened” an existing “trend of reassessing supply chains and looking for ways to make them both shorter and stronger”. This trend had been driven partly by “concern for carbon footprint”; and by the impact of automation, which made it potentially more economical to manufacture closer to home.248 Dr López-Gómez, of Cambridge University’s Institute for Manufacturing, told us that several countries, such as Singapore, South Korea, China and the US, were looking at future supply-chain resilience. Risks being examined included dependence on single sources or single regions of the world for particular products. There were “very different answers for different sectors”.249

76. Ms Schneider-Petsinger, of Chatham House, told us that a number of policy instruments were being discussed in the US as possible means of bringing about reshoring. These included: payment of government subsidies; tax incentives; a shift by

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244 Q2
245 Q21
246 “Onshoring” refers to moving to one’s home country an aspect of production that has hitherto been carried out abroad. The related term “reshoring” refers to the repatriation of domestic production that has been previously sent overseas – or “offshored”. The term “near-shoring” (transferring overseas production to a less distant foreign location) is also widely used.
247 Q237
248 Q213
249 Q131
the US International Development Finance Corporation to promoting inward investment; and incorporating into government procurement strategies a “buy American” policy and requirements regarding domestic production. She thought onshoring was likely in practice to occur “only in certain sectors and only for certain companies”. Scope for government intervention would be constrained by the state of government finances in the aftermath of the pandemic; support for onshoring would be “limited to strategic sectors” and of limited duration. Increasing diversity of supply and “redundancy” (spare capacity) in supply chains would be “much more driven by market forces than Government intervention”; and “Governments should pursue other policies, such as looking at stockpiling and creating trusted partnerships.”

Ms Schneider-Petsinger also drew attention to: the likely impact of onshoring on the prices, variety and quality of goods available; the role of “Consumer preferences for more locally produced goods”, with concerns about “greening supply chains”; and the case for regionalisation of supply chains (concentrating them within several nearby countries). Soumaya Keynes, of the Economist magazine, thought that onshoring would be unwise, since “We can have a shutdown at home and there is just as much risk from that as there is from being reliant on imports.” Supply-chain vulnerabilities could be addressed instead by “a healthy stockpile of equipment and supplies, and then a diverse set of suppliers.”

77. Professor Jun Du, Director of the Lloyds Banking Group Centre for Business Prosperity at Aston University, told us that, while globalisation was certainly not at an end, “limited decoupling may happen and reconfiguration of global value chains is inevitable”. Global value chains were driven by efficiency and would persist while that remained the organising principle of business. As in any recession, global value chains would facilitate “weeding out” the less productive enterprises. And China could not be “swapped out” of supply chains, given its “advantages over all its competitors (even low-cost economies)”, including “its unrivalled density of production networks which can't simply be 'shipped' elsewhere”. Worries about supply-chain security were only justified in respect of goods relating to national security. Since nobody could predict the characteristics of a future crisis, it would be difficult to compile a list of those commodities which required supply chains to be guaranteed. What was required was “tight international collaboration” to “build a strong international safety net”. Therefore, the UK needed to “play a more active role in leading international collaboration and coordination in building and shaping the future global supply chains of priority goods”. Dr James X Zhan, Director of the Investment and Enterprise Division at UNCTAD, however, thought the pandemic was catalysing developments that would “mark the end point for globalisation”. He envisaged “a restructuring of the global value chain from global to regional”, with the emergence of three regional production systems: “the EU-centred European system, the US-centred American system and the China/Japan-centred east Asia system.”

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250 Q233. Ms Schneider-Petsinger said that “strategic sectors” had traditionally only been defined as those relating to national defence, as well as energy and transport; but the definition was being expanded to encompass “anything that is related to public health and the healthcare sector” – Q234.
251 Q233
252 Q235, 236
253 Q236
254 Q236
255 Q222
256 Professor Jun Du (CVT0021)
257 Q213
78. The UK Trade Policy Observatory (UKTPO) told us that any action to bolster supply-chain resilience should not be at the expense of “maintaining the well documented advantages from closer integration” (including specialisation, technology transfer and innovation). Policy-makers needed to determine in which sectors it was “socially optimal” to improve resilience and identify where government intervention was needed to achieve this. UKTPO thought that improved supply-chain security was likely to entail some combination of:

- simplification, with shorter supply chains—and possibly more reshoring (which had already increased in the past decade);
- diversification of sources of supply, to reduce reliance on single countries / single suppliers;
- rethinking the advantage of maintaining “lean” inventories (minimal stocks of production inputs);
- more automation / use of robotics; and
- considering how far digital delivery of services associated with goods might reduce the need for people to travel in order to deliver such services.258

79. Mr Phipson, of Make UK, said there had been “a wakeup call” about reliance on single-source supply. Solutions potentially included dual-sourcing, on-shoring and shortening routes of supply.259 Just-in-time manufacturing would “probably change substantially from this point onwards”.260 However, Mr Phipson acknowledged there were limits to what could be onshored. He thought there was “minimal” chance of onshoring production of, for instance, “white goods and consumer electronics”. UK manufacturing would remain focused on high-value production, making innovative products and, as in the case of the automotive industry, integrating components made elsewhere. Building resilience would be “about making sure that is sustainable, reliable and is not impacted by things like pandemics”.261

