Supply chain and third party resilience during COVID-19 disruption

22 April 2020
The COVID-19 outbreak has been declared a pandemic by the World Health Organization, causing huge impact on people’s lives, families and communities.

As the international response continues to develop, we know that organisations are facing potentially significant challenges to which they need to respond rapidly.

We are working closely with organisations globally to help them to prepare and respond, by sharing our experience in working with companies, governments, regulators, NGOs and international organisations around the world to respond to some of the most high profile outbreaks (including Ebola, MERS, SARS and bird flu).

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Organisations are facing a broad range of supply chain and wider third party concerns

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Getting started with tackling your supply chain and third party issues

Through working with clients of all types and across all industries, we know that each business has its own unique set of supply chain and wider third party challenges to contend with at the moment. Nevertheless, we have set out some of the most common response activities you should consider to help you correctly diagnose root causes, understand knock-on impacts, make no regrets decisions and prioritise your efforts.

Key activities and options for diagnosing your key issues and prioritising response efforts

- **Use modelling to aid decision making** and identify opportunities for labour, logistics, cost, service and flexibility improvements as well as understand direct and indirect tax implications.
- **Identify supply and third party service provider constraint remediation levers** and validate them (e.g. enable alternate suppliers or third parties, secure overtime or expedited freight) and cost alternative supply chains or distribution channels.
- **Stand-up a ‘situation room’** where mitigations can be coordinated.
- **Communicate regularly with supply chain and other third party stakeholders** and establish closed-loop communication protocols for sensitive issues.
- **Build a tiered factual base of supply or services**, establishing what is available and constrained, and set the mechanism to regularly update the data.
- **Understand the impact that delays could have** on supply/production or distribution lead-times, and consider your inventory position.
- **Review border (e.g. indirect tax) requirements** for alternative supply chains and / or shipment routes.
- **Review insurance and force majeure claims**, build fact base and implement actions.
- **Use technology aided tendering** to appoint new suppliers, distributors and other third party service providers.
We are supporting many clients across a range of industries in their COVID-19 response and planning. Below we set out two current engagements illustrating our supply chain experience.

**Third party security risk assessments**

We have been working with a global banking client on a three year ongoing engagement, initially to develop a full global Third Party Risk Management (TPRM) Framework and subsequently, partnering with them to deliver around 1,000 third party security assessments (both onsite and remotely) in over 50 countries. At the outset of the COVID-19 outbreak, we worked in tandem with our client to transition from onsite assessments to remote delivery, so that the client continued to receive insights into the security of third parties at this critical time.

**Our approach:**
To develop the TPRM Framework we worked across various stakeholders (including supply chain management, IT risk and cyber risk), aligning the framework to existing processes and procedures.

When we transitioned to the delivery of the ongoing assessments, we enhanced the assessment approach and methodology and transitioned from the incumbent supplier to our global capability.

For the work to continue as business as usual during the COVID-19 outbreak, we minimised cancellations and maximised coverage by:

• moving all upcoming assessments to be delivered remotely; and
• concluding over 90% of in-flight assessments remotely.

**Outcome and value added:**
Our partnership to sustain delivery of the assessments, has comprehensively helped our client enhance how it manages third party risk and oversees their third parties.

**Supply chain resilience review for a power and utilities client**

We are supporting a power and utilities client to understand the level of resilience across its supply base, in response to unprecedented disruption and uncertainty from COVID-19. Leveraging our major project delivery, business restructuring and corporate intelligence capabilities, our work builds on an initial risk review performed by the client, which looked at credit, disruption, commercial exposure and contract clause risk analysis.

**Our approach:**
We are working with our client to help them gain:

• A more thorough understanding of the resilience of its supply chain, drilling deeper into financial and operational criticality indicators, and drawing from publicly available data and market intelligence to support analysis on their critical suppliers;
• Engage better with suppliers, with questionnaires and tools to foster deeper data gathering and analysis of those deemed to be of the highest criticality;
• A risk map of lower tiers of the supply chain to understand fragilities and interdependencies; and
• Identification and summary of potential intervention measures required in the supply chain, and resilience management and remediation support to risk supplier.

