Response to Business and Trade Committee Industrial Strategy inquiry

21 February 2025

Summary

- The Industrial Strategy Green Paper rightly introduces the concept of foundational sectors. Private sector-led economic growth comes from two key sources, expanding output and improving productivity. Improvements to productivity in one sector can originate from efficiency improvements in the other sectors that they rely on. If the Industrial Strategy only focuses on 'growth-driving' or priority sectors, it will miss the opportunity to enhance productivity by strengthening their foundational sectors.
- The logistics sector must be recognised and supported as a foundational sector, given how many other sectors rely on it and given improvements in its efficiency can have a transformative effect. Logistics UK Chief Executive David Wells OBE should be appointed to the Industrial Strategy Council as the voice of the sector.
- The public sector and private sectors spent 15% of their total input-related spending on logistics services in 2019, indicating that logistics is one of the UK's most substantial foundational sectors.
- Oxford Economics found in 2023 that getting the policy and infrastructure environment right for logistics would unlock up to £8 billion a year in productivity-led growth. However, the UK is not going in the right direction, dropping from 4th to 19th place in the World Bank Logistics Performance Index over the past decade, largely as a result of border friction and underinvestment in transport corridors.

About Logistics UK

Logistics UK is one of the country's largest business groups, and the only trade association which represents all of logistics. Our mission is to support, shape and stand up for a safe, sustainable and efficient logistics sector. Our membership of more than 20,000 includes global, national and regional businesses and SMEs spanning road, rail, inland waterways, sea and air as well as the customers of freight services, such as retailers and manufacturers. We deliver services, representation and thought leadership, helping members and policymakers to seize new opportunities for the sector and the economy as a whole.

The logistics sector

Logistics underpins our economy and is fundamental to our way of life. It supplies our hospitals, schools, factories, construction sites, shops and homes with everything they need, everywhere, every day – nothing moves without it.

The efficiency of logistics and the productivity of the economy are completely intertwined. Due to this relationship, Oxford Economics found in 2023 that getting the policy and infrastructure environment right for logistics would unlock up to £8 billion a year in productivity-led growth.

However, we are not currently going in the right direction. The UK fell from 4th to 19th place in the World Bank Logistics Performance Index over the past decade, largely as a result of border friction and underinvestment in transport corridors.

Logistics is a major sector in its own right. It contributes £185 billion to the economy each year (12% of UK non-financial GVA), is one of the UK's largest employers, providing good jobs with strong career progression – 2.7 million people (8% of the UK workforce) are employed in logistics roles, and its key hubs provide a catalyst for further growth and investment, helping places to thrive[1].

[1] Logistics Report 2024, Logistics UK

What Industrial Strategy will maximise economic growth, productivity and good, high-skilled jobs across the UK? How do the Government's plan measures up to this design - and how can the Government best measure progress?

A successful Industrial Strategy must support both output expansion and productivity growth. Productivity improvements often stem from efficiency gains in interconnected sectors. Therefore, a strategy focused only on priority sectors risks missing foundational sectors that sustain them.

As such, Logistics UK welcomes that the Industrial Strategy Green Paper recognises that the UK's highest potential growth-driving sectors rely on foundational sectors to underpin their potential success. It is important that the final Industrial Strategy explicitly identifies these foundational sectors, including logistics, and establishes measures to strengthen them.

In 2023 Oxford Economics identified a direct link between a) the UK's ranking in the World Bank Logistics Performance Index, b) the efficiency of and policy environment around the UK logistics sector and c) the productivity of the UK economy. It also found that getting the policy and infrastructure environment right for logistics would unlock up to £8 billion a year in productivity-led growth.[2]

Oxford Economics described the relationship between the logistics sector and UK productivity as logistics operations a) facilitating market expansion for businesses, resulting in increased sales and driving economic productivity, and b) empowering a broader range of businesses to compete on a wider scale, stimulating market competition and fostering potential improvements in product quality and reductions in prices. This increased competition then serves as a catalyst for heightened innovation, technological investment, and a dynamic reallocation of resources, capitalising on the opportunities arising from improved logistics. This dynamic is becoming stronger, as the services delivered by logistics businesses are increasingly embedded within the supply chains of other sectors.