80. In the medical supplies sector (which is concerned with equipment and consumables, including PPE), Mr Ellingworth, of the ABHI, warned that any onshoring of supply chains would entail costs that businesses would have to pass on. And the reality of the global market meant that “you cannot re-shore everything”. The challenge was to “build on the existing life sciences strategy for the UK” to develop innovative production in the UK.262

81. Regarding agri-food supply chains, Professor Smith told us that “Trade rules—the WTO rules and maybe regional trade agreements—are not going to stop the UK” going down the route of greater self-sufficiency if it chose to do so; and leaving the EU gave greater flexibility in that regard. To have “a completely local food chain” would “probably be challenging”, but there were good reasons for doing so.263 Professor Doherty, however, wished to “strike a cautionary note”, given that the UK had long imported much of its food and there was much the UK could not produce for itself. There needed to be a “proper
strategy” to extend the UK growing season for some crops; and we would still need to import food to meet demand from consumers. Mr Wright, of the Food and Drink Association, was sceptical about the public’s appetite for greater self-sufficiency in food when it realised how much of the UK’s food was imported.

82. Mr Hawes, of the SMMT, said that roughly half of the parts used by the UK automotive industry were sourced in the UK. Lack of UK suppliers meant that this proportion could not rise beyond 60%—and the shift towards electric vehicles would make it less possible to source parts in the UK. The industry would always look for the best suppliers in terms of “costs, quality, innovation, reliability.” He thought that “no one can be resilient to a pandemic”. If the industry had localised production, it could have ended up in a worse position, with the UK still in lockdown while competitors in other countries were “accelerating away”. Globalisation could not be reversed, although it might be “changed at the edges” regarding some of its riskier elements, “within the bounds of what is feasible and viable”.

83. Regarding the plastics industry, Mr Law said it “would dearly love to have much more on-shoring”, but this could only happen if there were more UK-based original equipment manufacturers to buy its products. Mr Alger, of the UKFT, said that “near-shoring and on-shoring has been going on at a steady pace over the last 10 years” in the fashion and textile industry.

Conclusions

84. Any proposed measures to bring about onshoring of production in the UK need to be approached with caution. Onshoring may not be easy to achieve; it may have unintended consequences in respect of factors such as the price of goods and tit-for-tat actions by other countries; and it may replace one form of vulnerability with another. In addition, it may have implications regarding the terms of international agreements (multilateral / plurilateral and bilateral).

Proposed “parallel supply chain” for medicines

85. Dr Roscoe told us that pharmaceutical supply chains, like those of other industries, had been shown by the pandemic to have “some inherent issues” that made them “fragile”. Dr Torbett, of the ABPI, said that he fundamentally disagreed with such a characterisation, at least in respect of prescription medicines, the supply chain for which had proved to be resilient. He did, however, indicate that there could be issues in respect of supply chains for over-the-counter medicines. Dr Torbett thought it would make no sense for every country to try and be self-sufficient in the 12,000 prescription medicines currently in use by the NHS, given the requirements regarding “quality, scale, resilience
and price”. There was, though, a debate to be had about growing the life-sciences industry in the UK; and it might be possible to seize opportunities to manufacture some essential medicines as well.\textsuperscript{274} Regarding future supply-chain resilience, Dr Torbett thought the answer was a diversity of options, including some stockpiling.\textsuperscript{275}

86. Dr Roscoe pointed out that, while buffer stock had thus far helped to maintain supplies during the pandemic, it would eventually run out, if this, or some other, crisis continued long enough.\textsuperscript{276} He agreed with the idea of a global diversity of suppliers—"having a portfolio of suppliers in geographical locations […] and not having all our eggs in one or two baskets, such as India and China.”\textsuperscript{277} He was “not calling for all drugs to be made in the UK by any means”.\textsuperscript{278} Rather, he proposed ensuring “the manufacturing capacity to make critical drugs in the UK” (encompassing “APIs, excipients [substances used in medicines alongside APIs] and packaging”) when necessary, by means of a “parallel supply chain”.\textsuperscript{279} This would be accomplished by having:

companies within the UK that are maybe manufacturing 20% or 30% [of required supplies] and, when a crisis hits, those companies have the ability to flex their capacity and bring it up to 80% or 90% to meet the needs of the UK public.

87. During the few months that it would take these providers to “ramp up their production”, buffer stock could be used to ensure continued supplies of the drugs concerned.\textsuperscript{280} Given the costs involved, the Government would have to play a major role in establishing such a system.\textsuperscript{281} Dr Torbett thought that Dr Roscoe’s ideas were “absolutely worth exploring” as part of “a sophisticated conversation around resilience”.\textsuperscript{282}

\section*{Recommendations}

\textbf{88. We agree that the proposed creation of “parallel supply chains” for some medicines, which would involve building a degree of “surge capacity” into UK-based production, seems to have merit as a workable alternative to onshoring and we recommend that the Government conduct a rigorous evaluation of it as soon as possible. It should also, as a matter of urgency, look into the possibility of applying this approach across other essential-goods sectors.}

