IoD POLICY PAPER

Exporting in a post-Brexit world: an agenda for the UK government

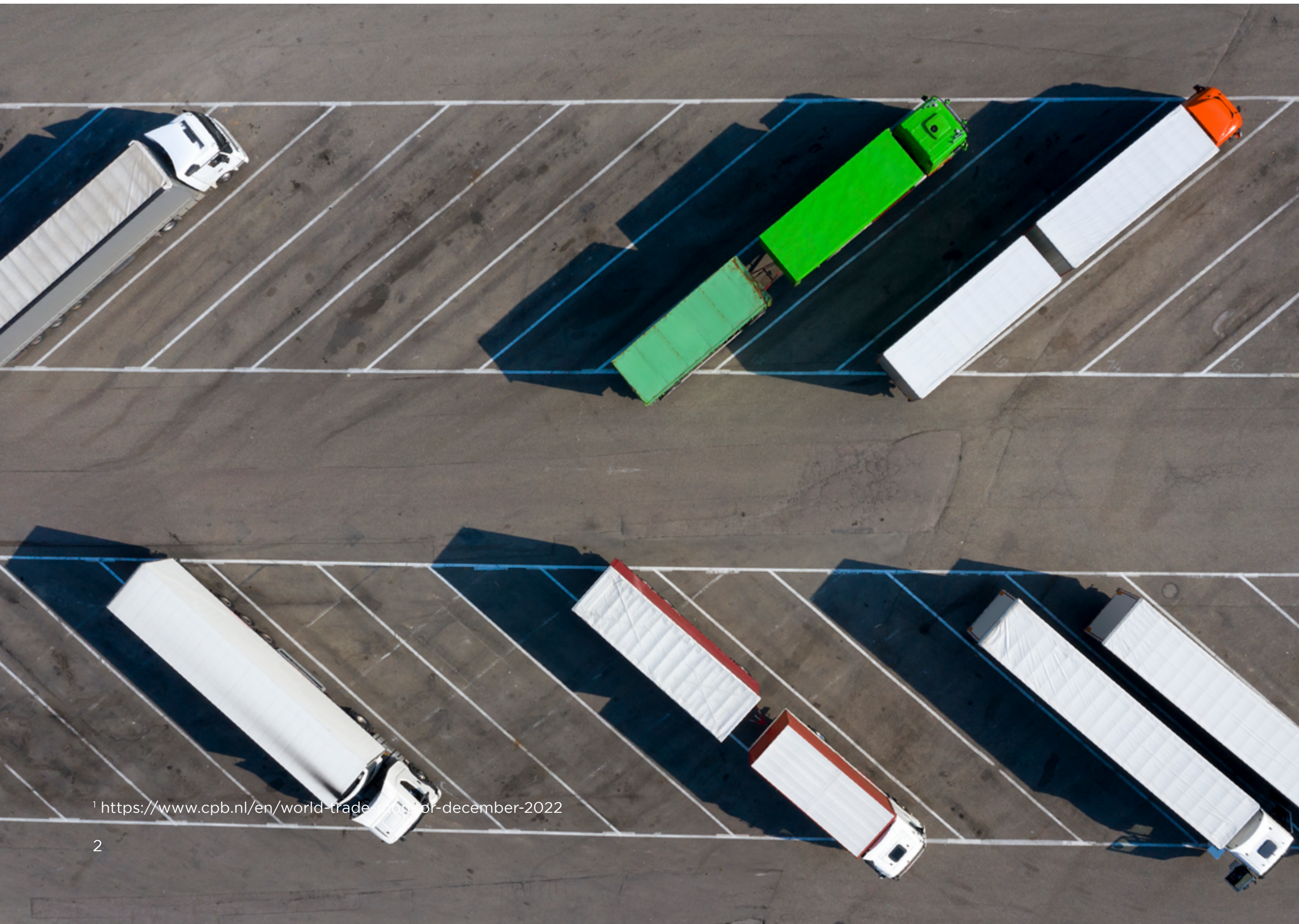
April 2023

Summary

Since coming out of the pandemic, UK exports have lagged behind those of other top economies[1].

Brexit has affected the ability to export both through creating barriers to trade and also increased competition from EU based firms. Some firms are trying to reorientate to new markets, but it is not straightforward and feels like second best. On top of this the wider macroeconomic environment has presented challenges.

Different firms have reacted in different ways. Larger firms in general have been able to adapt better than smaller ones, which have often seen exports decline and sometimes stop altogether. Companies in service sectors are concerned that they are less of a government priority than goods traders. Businesses in general are looking for more support from government, feeling that existing guidance is not always helpful. We surveyed 580 members, interviewed 30, and used this data to make policy recommendations on how government can make exporting easier for businesses.



[1] https://www.cpb.nl/en/world-trade-monitor-december-2022

Our policy asks

1. Make the consultation process for FTAs easier for all sizes and types of business to contribute to. Currently the consultation documents take the respondent through a lengthy questionnaire that follows the FTA on a chapter-by-chapter basis. If businesses have the option to input a free-form contribution of their experience trading with the country in question, the market access barriers and where they see opportunities, they may be able to better engage with the agreements once they are signed.

