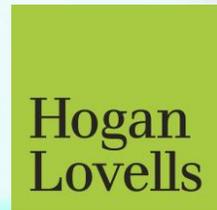


Managing supply chain risks effectively in times of crisis



Aline Doussin

Partner
Hogan Lovells



Christian Fatras

Economic Counsellor
French Embassy in the UK

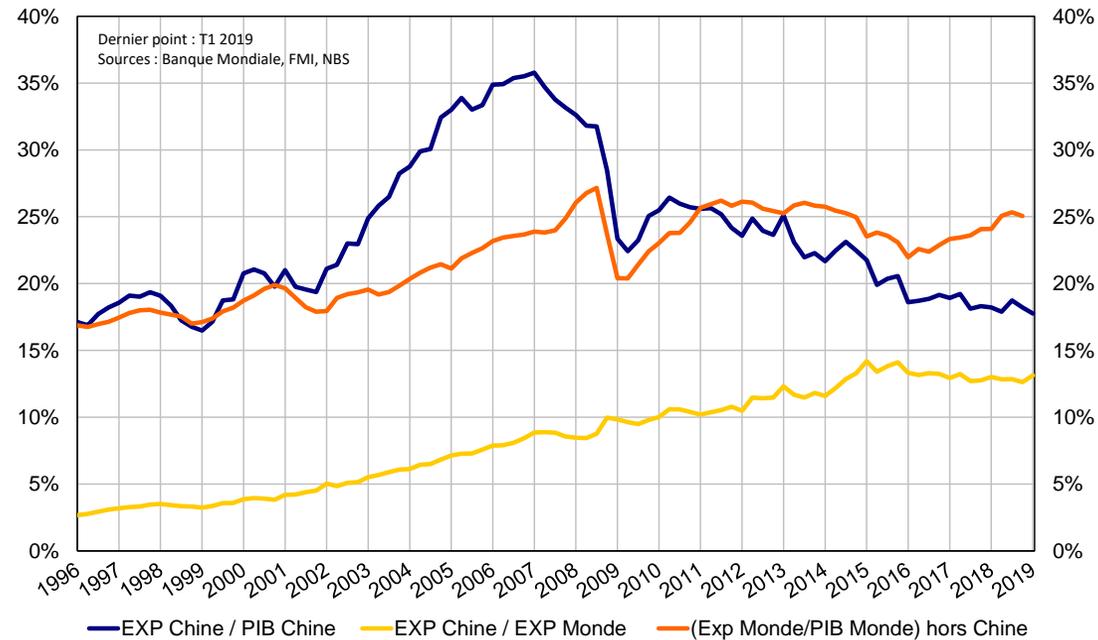


Behnam Heidari

Head of Supply Chain
Sanofi UK

Managing supply chain risks effectively in times of crisis

1. China – or how to climb the ladder



Made in china 2025

China is interesting because it shows that value chain is a dynamic concept

Managing supply chain risks effectively in times of crisis

2. French example- Europe is key

- 100 products with a foreign dependency between 89 and 100%: 82% from E.U 27; 6% from China
- finished products vs intermediary . Intermediary products is the main issue
- Covid: 94% of 1000 biggest US companies felt the impact of Covid as early as February
- Change of paradigm? (from global world to local?). What is local? Local is Europe. Where are the weak point in our value chain?
- Regionalisation/ Diversification/ Automation (cf Czech, Slovakia...)

Managing supply chain risks effectively in times of crisis

3. Brexit?

- F-UK trade is intra sectorial, intra branch, intra firm. Car components vs car components, aeronautics parts vs aeronautics parts. Integrated trade
- Relies on just in time and possibility to order products within 48h and be sure that it will be there
- The softer the better for value chain. Gravity theory.....
- Brexit vs Covid

Long term process. Media need new info but structural changes.

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Legal risks in Supply Chain management

Aline Doussin, Partner

09 July 2020



Key Legal and Compliance risks

Recent shifts in supply chains, causing companies to shift their manufacturing to new countries/regions and seek alternative suppliers, creates new challenges and exacerbates legal risks.

1. Sanctions and export controls

- Sourcing from new suppliers who have not been screened against sanctions and export control lists
- Increases the risk of dealing with restricted parties and unauthorised re-exports to embargoed countries, and exposes companies to liability under sanctions and export control regimes

2. Tariffs and Customs Compliance

- Who is legally responsible to absorb the higher cost and delay at borders?
- Check Incoterms, and contractual obligations,
- Impact on increase prices to pass it on to customers, or rework the supply chain to avoid the higher tariffs

3. Anti-bribery and corruption

- Increases the risk of suppliers paying or accepting a bribe in connection with their role in the supply chain, and exposes companies to liability under applicable anti-bribery legislation, such as Foreign Corrupt Practices Act (FCPA), the UK Bribery Act or the Loi Sapin II.