\section*{Project Defend}

89. Press reports in May and June stated that the Government was, in light of the pandemic, investigating vulnerabilities in UK supply chains for essential goods (particularly in relation to alleged overreliance on China), under the title “Project Defend”. One of the options under consideration was reported to be the onshoring of some aspects of production.\textsuperscript{283}

\begin{footnotesize}
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\textsuperscript{274} & Q13  \\
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\textsuperscript{276} & Q7, 15  \\
\textsuperscript{277} & Q18  \\
\textsuperscript{278} & Q15  \\
\textsuperscript{279} & Q12  \\
\textsuperscript{280} & Q15  \\
\textsuperscript{281} & Q17, 18, 22  \\
\textsuperscript{282} & Q15  \\
\textsuperscript{283} & “Boris Johnson wants self-sufficiency to end reliance on Chinese imports”, \textit{The Times}, 22 May 2020; “UK looks to wean itself off Chinese imports”, \textit{Financial Times}, 10 June 2020
\end{tabular}
\end{footnotesize}
The Secretary of State told us that Project Defend was “about understanding our supply chains” and had been launched after the “immediate crisis” around the pandemic after it became apparent how dependent the UK was on certain countries for supplies of specific essential products (as in the case of India and paracetamol).

90. The answer was not “autarky” and “onshoring all our industry”, since this would just create a new vulnerability to any shock to production in the UK. Resilience, in respect of imports and exports, would come from “having more trade with a greater diversity of trade partners”. Ms Truss said industry was already reviewing supply chains and looking at multiple sourcing. Supply chains had “worked pretty well” during the pandemic, but the Government and the private sector could do more to prepare for a future crisis by means of supply-chain “transparency and diversification”. Other countries were also looking at this issue and the Government wanted to work with allies to “jointly secure critical supplies”. She emphasised that the UK would continue to trade with China, which was “our fifth-largest trading partner”—subject to international rules on matters such as dumping. Ms Truss accepted that there was “certainly an issue” around the security of pharmaceutical supplies, particularly generic drugs, and the Government was working on the matter. However, she could not “go into the details of Project Defend, for obvious security reasons”.

Recommendations

91. We welcome the Secretary of State going on the record about Project Defend, making her seemingly the first, and so far only, member of the Government to do so. We note her comments that onshoring is not on the table and her reference to diversifying trade partners as a solution to supply-chain vulnerabilities. We welcome the fact that the Government is giving consideration to this issue and we would welcome further details on this. The Government must be as open as possible about how it is identifying issues of supply-chain resilience arising from the pandemic and what measures it is considering as possible solutions. It must set out clearly how it will balance national security with its ambition to be a global champion of free trade.

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284 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q62
285 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q63. The newspaper article that Ms Truss co-authored with trade ministers from several other countries stated: “While there can be good reasons for targeted reshoring of truly essential capabilities, we should not let those who would undo decades of progress take advantage of the crisis” – “Enemies of free trade must not be allowed to use coronavirus to bring back protectionism”, Telegraph, 28 April 2020.
286 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q64
287 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q65
7 Foreign Direct Investment

92. As we have already noted (in Chapter 1), the pandemic has had a major impact on global flows of FDI. Definitive data regarding the impact of the pandemic on UK inward investment are not as yet available, but the effect is likely to be significant.288

93. In responding to this situation, governments will need to review and adjust their policies in respect of investment promotion and facilitation. At the same time, the consequences of the pandemic have posed a number of difficult policy issues, notably in respect of International Investment Agreements (IIAs) and arrangements for screening inward investment in respect of national security.

Promoting and facilitating investment

94. Investment promotion agencies (IPAs) are bodies (usually government agencies) responsible for investment promotion (marketing the host country to attract inward investment) and facilitation (making it easier for investors to do business). Dr Zhan, of UNCTAD, explained to us that IPAs also provide “aftercare” services, by dealing with any problems arising after the investment has taken place; and advocacy services, mediating between host governments and investors.

95. Dr Zhan said that, during the pandemic, IPAs had been primarily concerned with the retention of existing investment, as well as trying to ensure that investments passing through the “pipeline” were not lost (some investments in new enterprises go through several stages before the business is fully operational).289 The measures taken by IPAs and governments in respect of inward investors included: helping enterprises navigate through shocks to supply and demand; pandemic-related information services; “administrative or operational support”; incentives to convert or repurpose production for pandemic purposes; “state participation in crisis-affected industries”; and support for local SMEs, to maintain supply chains.290

96. The role of IPA in the UK is played by DIT.291 In May, the Secretary of State told the Chair in correspondence that DIT staff in overseas posts:

in large source markets for FDI into the UK are also speaking to local companies invested in the UK. This outreach is being used to understand the longer-term impact of COVID-19 on their UK operations, and signpost them to any relevant support available.292

97. Courtney Fingar, of the New Statesman Media Group, told us that, as well as “interacting with and communicating with existing investors”, the message being sent to prospective investors was “really paramount”. She said that, while DIT’s webpage included a link for “Support for exporters and inward investors”, the information provided included “a lot more on trade than investment”. Trade and investment were both important, but they were “not the same thing” and needed “to be treated quite differently “. For an investor, it would not be immediately apparent that DIT was the place to seek help and

