

Key Messages on

Building resilience for global supply chains

*Ensuring that trade and investment can contribute to
a robust, inclusive and sustainable recovery*

3 November 2020

The economic fallout from Covid-19 has brought into focus the need to strengthen supply chain resilience. Particularly during the early phases of the pandemic, global supply chains were confronted with significant disruptions and containment measures¹. At the same time, businesses were facing demand surges for Covid-19 goods and services, and widespread changes in demand patterns caused by the ‘new normal’. Where shortages occurred, these were mostly caused by unprecedented demand, rather than collapsing supply.

In this context, our companies see it as a priority to better anticipate, earlier prepare and faster adapt their operations to ensure business continuity during a second wave of the pandemic and a global vaccination rollout. More transparency, including through early availability and access to reliable public information and data on the pandemic, can help business forecast developments, particularly for Covid-19 goods and services. Clear, timely and forward-looking government communications are critical to allow companies prepare and adapt quickly.

Nonetheless, the Covid-19 pandemic has highlighted once again that a predictable regulatory, trade and investment policy environment is indispensable to alleviate uncertainty about the framework conditions in which global supply chains operate. To this end, trade ministries should closely collaborate with other ministries, particularly those that take a national security lens to supply chain issues, and ensure that evidence-based analytical work on trade becomes more politically relevant – especially in times of crisis. Coordinated, coherent and cooperative international approaches are the only way to meet the challenge of a global pandemic and maintain trust in our rules-based global trade and investment system.

In our market-based economies, governments can work closely with the private sector to build more resilience, but should not interfere in or control supply chains. In this context, we are highly concerned about calls for policies to re-shore global value chains, localize production and decouple our economies. Such a narrative does not reflect business realities. Measures that prevent goods and services, including essentials, to move where they are needed the most, do not only disrupt production processes but can further erode trust in the international system. More regional diversification – and not less – increases

¹ Work by Statistics Canada and the Canadian Chamber of Commerce through the Canadian Survey on Business Conditions found widespread COVID-19 disruptions to supply chains. A key finding was that only 16.8% of companies reported no disruption to their supply chains, while just over half of business reported an inability to move goods due to disrupted supply chains.

the scope for businesses to cushion shocks, particularly those that may originate domestically.

To build more resilience into manufacturing and supply networks, many businesses have already started rethinking their sophisticated risk mitigation strategies to increase responsiveness to shocks. However this goes far beyond the context of the Covid-19 pandemic, and often considers – among others – advances in digitalization and automation, threats of rising protectionism and policy uncertainties, or increasing risks of natural disasters. As the needs and risk profiles for each economic sector and even individual companies are different, it is clear that supply chain resilience cannot take a monolithic approach. In this context, governments should particularly encourage and support diversification strategies for SMEs.

As OECD work has demonstrated the gains from deepening and expanding international specialization in global value chains, we call on the Organization to provide a cross-cutting evidence-base on what caused supply chain disruptions, and how countries can better prepare for future crises without disrupting global value chains and imposing restrictions.

It is critical that the Organization's insights are effectively communicated to governments, stakeholders and the wider public. This is particularly important at times where global trade and investment are essential elements for innovation, job creation and getting our economies back on track.

Recommendations for OECD and governments to build more resilience for global supply chains:

- **Work towards a common understanding of essentials:** Especially during the early pandemic response, the disparate patchwork of how essentials were defined between but also within OECD countries had a disruptive effect on supply chains. While any efforts to disentangle global value chains into essentials and non-essentials will almost inadvertently lead to arbitrary restrictions and disruptions of highly complex supply chains and structural shortages, the OECD and governments should work towards a common understanding of essentials, with a view to eventually delivering regulatory mutual recognition and/or harmonization. It is important that any definition in this regard takes into consideration the entire supply chain needed to produce, deliver and maintain such essentials, and recognizes the need for flexible travel requirements associated with their production and delivery. In this context, further mutual recognition of professional and trade qualifications should be particularly considered.
- **Facilitate procedures and ensure transparency at the border:** At the border, well-functioning and predictable procedures are critical for business to facilitate the movement of goods that should be entering the country, and those that should not. Governments should review transport, logistics and border process regulations to keep cargo and transport moving in cases of shocks, and ensure that logistics providers such as truck haulage, air cargo and shipping facilities – and the services that support them like customs agents and visa delivery services – remain operational. In times of crisis, governments may consider prioritising shipments of essential goods. Clear, coherent and timely guidance regarding border-measures and procedures and transparency for business are particularly important in a rapidly changing policy landscape. Greater deployment of digital technologies and standardized paperless procedures can help protect people during pandemics by avoiding physical contact, but also alleviate staffing shortages and enable authorities to focus on high-risk products and the full enforcement of import controls. Progress that has been achieved in this regard during the pandemic should be maintained.
- **Safeguard the movement of people & services mobility:** As critical inputs to maintain supply chains, the movement of international business persons and services mobility should remain as free and predictable as possible within necessary safeguards. Where evidence-based travel restrictions are required in times of crisis, a coordinated, coherent and cooperative approach is needed to avoid a global myriad of regional, national and sub-national travel restrictions – such as entry restrictions, visa practices and quarantine regulations – which can lead to mutual blockage of travel activities and present significant bureaucratic hurdles, particularly for business operations that cannot be completed remotely. Clear, coherent, and timely guidance regarding their implementation is needed. In addition, governments should safeguard the operational capacities of public authorities, and avoid shortages or shifts in resources so that the volume of business requests can be handled as usual – particularly where the potential for

digitalization and automation remains high². As efforts to enable the international movement of essential persons may be helpful, clear, coordinated and coherent definitions are needed.