**Outcome and value added:**
Our client will benefit from more active and deeper insights into supplier risk to inform scenario planning on an ongoing basis, allowing them to take actions to repair prior COVID-19 damage, rethink current supply chain resilience and reconfigure operations for the future. A data visualisation tool allowing data to be aggregated and configured in different ways will help highlight supply chain interdependencies and model different scenarios. Key suppliers will get the financial and operational help they need.
Providing the supply chain and third party support you need

We recognise that different organisations are facing different COVID-19 supply chain and wider third party challenges. We can tailor and flex our role to satisfy your specific needs, wherever you need us most. In the following pages, we summarise how we’re helping clients solve some of the most common, critical and pressing COVID-19 supply chain issues.

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<td>We can offer end-to-end solutions, strategic advice or single issue support</td>
<td>Our specialists have the tools and expertise to help you tackle your specific issues quickly</td>
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**Supply chain strategy guidance and/or quality assurance**

**Task force Project Management Office (PMO) and supply chain data insights**

**Workstream or issue lead(s)** (e.g. supply chain and service provider mapping, data analytics, financial health, force majeure claims, etc.)

**Surge capacity** Including managed service capabilities for critical services (e.g. procurement or rapid supplier or service provider onboarding)

- **Supplier mapping and dynamic dashboards.** We have rapidly mapped multiple supplier tiers and built dynamic dashboards to track and monitor supply and network risks.
- **Resilience assessments** (financial and operational) of critical third party service providers and suppliers, implementing mitigation/recovery plans.
- **Warehousing optimisation** - projects to allow sites to operate in excess stock/lower labour scenarios.
- **Analysis of lead time and critical inventories** to maximise customer service levels on critical products.
- **Provision of augmented** resources to deal with immediate critical supply chain tasks.
- **Identification of relevant global emergency tax measures** (e.g. tax payment deferrals).
- **Tariff assessments and mitigation** for changing supply chains, including support with border requirements for alternative shipment routes.
- **Tax assessment and compliance** resulting from changes in supply chains and third party service providers.

**LOCAL KNOWLEDGE ON A GLOBAL SCALE:**

We can provide local resources, insights and knowledge from the locations that matter to you.

Europe:
- **European network** 88,064 people in Europe
- **European offices** 316 offices

UK:
- **UK network** 22,601 people working in the UK
- **Partners** 936

Global:
- **Our global network** 276,005 people worldwide
- **Countries** 157

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Supply chain and third party resilience during COVID-19 disruption

PwC

22 April 2020
Supply chain mapping and analytics

COVID-19 has elevated the need for greater visibility of suppliers through all the tiers of the supply chain, as the outbreak has caused sequential disruption across the globe. Having active visibility of critical supply chain components, inter-dependencies, and data to properly assess potential operational and financial weaknesses is more crucial than ever before, to help plan and manage immediate contingencies and to create a more resilient supply chain in the longer-term.

Three key actions to take now

1. Quickly establish a task force, and leverage data analytics to gather insight
   To identify the immediate challenges to your suppliers and third party service providers and assess their impact on the business.

2. Perform a mapping exercise and risk assessment across all tiers of suppliers and third party service providers
   To understand the full extent and resilience of your supply chain and third party service provider network to identify proactive actions that can be taken.

3. Conduct scenario planning exercises
   To understand the operational implications, both financial and operational, of various scenarios and identify mitigation options.

How we can work with you

• Using our global intelligence and data analytics resources, we can help you rapidly map the lower tiers of your supply chains, analysing both individual supplier and wider third party risks as well as the interdependencies between suppliers or third parties to fully understand the supply and service chain ‘ecosystem’.

• We can then monitor critical risk indicators and KPIs and market intelligence using our market monitoring tool RADAR to ensure you keep track of supplier and third party service provider risk profiles and make timely optimal decisions.