288 Q195
289 Qq192, 199
290 Qq192–193
291 Q199
292 Rt Hon Elizabeth Truss MP to Angus Brendan MacNeil MP, 18 May 2020
advice. The support measures listed by the Department in respect of the pandemic were mostly not “relevant to inward investors”. Inward investors needed “targeted messaging” and “dedicated information and support”. Ms Fingar drew a contrast with the French IPA, Business France. Prominently displayed on the front of their website was the message “Covid-19. We’re here for you, for our investors. We’re helping you”, with a link to “a page listing Covid-19 support measures directly for inward investors with a drop-down menu of frequently asked questions and all the support”.293 We asked the Secretary of State how DIT was supporting investors and communicating with them. She told us that the Investment Minister, Lord Grimstone, “has been working with and talking to investors”.294

98. Regarding the role of investment in the recovery from the economic effects of the pandemic, Ms Truss wrote to our Chair in May that DIT was “working on an Investment Strategy that secures global investment to boost growth, drive productivity and create jobs.”295 She told us in oral evidence that the Government was “reforming our investment strategy overall to make sure it is levelling up the UK”. It would include the establishment of an “economic campus” in the north of England.296 She added:

We are absolutely focused on this issue because, as we come out of the coronavirus crisis, we are going to see diminished investment availability across the world. We need to make sure that UK companies are getting the lion’s share of that investment.297

She also indicated that she hoped to consult us as the Government launched its new strategy.298

Conclusions and recommendations

99. As part of its role in promoting and facilitating inward Foreign Direct Investment, DIT has a responsibility to provide investors with advice, support and assistance to help them deal with the current unprecedented circumstances. DIT should build on its hard work in this area and do more to communicate proactively to investors what help and information is available to them. It must tell us what the uptake has been for such services during the pandemic, and what it has done to ensure that it is reaching as many investors as possible.

100. We welcome the fact that the Government is reforming its Investment Strategy and the Secretary of State’s indication that we will be consulted over this. The new Investment Strategy should be published in a similar format to that of the Export Strategy, as recommended by our predecessor committee. The Government must set out how the Investment Strategy will dovetail with the updated Export Policy, as well as

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293 Q200
294 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q68
295 Rt Hon Elizabeth Truss MP to Angus Brendan MacNeil MP, 18 May 2020. Our predecessor committee called on DIT to publish an “overarching” Investment Strategy “in a similar format to that of the 2018 Export Strategy”, but the Government declined to do so “because of the likelihood of a competitive response such as the generation of counter-narratives” – International Trade Committee, First Special Report of Session 2019, UK investment policy: Government Response to the Committee’s Seventh Report of Session 2017–19, HC 126, p 6.
296 The Chancellor of the Exchequer said in March that a planned “economic campus” in the north of England would be the location for a fifth of Treasury staff – “Coronavirus: NHS will get ‘whatever it needs’ to fight outbreak of COVID-19”, Sky News, 8 March 2020; The Andrew Marr Show, BBC1, 8 March 2020
297 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q68; see also Rt Hon Elizabeth Truss MP to Angus Brendan MacNeil MP, 18 May 2020
298 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q71
the Industrial Strategy and the Government’s regional policy—and say how the roles of HM Trade Commissioners, DIT staff in overseas posts and the GREAT campaign will be aligned with it. The Government must also give detailed information on how its plans for an “economic campus” in the north of England, mentioned to us by the Secretary of State, will relate to its Investment Strategy.

International Investment Agreements

101. International Investment Agreements (IIAs) can take the form of: Bilateral Investment Treaties (BITs), dealing just with investment matters; or Treaties with Investment Provisions, including Free Trade Agreements (FTAs) with investment chapters. Evidence submitted to us by several campaigning organisations drew attention to provisions in some IIAs relating to Investor-State Dispute Settlement (ISDS), under which investors are able to sue host states for substantial damages where those states take actions which are regarded as damaging to the investors’ interests.

102. Laura Bannister, of the Trade Justice Movement, told us that the UK was a party to 91 BITs; and, like countries around the world, had taken measures in response to the pandemic that could be considered to be in breach of its obligations under investment agreements. Such actions included advising banks to suspend payments to shareholders, the enforced closure of businesses and telling customers to stay at home. Law firms were “already ramping up” to pursue ISDS claims; and one third-party funder of such cases had said “Frankly, we’re drinking from a fire hose’, in terms of the level of cases that it is experiencing.” Ms Bannister described the levels of compensation paid in ISDS cases as “extreme”, reaching the level of “hundreds of millions, potentially billions” of pounds. She envisaged the possibility of UK firms bringing “some really ugly cases” against the governments of developing countries. To avoid this situation, there should be an immediate “withdrawal of consent to arbitration”, which would create “legal uncertainties that make it hard for these claims to proceed”. Further, there should be negotiations among parties to investment agreements on the “mutual termination” of ISDS provisions, so that governments can be free to respond appropriately to emergencies such as the pandemic. Ms Bannister emphasised that ISDS protection applies only to foreign investors, creating “a very unlevel playing field” with domestic investors.