- **Explore security of supply agreements:** The pandemic has shown how quickly countries may enact export restrictions, which disrupted production, exacerbated demand pressures elsewhere, and fundamentally eroded trust in the international trade and investment system. In this context, we strongly encourage OECD governments to explore supply agreements, particularly with like-minded countries, and use a positive list approach to enumerate products that would not be subject to export bans on bilateral trade in certain products, except for the most tightly defined and limited national security or public health grounds. Examples of products that could be covered include medical supplies or rare earth minerals.
- **Reduce heterogeneity of technical standards and unnecessary non-tariff measures³:** The proliferation of excessive national standards and regulations can result in duplicative, conflicting and cumbersome regulations that create additional burden for business and prevent easy and timely substitution between alternative suppliers. Governments should explore simplification of domestic regulatory requirements and procedures – including national authorizations, certification and licenses – in particular for essentials to reduce costs and speed up processes, without compromising on the standards needed to ensure human health and safety. The OECD should promote the recognition and deployment of evidence-based international and particularly multilateral standards and regulations, and ensure governments do not misuse non-tariff measures to impose protectionist barriers shaping trade and investment flows. We encourage governments to closely consult with the private sector in and facilitate sector-based discussions in this regard. We emphasize that science-based trade is particularly critical for ensuring food security.
- **Keep national security exceptions narrowly focused and based on well-defined criteria:** While there are legitimate reasons for investment screening for the purpose of safeguarding national security – such as putting a brake on foreign ownership of critical infrastructure, the outflow of critical technologies and technology diversion – business cautions against overly expansive or vague investment screening or the introduction of national security tariffs that could be used as a disguised form of protectionism or an improper instrument in trade negotiations. What is important is that national security exceptions are guided by the principles of non-discrimination, transparency of policies and predictability of outcomes, proportionality of measures and accountability – in line with the OECD

² This problem becomes acute among companies which provide highly complex and technical services (for example, turn-key projects or verification and certification of industrial or transport equipment) which cannot be replaced by digital means.

³ We particularly emphasize in this context the G20 Trade and Investment Ministerial Statement to “Ensure that any emergency trade measures designed to tackle COVID-19, including export restrictions on vital medical supplies and equipment and other essential goods and services, if deemed necessary, are targeted, proportionate, transparent, temporary, reflect our interest in protecting the most vulnerable, do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules”

Recommendation on Guidelines for Recipient Country Investment Policies relating to National Security – and that they are not deployed deliberately against trading partners. The OECD Freedom of Investment Roundtable can and should play an important role in this regard by fostering an exchange of experience and a multi-lateral dialogue about measures to safeguard national security while reducing impacts on free trade and investment.

- **Encourage investment in trade infrastructure:** Over decades, many OECD economies have been struggling with chronic underinvestment⁴ in their ageing trade infrastructure, although this is a critical factor to ensure companies – and particularly the logistics sector – can alternate means of transport, minimize bottlenecks and move products to customers. The OECD should highlight the trade-benefits of strengthening investment in transport infrastructure and telecommunications networks, amongst others, and the application of new technologies such as Blockchain, and the positive effects this can have on supply chain resilience. In the context of a ‘green recovery’ from Covid-19, the OECD should emphasize that climate-resilient, low-emission and energy-efficient investments can yield ‘double dividends’ for trade resilience and sustainability.⁵
- **Promote digitalization, digital trade and e-commerce:** Covid-19 significantly accelerated the digital transformation – both for the public and private sector. Digitalization, remote provision of services, and the movement of data proved to be key enablers of supply chains for companies both domestically and internationally. Governments should enable cross-border data flows, reduce tariffs on information and communication technology goods and measures affecting access to digitally enabled services including for communications. Enabling regulations on e-payments, e-contracts and e-signatures could help business adapt faster, and improved e-governance could reduce the administrative burden. In this regard, the realization of *Data Free Flow with Trust*, can make an important contribution to ensuring interoperability of different frameworks.
- **Provide greater support to SMEs:** Prior to Covid-19, many large multinational firms had already started diversifying their operations, for example by shifting some of their production capacity to dual sourcing⁶, domestic sourcing⁷ and/or increasing real-time visibility⁸. However, for the vast majority of SMEs that establishes a business relationship with only one supplier, diversification methods such as dual sourcing may be difficult to implement. Governments should act to support SMEs

⁴ In this regard, the OECD report *Investing in Climate, Investing in Growth* also highlights that the stock of public capital relative to GDP decreased by 15% globally over the past 30 years.

⁵ Investment and green public procurement should be a major driver for innovation, incentivizing where possible the development and scalability of environmentally-friendly products and services, such as goods and materials with low-carbon footprint and/or high recyclability rate, while ensuring that necessary public goods and services can be delivered in a timely, economic and efficient manner without decreasing quality attributes.

⁶ Using two suppliers and/or production locations for a given component

⁷ Sourcing and/or producing a given component, raw material, product or service from local suppliers and/or manufacturing it domestically

⁸ Using technology to increase transparency along the value chain to obtain real time demand and plan production

by encouraging export market diversification, accessible digital infrastructure and technology, and on-the-ground mentors and business development managers to help maintain, strengthen and diversify export market suppliers, producers and export market opportunities.

- **Closely consult with the private sector and relevant stakeholders:** The private sector stands ready to work with governments to ensure resilience of global supply chains – including to identify possible supply chain risks and bottlenecks, anticipate disruptions and promote transparency. We encourage governments to closely consult with those businesses that coordinate, operate, and participate in global supply chains to ensure policies are designed, implemented and reviewed in ways that effectively strengthen resilience. Inclusive, predictable, transparent and evidence-based stakeholder engagement processes are needed more than ever – to effectively respond to the global pandemic and beyond.