• In this fast changing environment, we can help you monitor international exposure trends, restrictions and relief against your supply and service chain ‘ecosystem’.

• We can identify opportunities to improve operations across the supply and service chain ‘ecosystem’ through machine learning, advanced analytics and strategic visualisations, using our supply chain analytics platform SCOOP.
The sudden and unprecedented change in demand and supply, coupled with the global spread of infection, is creating significant logistical and security challenges. Impacts so far include difficulties or inability to get components and end-products to their destination; shortages of supply of specialist drivers; delays in maintenance and servicing of vehicles and shortages of specialist equipment to deliver goods where needed; and rises in theft and/or loss of product. After this initial crisis phase it will be crucial to manage logistics dynamically to ensure that capacity is appropriately balanced throughout the network.

### Three key actions to take now

1. **Model the existing logistics network to understand constraints**
   - From a volume and value perspective, including recognising any unique channel requirements and agreed service levels, displaced transportation, border restrictions and freight bottlenecks.

2. **Review physical security threats, vulnerabilities and controls**
   - Understand current crime trends and consider how high value assets will be secured and insider and external threat mitigated.

3. **Identify opportunities to mitigate risks to delivery**
   - Model different logistics scenarios to understand the trade offs between cost, service and inventory.

### How we can work with you

- **Deploy our Logistics Value Quantifier tool to:**
  - Understand your current logistics network from a volume and value perspective;
  - Evaluate different logistics scenarios and understand the cost, service and inventory trade offs;
  - Identify opportunities for logistics cost, service and flexibility improvements through analytics; and
  - Provide benchmarking, spend profiling, and opportunity analyses to prioritise cost, service and flexibility.

- **Deliver an accelerated physical security review focusing** on new vulnerabilities introduced through adaptations to your supply chain and changing local market conditions.
Distributors, agents and resellers

Unprecedented shifts in demand for certain products and raw materials, and stocks of certain crucial items running low, requires consideration of how to control third party behaviours around pricing. Ethical, legal and reputational risks arising from accelerated onboarding and contracting with distributors need to be managed.

Three key actions to take now

1. **Review contract tenure with third parties**
   Consider options to move to shorter term contracts with distributors (three to six months) to reduce the at-risk period from third party behaviours in pricing decisions when stocks are low and demand is high.

2. **Enhance remote transactional and performance monitoring**
   Particularly where distributors deal with public officials, or operate across borders and are responsible for import / export.

3. **Enhanced oversight of Public Tender responses**
   Introduce review and pre-approval procedures for tender responses by distributors, to monitor commercial propositions (prevent excessive price inflation) and collusion between payor and distributor (e.g. through exclusive product or service specification in the tender document).

How we can work with you

- Accelerated enhanced desk-top due diligence services to enable new distributors or agents to go live more quickly.
- Social media surveillance to monitor commentary on individual distributors by regulators, competitors, customers and employees.
- Data analytics over transactions between the primary client and the distribution channel to identify indicators of pricing irregularities, channel stuffing or illicit trading.
- Remote third party monitoring; document review, third party management interviews, and limited remote sample testing to provide observations on third party’s risk awareness and control framework (ethical, regulatory, financial), and reinforce primary client’s contractual oversight.
- Digital third party induction and training mechanisms to enable faster delivery, and simplify monitoring of training completion.
- Contract review and negotiation.
Critical labour availability in the supply and service chain ecosystem

As the impact of the crisis spreads, affecting both availability of workers and their ability to travel to work in some locations; companies are assessing strategies to deploy temporary workers for some roles and automate or use technology for others. Difficulties are arising in contingencies for specialist skills. Labour rights, working conditions may be open to abuse / increased risk of modern slavery (also see ESG & Compliance - section 7).

Three key actions to take now

1. **Assess workforce requirements**
   - Identify key roles within the supply and service chain ecosystem and assess the impact of illness, stay at home, social distancing requirements and travel restrictions on the ability to secure the workers required to sustain operations and services. This may also include assessing channel partners’ staffing.

