



British Embassy
Beijing

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PPE Procurement in China – Towards a medium/long-term strategy

SUMMARY

Working closely with DHSC and the cross-Whitehall Covoid19 Response unit, the China Network has supported £280 million of PPE procurement from China in the past two months. Covid19 has led to challenging market conditions and heightened regulatory oversight of products exported from China. This has made HMG involvement in procurement essential. But as markets normalise in the coming weeks and months, we support your plans to leverage the sourcing expertise on the existing NHS supplier framework. The Embassy will continue to support with political/diplomatic cover, unblocking logistics problems and in any way we can to meet the medium/long-term NHS demand for PPE.

DETAIL

1. This is a discussion note to inform a medium/long-term NHS sourcing strategy for PPE from China. This note has been prepared ahead of your conversations with companies from the NHS supplier framework.

Current procurement of PPE from China

2. The China Network is in crisis mode. We are supporting the urgent procurement of medical supplies for the NHS. This includes PPE, and also ventilators and ventilator parts, pumps and other devices/consumables, medicines and testing kits.
3. Over the past two months we have supported DHSC procurement worth £330 million. The majority of this is PPE (£280 million, 85% of total spend). To date, supplies have been shipped back to the UK on 18 charter flights, with plans to increase flight volumes to multiple charters each day. A summary of China procurement to date is at Annex A.
4. We work closely with DHSC commercial/finance, via a dedicated China PPE team in the cross-Whitehall Covid19 response unit. Our teams receive sourcing instructions from London and negotiate with suppliers in the China market. Clinical reviews of product specifications and legal approvals are provided by London. The Embassy signs contracts with local suppliers on behalf of DHSC, using an FCO contract template. Payment is made directly to suppliers by DHSC finance. A summary of our PPE procurement process is at Annex B.

Sourcing strategy

5. Our primary sourcing strategy for PPE in China is to work with large, state-owned healthcare distributors¹. Working with large distributors helps manage the risks associated with single-source procurement. We place large orders that exceed the available output of any single factory. Each order is sourced from multiple factories by our SOE partners, drawn from their network of manufacturers. Our distributors can switch to other manufacturers in the case of disruption to individual production lines, and carry out quality control on our behalf (supplemented by DHSC approval for each manufacturing sub-contract). SOE distributors are also experienced in preparing export documentation and have access to raw materials supply.
6. Responding to London demand for urgent supply of PPE, we have also set up a separate team to investigate leads for immediate supply of priority products (currently gowns). This team searches for stock available for immediate delivery from Chinese intermediaries, and supports London procurement teams working with British and 3rd country intermediaries². Our experience is that most offers of PPE supply from small intermediaries are high-risk (for example being sourced from single suppliers with unreliable production capacity), or if product is available it will often not meet NHS specifications or come with the necessary export paperwork.

Chinese medical supplies market

7. As the first country to experience a Covid19 outbreak, China is ahead of the rest of the world on the epidemic curve. At the height of its own Covid19 crisis in January/February, China increased PPE production capacity by switching production lines and increasing output of existing suppliers³. In March/April, as China's economy re-opened as other countries imposed export controls on medical supplies, China again increased PPE output to meet international demand⁴.
8. The Chinese medical supplies market is coming under severe pressure, and usual healthcare supply chains are struggling to source and export PPE from China. Global demand for PPE far exceeds supply. Speculators are flooding the market, buying up stock and booking factory output, seeking to profit by selling on to international healthcare systems. Prices are soaring and raw material supplies are squeezed.
9. The Chinese government has taken steps to regulate the medical supplies market, responding to international concerns over product quality and abnormal market conditions. Regulatory controls are primarily enforced during customs clearance, including checks against a "whitelist" of manufacturers approved for export, and a long checklist of other export documentation. Illustrative examples of documentation checklists for PPE exports are included at Annex C. Any shipments that cannot provide all documents on the checklist cannot be exported from China.

¹ In particular with Meheco, Sino Pharm and China Instruments

² Today the DHSC/Deloitte/Embassy logistics team shipped 50,000 gowns and 300,000 aprons on a HMG charter flight. The gowns and aprons were procured by NHS England via a small UK-based intermediary.

³ For example, China's daily output of masks increased twelve times between February 1 and February 29, 2020, reaching 116 million units per day (Xinhua).

⁴ For example, Between March 12th and early April 2020 China's daily production of protective clothing increased from 840,000 sets to 1.5 million sets (NMPA, gov.cn); "*Theoretically, it is not a big problem [for Chinese PPE production] to meet the needs of the international market*".

ANNEX B – British Embassy Beijing PPE procurement process flow chart