103. Ms Fingar thought that ISDS was “a very valid issue to raise”, but she was concerned that the interests of foreign investors should not be counterposed to those of the British public and the “British purse”. She said those investors made a substantial contribution to the UK in both jobs and tax receipts. The issue of ISDS disputes was “a really thorny one”. These processes were put in place to reassure investors that “they would not be taken advantage of” and there was a balance to be struck. Dr Zhan added that the issue with ISDS provisions related to “the older generation of investment treaties”, of which there were some 2,900. These included the UK’s BITs, which had all been negotiated “decades ago” and were now coming to the fore following Brexit (since issues around investment policy are an area of EU competence). The experience of the financial crisis during 2008–9 showed that there was a risk of ISDS cases being brought over emergency measures; UNCTAD had raised this issue, and a group of “eminent persons” had called for an ISDS

299 Q203; see also Trade Justice Movement (CVT0007), Keep Our NHS Public (CVT0008), War on Want (CVT0039), Global Justice Now (CVT0045)
300 Q211
The COVID-19 pandemic and international trade

moratorium during the pandemic. The issue at stake was “how to balance the rights and obligations between firms and states, and between creating a stable investment climate on the one hand and the Government’s right to regulate and flexibility”, particularly in a crisis. Dr Zhan thought that there was a need for reform and the UK should “update its existing investment treaty network”.301

104. We also heard about the implications for investment agreements of potential policies around strengthening supply-chain resilience by means such as onshoring. Ms Bannister said that the Trade Justice Movement was “essentially agnostic about whether localisation is the best approach in responding to this crisis”; but where governments wished to go down that route, they could be constrained by the terms of investment agreements. One instance of this was the presence in some agreements of a ban on performance requirements. Such requirements included stipulating that enterprises must reserve some jobs or seats on boards of directors for local people, use a certain amount of local content in their products or spend a certain amount on local research and development. Such requirements were more common in recent investment agreements; they were not present in any of the UK’s agreements, given that they were of an older generation.302 Dr Zhan noted the proliferation in recent years of industrial policies in over 100 countries, which were potentially inconsistent with the WTO Agreement on Trade-Related Investment Measures, whose provisions include restrictions on performance requirements. He thought that WTO member states would eventually have to revisit this issue. Ms Fingar agreed that “all of this has to be worked out” and said the UK would have to negotiate the issue of local content requirements in relation to FTAs, as well as BITs and WTO rules.303

105. The Secretary of State told us that “any agreement we sign will be absolutely clear about the right of the UK Government to regulate”; overseas corporations would not be “able to ride roughshod over UK law” and this had been considered in all FTA negotiations that the Government had conducted.304 She added that “we will be going through investor chapters with a [fine-]toothed comb” to ensure the Government’s right to regulate was not hampered.305

Recommendations

106. The Government should set out its policy on updating existing UK Bilateral Investment Treaties, and on the terms of future International Investment Agreements, in light of the challenges and issues that the pandemic has highlighted. We welcome the Secretary of State’s commitment to scrutinise closely investment chapters in future Free Trade Agreements with a view to preserving the Government’s right to regulate. More detail should be provided on what provisions regarding the right to regulate the Government would regard as unacceptable in an investment agreement.

301 Q212
302 Q214; see also Trade Justice Movement (CVT0007), Global Justice Now (CVT0045)
303 Q215
304 Oral evidence taken on 24 June 2020, HC (2019–21) 534, Q72; see also Q73
**Investment screening**

Dr Zhan told us that:

> at a time of crisis, when you have a lot of companies in difficulties or assets in stress, of course, the price will go down of the assets, and then that may trigger fire sales [...] If the buyer is a vulture capitalist or some opportunist, that may be detrimental.\(^{306}\)

107. He explained that a number of governments, especially in developed countries, had put in place new screening procedures in respect of inward FDI. This was driven by concerns about national security, as well as public health. With asset prices low, countries feared losing “strategic assets’, in particular technology and R&D facilities” that were crucial to their competitive advantage. It was important to define what counted as national security and as strategic assets or strategic infrastructure. It was also necessary to determine the nature of investments (whether investors were acquiring overall control or just injecting capital), as well as the investors’ long-term objective (whether to strip out assets or to develop the enterprise in the host country). Governments needed to do this carefully, keeping their economies open for investment, which was particularly important in respect of R&D and technology.\(^{307}\)

108. Ms Keynes, of the *Economist*, told us that there were major differences between countries in how they screened FDI. There was clearly scope to harmonise these, for instance in relation to the capital thresholds that would trigger an investigation and the scope of screening policies. There would be advantages to such coordination. An obvious area of coordination would be the sharing of information on risks, as had been discussed in the EU. Ms Schneider-Petsinger, of Chatham House, explained that EU regulations on FDI screening would enter into force in October 2020. These involved EU-level monitoring of foreign acquisitions and voluntary exchange of information between Member States on pending FDI screening cases. Since national concerns were driving the screening of FDI, collaboration was not necessarily being pursued; but the Committee on Foreign Investment in the United States was talking to the UK and the European Commission. There was also scope for the OECD to play a role.\(^{308}\)

109. We asked Ms Fingar about the National Security and Investment Bill which the UK Government intends to bring forward. She told us that the Government’s plans seemed to be “quite in line with the way that other countries are doing it, and much in line with international norms”. Investors wanted a clear mechanism, fair treatment and prompt hearing of their cases; and the planned legislation would allow for that. The envisaged triggers for investigations were clear and “not unreasonable”.\(^{309}\)

110. The Secretary of State confirmed it was the Government’s view that “at a time where companies could be low valued due to the coronavirus crisis” it was important to beware of “predatory investments”. She was working closely on this with the Secretary of State for Business, Energy & Industrial Strategy (who had overall responsibility in this area), looking at “those types of investors and screening techniques”. Countries such as Australia and Japan, which were also open for positive investment, were doing the same at the

\(^{306}\) Q198
\(^{307}\) Q201; see also Q191
\(^{308}\) Q229
\(^{309}\) Q204
moment. Ms Truss said that DIT would not exercise powers under the National Security and Investment Bill. The Department’s job was “bringing the investment in” and the Government was making sure any legislation “does not prevent positive investment”. She added that she was “extremely supportive of the whole concept of investment screening”.