2. **Identify shortfalls and develop alternatives**
   - Develop plans for maintaining critical functionality for roles identified as key and impacted by the crisis. This may include alternative worker arrangements and the use of automation to extend the capacity and capabilities of available staff.

3. **Execute and evaluate longer term opportunities**
   - Commence execution while exploring the potential for longer term benefits involving Supply Chain 4.0 opportunities for technologies such as VR.

How we can work with you

- Provide an intermediary service between organisations observing stretch in resource demands and those with a surplus capacity.
- Adoption of smart supply chain planning solutions (demand sensings) reducing time burden of key personnel.
- Targeted application of AI and RPA technologies on transactions / repeatable tasks to relieve stretched workforce.
- Stand-up the technology to support virtual and augmented reality solutions and other simulators to facilitate remote equipment set-up, calibration and maintenance.
- Help assess and mitigate tax risks associated with people working from home or outside of their normal location.
- Technology enabled role and skills identification and the identification of populations to reskill and redeploy.
- Identify roles or areas of work within roles which could be automated and work with you to redesign roles and retrain employees accordingly.
Financial health of suppliers and third party service providers

Shocks to the supply and service chain ‘ecosystem’ caused by COVID-19 are already resulting in significant losses for companies, including those from: missed sales opportunities; increased direct costs from supplier pass through or re-sourcing at short notice; reputational damage from failure to service demand; quality costs from rushed or shortcut delivery and excessive time management spent on managing crisis.

Three key actions to take now

1. Increase control over disruptions in your supply and service chain ‘ecosystem’ and your ability to proactively mitigate risk
   Agility in responding to continuously changing developments and awareness of changes is key. These then need to be acted upon rapidly.

2. Embed an improved supplier and third party risk management framework across the business
   Rapidly revisit and bolster the risk management framework for suppliers and third party service providers, creating (amongst others) improved visibility on their financial health, operations and business continuity risks.

3. Proactively address critical concerns by facilitating better communications with suppliers and other third parties
   Ongoing dialogue across your suppliers and third party service providers is critical, so consider how best to facilitate real time dialogue with them to proactively address critical concerns and continuously assess the situation.

How we can work with you

• Support you in reviewing or accessing COVID-19 funding and tax and financial measures.
• Undertake a rapid risk assessment of your end-to-end supply and service chain ‘ecosystem’ commencing with an initial review of the top 10 critical suppliers or providers, then establish consistent methodology suitable to your needs to assess vulnerability and resilience of the full supply or service chain.
• We can assist you to maintain an up-to-date view of the financial, as well as operational position of critical suppliers and third party service providers, through our access to a variety of information and intelligence tools (both external and internal).
• Help with further financial support (beyond COVID-19 funding), including (early) payment acceleration (SCF) or cash injections through corporate for your critical suppliers or third party service providers, either to ensure supply chain continuity or to have the ability to cope with temporary increase in demand. Support for UK businesses affected by COVID-19
• Minimise unplanned reactive costs such as finding alternative suppliers or third party service providers at short notice.
• Support the day-to-day operations of your procurement function.
• Improve the continuity of supply through early warning systems and enhanced supplier and third party service provider information.
• Provision of augmented resources to deal with immediate critical issues.
Digital operations and cyber security

We are seeing both the likelihood and impact of cyber attacks increasing and cyber security good practices may fall by the wayside as organisations become more technology dependent than ever. We are also beginning to see the nature of the threat changing, as attackers exploit uncertainty, unprecedented situations, and rapid IT and organisational change. Responding to these issues will serve in the long-run as remote working and digital operations become more widespread across all sectors.

Three key actions to take now

1. Secure their newly implemented remote working practices
   - Ensure remote access systems are fully patched and securely configured.
   - Ensure on-premise security controls still apply to systems when they are not on the internal network.
   - Monitor and react to issues encountered by remote workers.