2. Produce more export guidance from a sectoral and cultural perspective, such as providing cultural and language information on different markets within the government's Free Trade Agreement Utilisation guidance tools and online portal.

3. Create a central easily searchable database of international trade advisors by region and sector, with their expertise listed.

4. Offer clear and concise advice to smaller businesses on how to engage with the SME chapters in FTAs to realise the benefits they offer and build connections with local contacts.

5. Establish an SME special committee to monitor the implementation of SME chapters following ratification of FTAs. They could consist of civil servants responsible for FTA negotiations, export support teams and some independent, objective members who would hold the government to account on what is working, what is best practice, and FTA utilisation rates.

6. Monitor and publish the impact of government assistance for exporters - both the teams at overseas missions and those UK-based trade advisors - to assess their effectiveness and ensure all businesses have the right support for their exporting needs.

7. Extend the eligibility of funding for trade shows to firms with up to 400 employees. The middle market currently misses out on a lot of opportunities because they are just above the SME threshold.

Introduction

Britain prides itself on being a trading nation. The ability to export is important for our economy, supporting jobs and livelihoods as well as being a source of national prestige.

To this end, the current environment faced by exporters is rightly in the policy spotlight, especially in the twin context of Britain's decision to leave the EU and a global pandemic that threw global trade flow patterns into sharp relief. Around two-thirds of Institute of Directors members are exporters, from large manufacturers to sole trade consultants. This report brings together their experiences, using new survey and qualitative data to draw out similarities and differences, and analyse the policy implications for government.

Methodology
In a survey of 580 IoD members in September 2022, we asked respondents to describe their export activity. 24% of all who responded said that exports are a significant proportion of their business. 24% responded that they export but it is a small proportion of their business. 9% responded that they used to export but do not anymore. 3% responded they have never exported but do have plans to do so.

Between October 2022 and December 2022, we conducted interviews with 30 members spanning each of these categories of exporter, focusing on how they approach exporting, what the challenges and disincentives are, where opportunities may lie, and what role they see government playing in any part of their export journey. We spoke to business leaders varying from small consultancies in Scotland to big chemical distributors based in Oxfordshire with international subsidiaries.

In the next section we use the results of this research to describe the lived experience of exporting from Britain today, and how this varies depending on the type of company concerned. Section 2 then considers the effectiveness of current government policy initiatives and suggests ways policy can be further improved.

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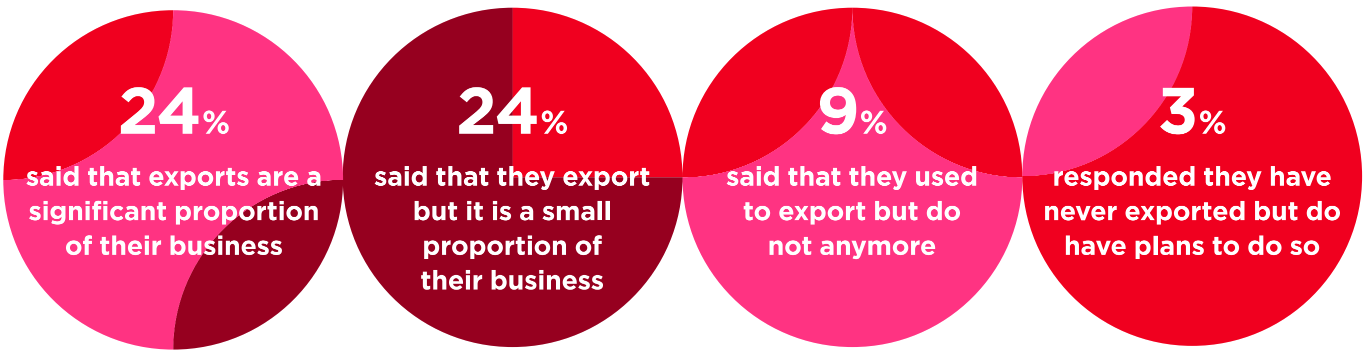

Exporting from Britain today

Brexit has had a significant impact on businesses' abilities to export.

IoD members have found that Brexit has hampered their ability to export seamlessly to the EU or, in some cases, to export at all. Of those who said their exports had either dropped or stopped altogether, Brexit was the primary factor in most cases.

Experienced exporters and larger firms are finding Brexit to be an inconvenience but have generally managed to overcome many of the difficulties either by establishing a presence within the EU, or expending more resource into the administrative barriers. For smaller companies and less frequent exporters, the impact of Brexit has often caused a dip in export levels and, in some cases, businesses have been pulling out of the EU as a market altogether. Those who have not exported before say they are disincentivised by the complexity of Brexit regulation.

The top two pain points consistent throughout member feedback are the burden of administration, and the loss of competitiveness against European firms.

Businesses are now spending significantly more time and money on Brexit-related paperwork. Many have hired extra staff to manage customs processes, or to oversee the export end of the business. But it is clear that the administrative burden is particularly affecting smaller businesses and less frequent exporters, who do not necessarily have the knowledge, resource, and time that bigger businesses do to overcome these challenges.