**Recommendations**

111. As the Secretary of State has acknowledged, investment screening entails balancing national security against the need for inward investment. The Government must set out clearly the basis on which it will strike that balance, as recommended by our predecessor committee. It must ensure that all relevant interests will be taken into account in its planned investment screening regime—and it must clarify what role, if any, is envisaged for DIT in that regime, as also recommended by our predecessor.
Conclusions and recommendations

UK trade in essential goods

1. The COVID-19 pandemic has seen the pharmaceutical sector affected by significant and distinctive shocks to both supply and demand, compounded by trade policy interventions in some countries that have impeded trade. Our evidence indicates, though, that UK supply chains for medicines have thus far proved to be resilient, partly due to actions taken by the UK Government. (Paragraph 13)

2. However, supply chains can only be stretched so far, as indicated by the fact that buffer stock of medicines is not intended to last more than around six months. The Government must work with the pharmaceutical industry to ensure that buffer stock is being replenished to help cope with any further wave of the COVID-19 pandemic. (Paragraph 14)

3. Some governments have adjusted intellectual property provisions to allow for compulsory licensing of therapeutic drugs or vaccines in respect of COVID-19. The UK Government should evaluate the case for putting in place such enabling measures in order to make these drugs and vaccines available as quickly, widely and cheaply as possible. (Paragraph 15)

4. The medical supplies sector has also faced an unprecedented combination of shocks to both supply and demand, compounded by some governments’ trade policy interventions; and UK supply chains in this sector have also thus far proved to be resilient. (Paragraph 23)

5. The Government has acted to try and ensure continuity of medical supplies by means including overseas procurements of Personal Protective Equipment for the whole UK, involving Department for International Trade staff in overseas posts and the Foreign and Commonwealth Office. We recognise that there have been different experiences with PPE procurement across the UK. (Paragraph 24)

6. UK supply chains in the agri-food sector have also so far successfully withstood the challenges posed by major global shocks to supply and demand, compounded in some cases by governments’ trade policy interventions. While agri-food supply chains are likely to remain resilient, this is dependent on their ability to engage logistics and respond to rapid changes in consumer behaviour. (Paragraph 28)

Impact on UK trade in manufacturing and services sectors

7. UK manufacturing industries have suffered significant adverse effects from the disruption of international trade caused by the pandemic, with the flow of raw materials, parts and sub-assemblies seriously impeded and the ability to sell finished products greatly curtailed. (Paragraph 35)

8. UK trade in services has also been adversely affected by the pandemic, although the type and degree of harm varies considerably between sectors according to the extent to which they are dependent on their customers, or those delivering services, being able to travel, as well as their ability to provide services digitally. (Paragraph 39)
UK government response

9. We welcome the steps taken so far by UK Export Finance to support businesses trading overseas and the Secretary of State’s announcement of “bounce-back” schemes for certain sectors, including specific support for SMEs. We commend the steps taken by the Government to ensure continued access to Trade Credit Insurance for businesses and welcome the Secretary of State’s assurance that this issue has been resolved. There is a need for continued vigilance about such problems, and swift resolution of them when they arise. The pandemic has created a range of unforeseen challenges for businesses. We recommend that UKEF be flexible in its response, to ensure that the widest possible range of sectors can avail themselves of its support. Further, we recommend that UKEF consult quickly and widely with businesses on the development and rollout of its new products, to ensure any feedback can be considered in the design phase. (Paragraph 45)

10. Export promotion will play a key role in supporting businesses to recover from the pandemic. The Government will need to think outside the box and find non-traditional, digital ways of helping to sell British products overseas. We welcome the innovations proposed in the “bounce-back” scheme for the agri-food sector, and the announcement that the technology industry will have access to an online engagement platform for export promotion from September. We look forward to seeing similar offerings for other sectors. (Paragraph 50)

11. For businesses to benefit from export promotion, they need to know about what support is available to them. We recognise that DIT is making some headway with communicating its export promotion offering, but it needs to do better and be more effective. We recommend that the Department improve the quality of its communication by ensuring it is adapted on a sector-specific basis and prioritising face-to-face engagements with trade advisors (via digital platforms at present) over self-service digital offerings. We recommend that the Department improve the quality of its communication by ensuring it is adapted on a sector-specific basis and prioritising face-to-face engagements with trade advisors (via digital platforms at present) over self-service digital offerings. (Paragraph 51)

12. We welcome the Secretary of State’s commitment to increase the limit on the number of grants that firms can access under the Tradeshow Access Programme. Business is in need of support now, and we ask that an announcement be made on this as soon as possible, so that firms can have clarity on their eligibility for the scheme. The Government must also ensure grants are available for businesses to participate in virtual trade shows and seminars. These steps should be taken without awaiting the outcome of the TAP evaluation, which is not due to conclude until 2021. We recommend that this evaluation consider the long-standing issues with the programme, including the limit on grants and the level of funding available. (Paragraph 52)