2. Ensure the continuity of critical security functions
   - Prioritise reducing reliance on people, as well as maximising the use of process and technology to perform key cyber security tasks.
   - Update incident response plans and playbooks to ensure they function with a workforce primarily working remotely.
   - Review how privileged users are going to perform administration.

3. Counter opportunistic threats that may be looking to take advantage of the situation
   - Mitigate the increased risk of insider threats in the event of redundancy or termination.
   - Provide specific guidance to employees to be extra vigilant when it comes to requests for personal or financial information or money.

How we can work with you

- Ensure your senior leadership is informed and supported when making critical decisions about IT and security.
- Deploy PwC’s Managed Cyber Defence solution to protect against, detect and respond to cyber attacks.
- Manage rapid IT change and securely architect new remote working practices.
- Ensure detection and response capabilities remain effective despite new ways of working.
- Rapidly implement technical security controls to protect against cyber attacks.

Supply chain and third party resilience during COVID-19 disruption
Environmental, social, governance and regulatory compliance

COVID-19 has disturbed the steady state of compliance, with rapid onboarding of third parties in the supply and distribution channels, and other flexing needed to respond to increased volumes and demand. Yet fraud risk has risen, regulators remain active and there is no COVID-19 defence for regulatory compliance breaches. Those who neglect ESG responsibilities now may face customer hostility later and find themselves the subject of regulatory investigation when the crisis has passed.

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<th>How we can work with you</th>
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<td><strong>1. Ensure compliance remains active, visible and assertive to new risks</strong>&lt;br&gt;Refresh risk assessment to take account of new risks and ensure compliance focus on these areas. Reinforce ethics and values in communications and focus on business critical compliance activities.</td>
<td>• Scanning your goods and services supply chain to identify where COVID-19 could place additional stresses on ESG performance and regulatory compliance (e.g. maintaining compliance with modern slavery and anti-corruption requirements).</td>
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<td><strong>2. Invest now for the post-quarantine wave of business</strong>&lt;br&gt;Ensure business justification is documented to avoid delays when the crisis calms.</td>
<td>• Reviewing your ESG supplier and third party service provider selection and onboarding policies and processes to determine how they could be adapted for sourcing during COVID-19 (e.g. to identify those requirements that are critical to maintaining compliance and protecting your reputation).</td>
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<tr>
<td><strong>3. Leverage technology and any extra capacity to support your response</strong>&lt;br&gt;Use technology and any available human resources to support rapid onboarding of third party suppliers and distributors and due diligence.</td>
<td>• Using an outsourcing model to facilitate a rapid third party onboarding process by reviewing new suppliers’ and third party service providers’ ESG practices, undertaking integrity and anti-corruption due diligence, and training new suppliers and providers on your critical ESG requirements.</td>
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<td>• Using our supply chain scanning tools to provide live monitoring of ESG and regulatory compliance performance of new suppliers.</td>
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<td>• Incorporate ESG requirements into contracts or codes of conduct.</td>
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<td>• Leverage PwC remote auditing technology to continue with your supplier monitoring and assurance programmes.</td>
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Disruptions caused by COVID-19 are leading companies to re-evaluate the contractual terms they have with their customers, suppliers and other commercial partners. In order to do this, they need to have ready access to all contract and commercial agreements, to identify the key terms that pose risk or opportunity to them.

Three key actions to take now

1. **Mapping Contracts**
   Understanding who you have contracts with (in and out), interdependencies, JVs and build database of contracts.

2. **Identifying key contractual provisions**
   Enhance contract management, contract compliance monitoring and cost reduction programmes by using technology to increase coverage, target resources and enhance insights. Allow a deep dive into common terms, including interest provisions, break clauses, terminations, notification periods and anti-competitive prohibitions.

3. **Action plan and on-going contract management**
   Build a plan to address any risk areas identified in key actions 1 & 2 above. Proactively engage counterparts as appropriate and consider implementing contract lifecycle management tools.