3. Human rights and modern slavery, conflict minerals, worker safety

- Sourcing from regions where labour or other human rights abuses are common
- Increases the risk of corporate liability for supplier abuses, including forced labour and human rights violations

Geopolitical issues, and legal impacts on supply chain



Recent examples of geopolitical impacts on supply chains

US – EU - China Trade Wars

Chinese imports as primary target, but other products from many countries targeted incl. aluminium from Turkey, steel from Canada, airplanes, cars, and wine from EU

Sanctions on Chinese entities, export control issues eg. Huawei
Quid of DST?

COVID 19

- Intra-EU restrictions on PPE exports
- VAT, and customs duties issues
- Goods stopped, seized and destroyed at borders for CE Marking or certification issues

Brexit

- How to prepare for an unknown FTA?
- Policy shift from previous government on UK waiving export / import declarations during first transitional phase
- Quid of NI Protocol?

Sanctions

- Primary Sanctions (US Persons, Items subject to US law, or USD payments)
- Secondary Sanctions (Extraterritorial measures)
- Conflict of law issues with EU and local Blocking laws
- New UK sanctions regimes with additional designations
- Quid of Hong Kong and National Security Laws?

How to remedy issues in the supply chain

- Act quickly: Being swift in your response may allow you to contain and remedy the problem before it is escalated into an investigation.
- Contingency plans / crisis management programmes: Identify red flags in your supply chain and create contingency plans for how to react to them. In a crisis management plan make specific provisions to:
 - ensure a healthy supply chain by reviewing significant supply chain issues
 - plan for surges and stoppages
 - simplify supply chains/product lines where possible
 - consider over-ordering supply of necessary stock
 - consider whether valuation changes present opportunities for supply chain reconfiguration and transfer pricing planning.

How to remedy issues in the supply chain

- Establish strong internal communications and reporting lines to management: This is especially important between those on the field and those in management so that when things go wrong, those in the field have clear channels of communication to management to quickly address the issue
- Ensure your contracts / structure allows for flexibility: Force Majeure considerations. For example, COVID-19 brought about labour/raw materials shortages as factories throughout China remained closed. As a result, companies shifted their manufacturing out of China to temporarily seek alternative suppliers.



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SANOFI 

Managing Supply Chain Risks During Crisis

Supply Chain Risks

Supply Chain Risks

**Pandemics
(Covid-19...)**

**Brexit
(no-deal)**

**Logistics
Int. Flows**

**Plant
Capacity**

**Demand
Fluctuations**

**Tariffs* &
Trading
Restrictions**
(U.S; China; India...)

**Inventory
Cost
Pressures**

International Movements at the Time of Crisis

Limitations on Logistics of Supplies

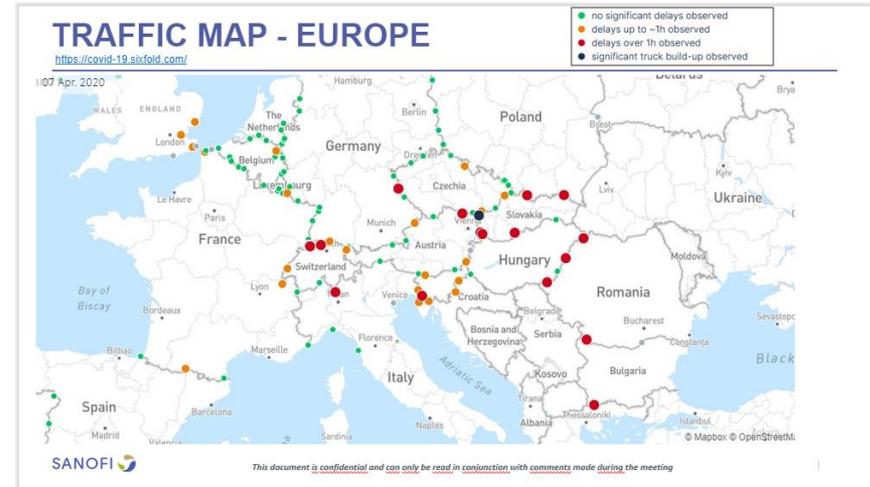
MARKET REACTION

LOGISTICS GLOBAL SHUTDOWN

- Global **Air freight** capacity reduced by **↓45%**
- **Ocean carriers** reduced total capacity by **↓50%**
- European **Road freight** activity in mid-April fell by:
 - Spain **↓50%**
 - France **↓46%**
 - Italy **↓37%**
- **Lockdowns** are impacting availability of labor to unload ships at ports
- Additional **health and safety measures** needed for key workers in the Supply Chain