13. The pandemic has accelerated the shift to online based trade. This presents huge opportunities and businesses must be supported to avail themselves of these. In its forthcoming Export Strategy, we recommend DIT set out how it is adapting its support and advice for UK exporters in response to this; and what specific steps it will be taking to help exporters maximise the opportunities of digital trade. (Paragraph 54)
14. We believe it is important that DIT seek a cross-UK government response to the pandemic and also engage with devolved, regional and local government to ensure businesses trading internationally are adequately supported as they seek to recover from the pandemic's effects. In light of the recently announced changes to the Machinery of Government, we recommend that the Government clarify the role of HM Trade Commissioners in the new Foreign, Commonwealth and Development Office; and set out how their work will align with that of DIT staff in overseas posts, the administration of the GREAT campaign and the forthcoming revised Export Strategy. We would also welcome clarification of whether the work of HMTCs will now be examined and included as part of the Integrated Review of Security, Defence, Development and Foreign Policy. (Paragraph 57)

International response

15. We welcome the UK Government's engagement with the international response to the pandemic in relation to trade issues. However, we are concerned at the lack of a coordinated plan of action from the wider international community early in the pandemic (in contrast to the situation when the financial crisis broke out in 2008). The Government must act at the international level to try and ensure that any trade-disrupting measures put in place during the pandemic do not become permanent. (Paragraph 67)

16. During the pandemic, the World Trade Organization (WTO) has sought to encourage its members to retain open and predictable markets. Its Secretariat has been a useful source of data publications and information; however, there are constraints on what it can do as a member-led body. The Organization is further hampered by the poor functioning at present of its negotiating and dispute-settlement functions. We recommend that the Government seek to work with World Trade Organization partners and the WTO's General Council on reform initiatives to revive its negotiating and dispute-settlement functions, to be taken forward once a new Director-General is in place. We recommend the Government advocate for these reforms as a pressing need and report to us at regular intervals on progress made. (Paragraph 68)

17. The emergence of several proposals for initiatives to support trade in medical goods—including plurilateral and multilateral agreements—is an encouraging development. We consider that there is a strong case for such initiatives. We recommend that the Government set out a clear policy position on each of the proposals as a matter of priority. We hope that the Government will use its influence to be a leading voice in seeking international support for such initiatives. (Paragraph 74)

Ensuring future supply-chain resilience

18. Any proposed measures to bring about onshoring of production in the UK need to be approached with caution. Onshoring may not be easy to achieve; it may have unintended consequences in respect of factors such as the price of goods and tit-for-tat actions by other countries; and it may replace one form of vulnerability with another. In addition, it may have implications regarding the terms of international agreements (multilateral / plurilateral and bilateral). (Paragraph 83)
19. We agree that the proposed creation of “parallel supply chains” for some medicines, which would involve building a degree of “surge capacity” into UK-based production, seems to have merit as a workable alternative to onshoring and we recommend that the Government conduct a rigorous evaluation of it as soon as possible. It should also, as a matter of urgency, look into the possibility of applying this approach across other essential-goods sectors. (Paragraph 87)

20. We welcome the Secretary of State going on the record about Project Defend, making her seemingly the first, and so far only, member of the Government to do so. We note her comments that onshoring is not on the table and her reference to diversifying trade partners as a solution to supply-chain vulnerabilities. We welcome the fact that the Government is giving consideration to this issue and we would welcome further details on this. The Government must be as open as possible about how it is identifying issues of supply-chain resilience arising from the pandemic and what measures it is considering as possible solutions. It must set out clearly how it will balance national security with its ambition to be a global champion of free trade. (Paragraph 90)

Foreign Direct Investment

21. As part of its role in promoting and facilitating inward Foreign Direct Investment, DIT has a responsibility to provide investors with advice, support and assistance to help them deal with the current unprecedented circumstances. DIT should build on its hard work in this area and do more to communicate proactively to investors what help and information is available to them. It must tell us what the uptake has been for such services during the pandemic, and what it has done to ensure that it is reaching as many investors as possible. (Paragraph 98)

22. We welcome the fact that the Government is reforming its Investment Strategy and the Secretary of State’s indication that we will be consulted over this. The new Investment Strategy should be published in a similar format to that of the Export Strategy, as recommended by our predecessor committee. The Government must set out how the Investment Strategy will dovetail with the updated Export Policy, as well as the Industrial Strategy and the Government’s regional policy—and say how the roles of HM Trade Commissioners, DIT staff in overseas posts and the GREAT campaign will be aligned with it. The Government must also give detailed information on how its plans for an “economic campus” in the north of England, mentioned to us by the Secretary of State, will relate to its Investment Strategy. (Paragraph 99)

23. The Government should set out its policy on updating existing UK Bilateral Investment Treaties, and on the terms of future International Investment Agreements, in light of the challenges and issues that the pandemic has highlighted. We welcome the Secretary of State’s commitment to scrutinise closely investment chapters in future Free Trade Agreements with a view to preserving the Government’s right to regulate. More detail should be provided on what provisions regarding the right to regulate the Government would regard as unacceptable in an investment agreement. (Paragraph 105)

24. As the Secretary of State has acknowledged, investment screening entails balancing national security against the need for inward investment. The Government must set out clearly the basis on which it will strike that balance, as recommended by our predecessor committee. It must ensure that all relevant interests will be taken into
account in its planned investment screening regime—and it must clarify what role, if any, is envisaged for DIT in that regime, as also recommended by our predecessor. (Paragraph 111)
Formal minutes

Thursday 23 July 2020

Members present

Angus Brendan MacNeil, in the Chair

Robert Courts   Taiwo Owatemi
Mark Garnier    Martin Vickers
Paul Girvan     Craig Williams
Mark Menzies    Mick Whitley

Draft Report (The COVID-19 pandemic and international trade) proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 111 agreed to.