To measure progress, given the link between logistics efficiency and wider economic productivity, the Government should set a productivity growth target and establish KPIs for logistics efficiency. These KPIs should also be informed by the Logistics Performance Index data collected by the World Bank. While, following 2023, the World Bank Logistics Performance Index will no longer rank countries, comparisons across indicators remains possible. Given that the UK's ranking has dropped significantly, targeted improvements in logistics are essential for economic productivity.

What Industrial Strategy is required to deliver the Government's carbon reduction targets set out at COP29, de-risk the economy from geo-political threats and close regional gaps in growth?

Carbon reduction

The Industrial Strategy should aid the strengthening of those sectors crucial for delivering green power, including to spur the production of low carbon fuels and the delivery of energy network upgrades, to enable the decarbonisation of industry. The logistics sector is one of these sectors, given the role it plays in the transportation of energy equipment and fuels, and enabling developments like offshore wind. In parallel, the strategy should support the decarbonisation of the logistics sector itself, by supporting the development of clear policy over the role that electricity, hydrogen and low carbon fuels will play in achieving net zero. A lack of clarity is currently holding back progress in the logistics sector.

This is why Logistics UK has long called for the Government to work with it to develop a logistics decarbonisation roadmap. This emission reduction plan should include zero tailpipe emission technology and supporting infrastructure, rail electrification, shore power at ports, as well as the role of low carbon and sustainable fuels across all transport modes.

De-risking from geo-political threats

De-risking from geo-political threats requires de-risking supply chains. To achieve that, the Industrial Strategy should include measures to:

- Reduce border friction to minimise delays and costs.
- Strengthen transport networks to enhance reliability.
- Reform planning laws to enable sufficient industrial storage and reduce reliance on just-in-time international shipments.

Closing regional gaps

Closing regional gaps requires supporting economic activity across the whole country, including by supporting sectors that can deliver sustainable activity and rewarding careers in all parts of the country.

Logistics employs 2.7 million people across the UK, accounting for 8% of the workforce. With hubs nationwide, the sector drives both regional and national economic activity. In addition, jobs created in logistics support social mobility. According

[2] Oxford Economics Logistics Delivering a solution to the UK's productivity puzzle, September 2023

to research published in 2021, 51% of workers in managerial roles have been promoted from a non-managerial job. In addition, the same report found that almost two-thirds (63%) do not have a university degree or equivalent qualifications[3].

To support the growth of efficient logistics businesses in all regions of the country, the Industrial Strategy should support planning reform, infrastructure investment and high-quality skills provision. Overall, it should support the development of regional growth plans that are genuinely growth-focused and discourage measures that impede efficient logistics and, therefore, growth.

By 2030, the logistics sector is expected to face a shortfall of 409,000 to 618,000 workers, driven by retirements, the introduction of new technologies, and the net-zero transition[4]. Meeting net-zero demands alone will require an estimated 175,000 additional employees in transport by 2035[5]. Given that logistics ranks eighth among sectors with critical demand and is integral to supporting industries like manufacturing and production with even greater shortages, addressing this shortfall is essential.

Despite the urgency, employer investment in training has declined by 19% in real terms[6], suggesting the current skills system is misaligned with business needs. 74% of business owners see workforce skill-building as vital to productivity[7], and two-fifths of employers would offer more training if resources allowed[8]. To drive employer engagement, sector-specific, streamlined skills planning is essential, ensuring clear, coordinated workforce strategies that directly support national priorities. A fragmented skills landscape discourages employers – especially SMEs, which comprise 99.7% of logistics businesses[9] – from investing due to unclear policies[10].

The newly established Skills England can play a pivotal role in enhancing employer investment by defining eligible training within the expanded Growth and Skills Levy. In Skills England's assessment of skills needs and future demands, engagement with logistics employers and bodies is essential for identifying requisite courses that provide entry routes, upskilling and reskilling into this foundational sector.

How should the Government approach economic sectors which have not been prioritised, including the foundational industries and supply chains that the growth-driving sectors depend on?