How we can work with you

- Use AI technology tools to:
  - Digitise your contracts to develop a contract database;
  - Automatically review your contracts for compliance with standard terms;
  - Capture commercial obligations and track performance by combining commercial transactional data (e.g. spend, invoices with contract terms and clauses); and
  - Identify contracts which are most at risk of value leakage and maximise impact of cost reduction programmes.

- We have the resources to implement this tool remotely, at speed and with minimal effort required to enhance contract accessibility and analysis.

- Our powerful tool leverages open source AI to identify the words, phrases or clauses most similar to what you are looking for.

- Negotiating or imposing temporary or permanent changes to contracts, including exercising step-in or suspension rights, terminations, price adjustments.
Claims and losses

Although there is ambiguity over whether force majeure clauses will apply where COVID-19 has led to disruption in the supply and service chain ‘ecosystem’, companies need to be considering the mechanisms to recover loss (both in-bound and out-bound claims) as a result of such disruption. Whilst the actual mechanism for recovery may be unclear, there are important steps for companies to take now to support future claims.

Three key actions to take now

1. **Identify contracts at risk of failure or delay as a result of the current situation and examine the relevant terms in relation to the right to, and basis for, compensation**
   
   Prioritising contracts which have the biggest impact on your supply and service chain ‘ecosystem’ and are most at risk from non-delivery.

2. **Understand the information required to support and substantiate any future claim(s) and the timelines around any such claims**
   
   Following the prescribed procedures to make sure that the steps you take are effective and enforceable.

3. **Identify the relevant sources of information required for the claim**
   
   Establish clear processes to capture and store the information required to support the loss.

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**How we can work with you**

- Provide expert guidance to help clarify the type and nature of information and documentation that be being captured. Forensically capture data to preserve key documents and decisions taken, to support future claims.
- Develop baseline position of current commercial performance and cost assessment to prepare for force majeure clauses being invoked.
- Ensure suppliers and third party service providers don’t receive relief from pre-existing under performance or failure.
- Model how capacity constraints may impact a damages claim and border modelling of business impact and damages / loss.
- Assess the grounds for and value lost as a result of early or wrongful termination of a contract.
- Assess the scope for alleging breach of contract and indirect consequential losses arising as a result of an alleged breach of contract.
- Guidance and representation in invoking or defending against contractual processes, such as force majeure, material adverse change or termination rights.
- Assistance with any disputes that arise.

**Further information:** COVID-19: Force Majeure Considerations
Disruptions caused by COVID-19 including ailing or increased customer demand, changes to physical supply chains, the onboarding of new suppliers / supplier locations and the consequent contractual documentation will drive a number of tax consequences that need to be proactively assessed in order to mitigate risks. The incidence of indirect taxes can have a major impact on sourcing decisions and the way these decisions are made will also be relevant to where profits and losses arise through the supply chain, and in turn where tax liabilities will arise.

Three key actions to take now

1. Implement relevant emergency tax measures introduced to support business and supply chains
   Such as various UK and other international government announced tax payment deferrals.

2. Assess the indirect tax risk and optimise authorisations / reliefs available
   In order to mitigate unnecessary indirect tax risk costs and/or avoid border delays. Understand critical duty clearances to keep products moving cross-border.

3. Identify areas of key resource constraint in undertaking daily indirect tax operation
   Such as customs declarations and wider compliance reporting (e.g. VAT reporting).

How we can work with you

• Identify global emergency tax measures (e.g. tax payment deferrals) and the use of government wage relief schemes (e.g. CJRS in the UK) relevant to the business and its supply chains and assist implementation (COVID-19 Summary page).

• Conduct tariff assessments and mitigation for changing supply chains, including support with border requirements for alternative products from varying trade routes. This includes modelling indirect tax implications of varying trade routes using data analytics tools.

• Provide additional/surge resource for indirect tax operations, incl. technical assessment and compliance.

• Review new contractual documentation to ensure it aligns with the desired indirect tax treatment and consequently minimise indirect tax risk.

• Revisit internal contractual relationships and pricing to manage direct tax exposure and optimise cash flow.

• Review location of individuals working outside normal location to identify and help mitigate tax risks.
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