EXPECTATIONS FOR H2-2020

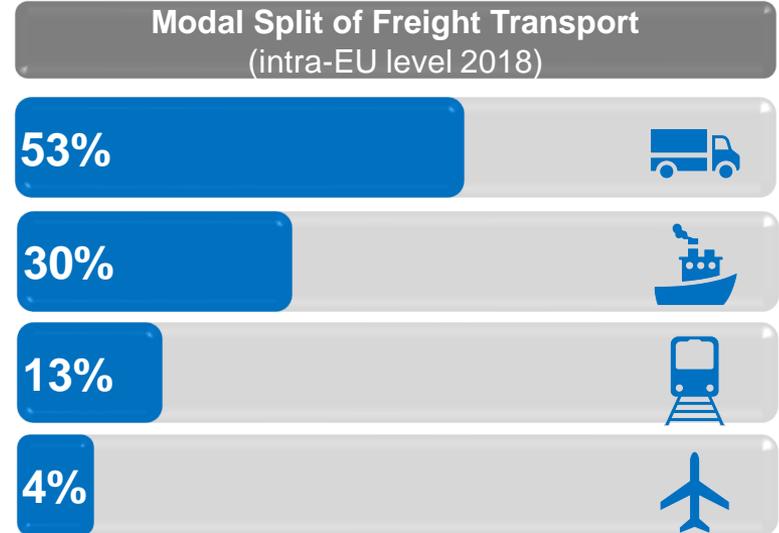
- Airlines are reactivating major lanes (still **-26% capacity**)
- Road freight market in a **favorable** period with borders re-opening in Europe
- Sea Carriers to activate **some blank sailing** around the globe



International Movements at the Time of Crisis

Limitations on Logistics Management

- **Accumulation of Cargo**
 - Accumulation of Goods in transit at Port / Warehouse
- **Delays**
 - Longer Delivery Lead Times (Staff, Carrier...)
- **Temperature Deviations**
 - Risk of Temperature Deviations due to overall Delays
- **Demurrage Charges**
 - Excess time to load or unload a shipment, or the clearance of goods from the port of discharge
- **Border Controls**
 - No-deal Brexit risk



Source: Eurostat (intra-EU level – 2018)
Modal Split of Freight Transport

New Vaccine Development Timelines

Phases & Challenges for Supply Chain

Phases of a New Vaccine Launch

Academic Research

Trials (Phase 1, 2, 3...)

Manufacturing Readiness

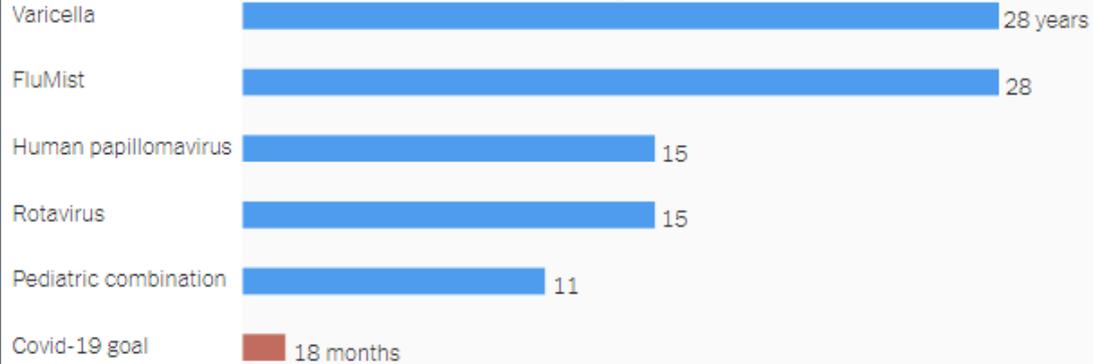
- Capacity
- Sustainability

Approvals

Distribution & Logistics

Years and years, at minimum

The vaccine development process has typically taken a decade or longer.