The state has a key role to play in strengthening the UK logistics sector in order to support the growth-driving sectors and UK productivity. Logistics is one of the UK's largest sectors and there is a lot it can do without support – it contributes £185 billion to the economy, employs 8% of the UK workforce[11] and, as part of the transportation and storage sector, attracted over £17 billion in investment in 2023[12].

However, a well-functioning logistics sector, and therefore a productive economy, does rely upon a supportive business environment, high quality infrastructure, a strong skills base and system, and trade facilitation, including smoothly operating borders.

To support logistics as one of the foundational sectors, the final industrial strategy should:

- Support Government departments to work together, to advance its needs. In the case of logistics, we want to see significant improvements in how Government departments work together on matters of infrastructure, planning, decarbonisation, skills and trade.
- Feed into the developing long-term infrastructure strategy and planning reforms, ensuring that there is prioritisation of the projects that the logistics sector needs.
- Enable a fair transition to the UK becoming a clean energy superpower. This requires an increased focus on delivering the energy network infrastructure that the logistics sector requires for its decarbonisation.
- Support a reformed national skills system that supports a thriving logistics sector and breaks down barriers to opportunity. This must see Skills England engaging with the logistics sector, to identify the courses it needs, so they can be funded by the Growth and Skills Levy.
- Include a trade strategy that supports economic growth and resilience, by reducing friction for logistics businesses moving goods between the UK and EU.

[3] The Impact of Logistics Sites in the UK, Frontier Economics, June 2022
[4] https://assets.publishing.service.gov.uk/media/671b652f956d9b52e8c6d25c/dft-future-skills-assessment.pdf
[5] https://green-alliance.org.uk/wp-content/uploads/2022/01/Closing_the_UKs_green_skills_gap.pdf
[6] https://assets.publishing.service.gov.uk/media/66ffd4fce84ae1fd8592ee37/Skills_England_Report.pdf
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[9] https://logistics.org.uk/CMSPages/GetFile.aspx?guid=a6fc6902-4a7a-4276-8c4c-bbe641af74b7&lang=en-GB
[10] https://www.nao.org.uk/wp-content/uploads/2022/07/Developing-workforce-skills-for-a-strong-economy-Summary.pdf
[11] Logistics Repot 2024, Logistics UK
[12] Business Investment in the UK, ONS, December 2024.

To reinforce why logistics should be identified as a foundation sector, we make the following points:

- The logistics sector delivers and safeguards the UK's supply chains, including the supply chains that critical services depend on, such as the NHS, energy sector and food system. When supply chains are disrupted, as they were during the pandemic, the start of the war in Ukraine and the conflict in the Middle East, the logistics sector responds with agility to keep goods moving and available.
- Logistics is a key part of the cost base of other sectors. According to Oxford Economics, the public sector and other private sector businesses spent 15% of their total input-related spending on logistics services in 2019, indicating that logistics is one of the UK's most substantial foundational sectors.
- Logistics directly influences the quality and consistency of the output of the growth-driving sectors identified by the Government. The logistics sector's investment in its automation and skills base has a direct impact on the quality and consistency of what can be delivered by its customers, with this relationship getting stronger as logistics businesses become increasingly embedded within the supply chains of other sectors.
- Logistics plays a particularly key role in underpinning the fortunes of five of the highest potential growth-driving sectors: advanced manufacturing, through the management of supply chains; clean energy industries, through supporting the construction of networks and new energy generation; life sciences, through the transportation of temperature-controlled products, materials for clinical trials and hazardous materials; defence, through supporting advanced manufacturing in the sector, and managing the movement of equipment and supplies; and creative industries, by enabling set construction and touring.
- Logistics influences the emissions-reduction potential in the growth-driving sectors. More than 25% of the UK's greenhouse gas emissions come from transport, and around 20% of transport emissions come from Heavy Goods Vehicles[13], with logistics also making use of vans and other road transport, rail, aviation and maritime. As such, logistics comprise a significant proportion of the Scope 3 emissions of any sector that relies on the movement of goods and products.
- Logistics underpins the opportunity for the growth-driving sectors to expand their markets and, thereby, increase their sales. The logistics sector plays a central role in connecting businesses to new domestic and international markets via all logistics transport modes – rail, water, air and road. Physically, the UK's £900 billion annual goods trade would be impossible without it, and the competitive nature of the sector means it is constantly striving to increase efficiency and reduce costs, benefiting its customers. This is illustrated by sectors such as advanced manufacturing and life sciences exporting from the UK, supported by the logistics industry. In recent years, logistics businesses have also invested in their capacity to, on behalf of customers, navigate post-EU Exit customs and trade arrangements.