Summary agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 2 September at 2.00 p.m.]
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee’s website.

Thursday 23 April 2020

Dr Samuel Roscoe, Senior Lecturer in Operations Management, University of Sussex, and Dr Richard Torbett, Chief Executive, Association of the British Pharmaceutical Industry

Peter Ellingworth, Chief Executive, Association of British HealthTech Industries, and Mark Roscrow MBE, Chair, Health Care Supplies Association

Thursday 30 April 2020

Professor Bob Doherty, Professor of Agri-food and N8 Chair in Agri-food, University of York, and Professor Fiona Smith, Professor of International Economic Law and N8 Chair in Agri-food, University of Leeds

Andrew Opie, Director of Food and Sustainability, British Retail Consortium, and Ian Wright CBE, Director General, Food and Drink Association

Wednesday 6 May 2020

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

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

Wednesday 13 May 2020

John Drummond, Head of Trade in Services Division, Trade and Agriculture Directorate, OECD; Vivienne Stern, Director of Universities UK International; and Miles Celic, Chief Executive Officer, TheCityUK

Courtney Fingar, Foreign Direct Investment Editor, New Statesman Media Group; Laura Bannister, Senior Adviser, Trade Justice Movement; and Dr James X Zhan, Director of the Investment and Enterprise Division, UN Conference on Trade and Development
Friday 5 June 2020

Soumaya Keynes, Trade and Globalisation Editor, the Economist Magazine; Professor Simon J. Evenett, Professor of International Trade and Economic Development, University of St. Gallen; and Marianne Petsinger, Senior Research Fellow, US and the Americas Programme, Royal Institute of International Affairs

Alan Wolff, Deputy Director-General, World Trade Organization; and Peter Ungphakorn, former Senior Information Officer, World Trade Organization

The Secretary of State for International Trade gave evidence on the Department for International Trade's response to the COVID-19 pandemic during her appearance before the Committee on 24 June 2020. The transcript from that session is available online on the Committee’s website.
Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee’s website.

CVT numbers are generated by the evidence processing system and so may not be complete.

1. ADS (CVT0018)
2. Airlines UK (CVT0041)
3. Anonymous submission (CVT0003)
4. Association of British Health Tech Industries (CVT0019)
5. Association of the British Pharmaceutical Industry (CVT0056)
6. British Ceramic Confederation (CVT0032)
7. British Exporters Association (CVT0022)
8. British Generic Manufacturers Association (CVT0011)
9. Coltraco Ultrasonics (CVT0001)
10. Confederation of British Industry (CVT0049)
11. Courier Facilities Limited (CVT0033)
12. Department for International Trade (CVT0057)
13. Department for International Trade (CVT0058)
14. Destination for Education (CVT0053)
15. Engineering and Machinery Alliance (CVT0029)
16. Export Certification Ltd (CVT0024)
17. Export Partners UK (CVT0020)
18. Export Partners UK (CVT0052)
19. Fairtrade Foundation (CVT0015)
20. FedEx Express (CVT0017)
21. Food and Drink Federation (CVT0055)
22. Fresh Produce Consortium (CVT0028)
23. Global Justice Now (CVT0045)
24. GMB Trade Union (CVT0036)
25. International Chamber of Commerce, United Kingdom (CVT0038)
26. Keep Our NHS Public (CVT008)
27. Kent County Council (CVT0010)
28. Linklaters LLP (CVT0047)
29. National Farmers’ Union (CVT0031)
30. National Pig Association (CVT0042)
31. Office for National Statistics (CVT0054)
32. Pact (CVT0048)
The COVID-19 pandemic and international trade

33 Prof Albert Sanchez-Graells (CVT0004)
34 Prof Erika Szyszczak and Mr Ian Clarke (CVT0009)
35 Prof Jun Du (CVT0021)
36 Prof Rekha Rao-Nicholson (CVT0040)
37 Prof Rupert Read (CVT0013)
38 Professional and Business Services Council (CVT0023)
39 Provision Trade Federation (CVT0025)
40 Scotch Whisky Association (CVT0046)
41 Scottish Salmon Producers Organisation (CVT0034)
42 Swindon & Wiltshire Local Enterprise Partnership (CVT0035)
43 techUK (CVT0050)
44 The Hill Brush Company Ltd (CVT0016)
45 Wine and Spirit Trade Association (CVT0027)
46 TheCityUK (CVT0037)
47 Trade Justice Movement (CVT0007)
48 UK Fashion and Textile Association (CVT0014)
49 UK Fashion and Textile Association (CVT0051)
50 UK Technology for Agriculture and Genetics (CVT0044)
51 UK Trade Policy Observatory, University of Sussex (CVT0026)
52 War on Want (CVT0039)