Note: Rotavirus and HPV vaccines include time from filing of the first investigational new drug to approval.
Source: "Plotkin's Vaccines" (7th edition)



Manufacturing of the Pharmaceutical Products

Challenges in Multi-Processing & Multi-Sourcing of Materials

• Geopolitical & Legal Business Risks

- Brexit no-deal Risk (Border Controls)
- Pandemic and Export / Trading Restriction Risk

• Logistics & Distribution Challenges

- Initial phase of Covid-19 in China
- Causing **Multi-Processing** Snowball impact on SC of Manufacturing sites

• Multi-Sourcing as a Supply Mitigation Strategy

Though it has its own advantages, however it has complexities as well

- **Impact on Costs**
- **Regulatory Requirements** (Stability Studies, Quality Assurance)



Business Anticipation & Operational Challenges

Knowledge Limitations

Limited Product & Disease Knowledge



• Business Anticipation

- Demand Fluctuations
 - a. Competitor out of stocks
 - b. Deferred Treatments
 - c. Panic Buying
- Sales Channel Variations
(Hospitals,, Retailers, Travel Clinics,...)

• Operational Challenges

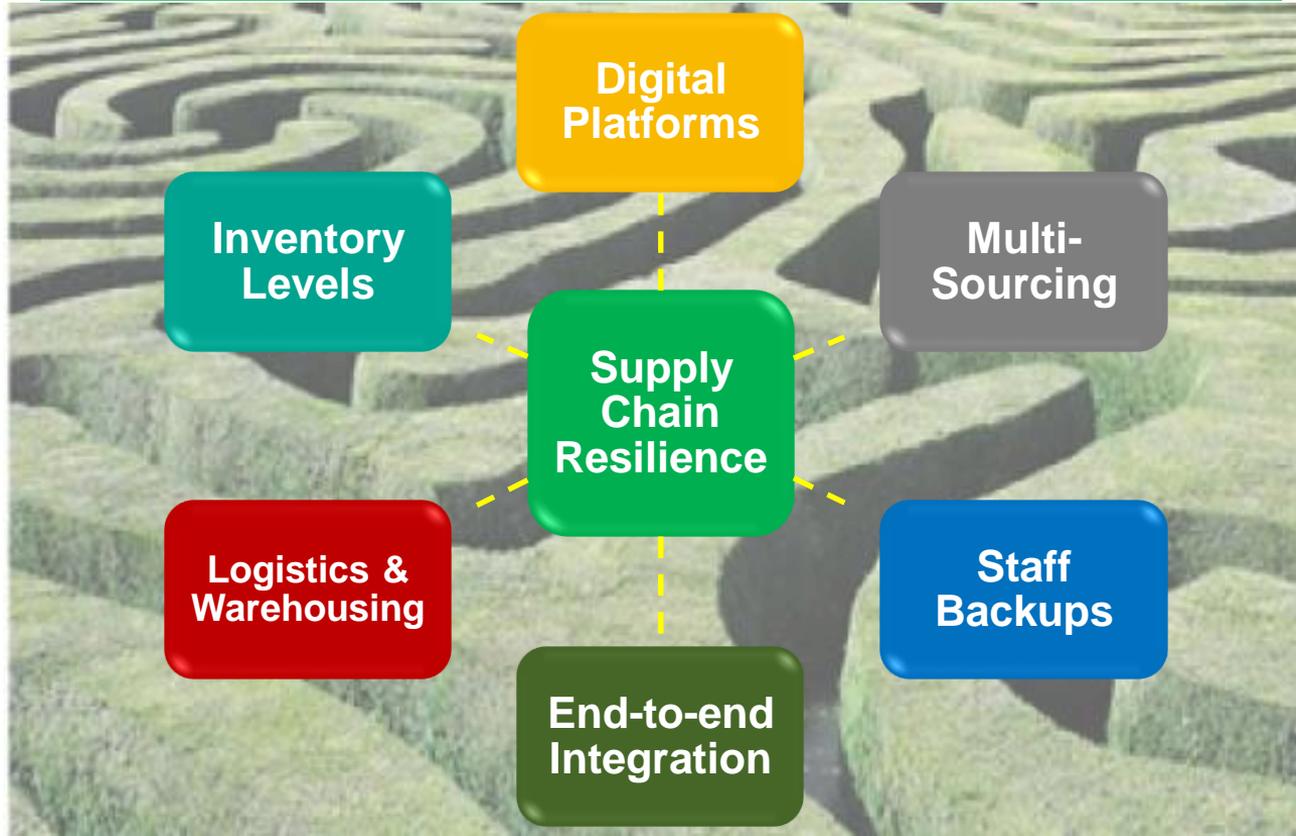
- Key worker availability & safety
- Inventory Levels to manage risks
 - a. Brexit anticipation
 - b. Market demand fluctuations
- Warehousing & Logistics Services
- Coordination with Multi-Processing sites
- Manage Multi-sourcing

Enhance Supply Chain Resilience; to Better Protect Patients & Business

Embedding Sustainability

Agility

Capitalize for long-term





Thank you