How should the Government devolve economic power (e.g. to support regional growth and reach areas that have been left behind)?

It is right that a degree of economic decision-making is devolved closer to the business and communities it affects. However, all city region growth aspirations will rely on critical national and international supply chains. When agreeing these plans with devolved administrations, it is essential that the Government pays sufficient attention to logistics – either through directly supporting the growth of the industry within their area, or by enabling collaboration across larger geographies.

On a practical level, this would involve:

- Ensuring targeted investment in multimodal transport infrastructure, including roads, rail, ports, and airports, to enhance connectivity within and between city regions, as well as prioritising upgrades of key freight routes.
- Investing in charging and refuelling infrastructure for alternative fuels across city regions to support logistics operators transitioning to sustainable practices.
- Encouraging the integration of logistics requirements in urban planning to address the last-mile delivery challenges and reduce emissions in urban areas.
- Developing local skills strategies tailored to the logistics sector, addressing skills shortages in key areas. Partnering with logistics businesses to create pathways for employment and upskilling, ensuring a pipeline of talent to support regional growth.
- Involving key stakeholders to ensure that the unique needs of the logistics industry are considered in Local Growth Plans.

[13] https://assets.publishing.service.gov.uk/media/63e131dde90e07626846bdf9/greenhouse-gas-emissions-statistical-release-2021.pdf

How should the Government re-organise Whitehall to ensure the requisite degree of policy coordination and delivery?

Delivering the ambitions of the Industrial Strategy will be impossible without improved coordination across Whitehall. Currently, the ability of the logistics sector to drive productivity growth is hampered by a lack of joined-up policy making between key departments for our sector, including DfT, DESNZ, MHCLG, DfE, with management of goods trade across the border heavily influenced by Cabinet Office, DBT, HMRC, Defra and the Home Office too.

The Industrial Strategy Council has the potential to dive joined-up decision-making across Government. Logistics UK also continues to call for the establishment of a cross-Whitehall Logistics Productivity Forum, led by a dedicated minister for logistics and supply chain with cross departmental responsibilities.

What duties, powers and resources does the Industrial Strategy Council need to effectively oversee the Industrial Strategy?

The Council should be representative of both growth-driving and foundational sectors to ensure it can fully inform and monitor the development and delivery of the Industrial Strategy over the long term, as outlined in the proposed remit of the Council. As an independent body, it must be transparent in its evidence collation and recommendations to the Government, alongside the KPIs it will use to assess the delivery and progress of the Industrial Strategy.

Logistics touches every part of the economy and performs a critical role as a foundational sector, so we would strongly recommend that Logistics UK Chief Executive David Wells OBE be appointed to the Industrial Strategy Council, as the voice of the sector.

How should Parliament most effectively scrutinise the progress of the Government's work, including scrutiny of commercially sensitive investments which are typically not disclosed either to the public or parliament?

Parliament should hold the Government to account for improving a) UK productivity, b) UK logistics efficiency and c) the UK's scores in the World Bank Logistics Performance Index.

Parliament should also hold Government to account for having robust plans in place to:

- Improve coordination across Whitehall on matters of importance to the logistics sector.
- Deliver improved infrastructure for logistics.
- Support the decarbonisation of logistics in a way that keeps costs down and supply chains resilient across the economy.
- Support the skills needs of the logistics sectors, including to take advantage of the opportunities of automation and big data.
- Reduce friction for logistics businesses facilitating the UK's goods imports and exports.

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