"…nobody could give me the information we needed to actually get overseas. So at that point, we pulled the plug on every single export we did because it was just too hard". (Statistical analysis research company, small business)

"Brexit has delayed our delivery times by about 24 to 40 hours. We can't do next day deliveries to Europe anymore. That's just simply not possible". (Homeware Distributor, medium business)

Those who have had the option to, have set up subsidiaries or distribution centres within the EU to bypass border regulation. Members who offer consulting services to businesses on international growth have said they are also advising their UK clients to form long-term relationships with EU businesses in order to establish an export base from there. Similarly, some less frequent exporters looking to expand are targeting multinational corporations as new clients which already have established global links, meaning they also have the necessary experience in international trade processes.

However, while businesses are finding ways around the customs challenges, many have encountered tax-related issues from operating both in the UK and from their EU base. Some have told us they have been victims of double taxation, and that government guidance hasn't been helpful at finding a solution. This problem has been particularly linked to Ireland. For example, a medium-sized chemical distribution business said, "it's now late 2022 and we are still getting differences of opinion on VAT application… into Ireland. We had HMRC telling us one thing, our tax advisers telling us another, and the road freight haulage industry telling us something else on who should be paying the VAT on that transaction with Ireland". (Chemical distributor, medium business)

But, while administration has provided a certain amount of friction at the border, it has not necessarily deterred businesses from continuing to export to the EU. Perhaps a more significant obstacle to UK exports is that UK businesses are being squeezed out of the EU by European firms which are not constrained by regulation, administration or extra costs.

The majority of businesses who participated in this research said they now feel at a disadvantage to EU companies who can provide goods or services often more quickly, sometimes more cheaply, and without the hassle of paperwork.

“European competitors are trying to wrestle our market presence off the back of the fact that we are now as a country not as easy to do business with… Brexit has inevitably made us not as easy to do business with and so we have probably lost a couple of distributors.”

“…the distributors just said ‘look, for the amount of money that we’re generating from your product, we’re better off putting our efforts into something else because we’re now diluting the benefit that we’re getting’”.

“…we used to send parts and equipment to European countries to have work done before there being a subsequent return. It was small volumes using specialist firms. We stopped when the service providers in Germany and Ireland made it clear that they did not want (or need) the hassle of collecting or sending back to us, whereas previously it had been frictionless.” (A sustainable energy company)

“Our Irish customers now will buy the material off a mainland EU mill or distributor and have the material sent to our competitors in Germany or Holland to minimise all the horrible red tape and tariff issues etc that Brexit has caused. There is no way we can influence their return to our company because it just causes more work and costs for them”. (Cleaning services company, small business)

This erosion in good business relationships across the Channel can also be attributed to the feeling that Brexit has been somewhat politicised. Businesses are recognising a level of mistrust at a governmental level that has resulted in uncertainty in the ability to commit to long term planning. Businesses sense that they are not operating in the most stable environment as a result of tricky political relations.

This has not been helped by the fact that the UK government has delayed and sometimes reversed decisions to implement post-Brexit border policies. An example is the decision not to proceed with certain import checks that were due to be introduced mid-2022. Firms are therefore questioning how dependent they can be on future initiatives.

In response, many businesses are replacing the EU with new markets, but most are saying it will not make up for the EU.

Businesses have been looking for new markets to cover some of the loss from leaving the EU. Members have told us they are finding opportunities in developing markets in the Middle East or Africa where there is growing demand, and now a greater appetite for integration with western business.

For example, construction companies are benefiting from Middle Eastern countries diversifying their economy and investing in building big cities. They are also seeing opportunity in those developing nations, for example in Africa, where local companies may not have the capability of UK-based firms.

The Middle East is seen to be a hugely prosperous area where there is a lot of potential for growth across all sectors. However, businesses are slightly apprehensive of these markets in relation to their human rights records. A few female CEOs we spoke to expressed reservations that while looking into forming a partnership with Middle Eastern markets, they could not be open about being a woman in a leadership position.

Such cultural barriers present a disincentive to businesses looking to export for the first time, or which have only ever exported to the EU. Similarly, experienced exporters say these new opportunities are not enough to fill the hole created by Brexit.

From a practical perspective, markets across the globe are not going to be as attractive as those closer to home. Shipping times and costs present obstacles for goods traders. Service providers are deterred by time zones and travel times for visiting clients.

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The wider macroeconomic environment is impacting members' ability to export.

The macroeconomic environment has also been very challenging for business over the last few years. Firms have had to scale back significantly in the face of the pandemic, the war in Ukraine, and the resulting rate of price inflation. Many have said they are now working with skeleton staff levels, others that they are pulling away from investment opportunities.

These factors have had a knock-on impact on businesses' ability to export, as they now have less resource to dedicate to overseas business. The priority for many is finding solutions to challenges locally before thinking about ways to expand abroad. This is particularly true of smaller businesses and those which have not exported much in the past, which want to secure a firm base in the UK without having to worry about export challenges.

Similarly, firms say they are finding it hard to plan into the future given the uncertainty of the UK economy, which does not inspire confidence among business leaders. Formulating a long-term export strategy requires long-term stability, which businesses cannot fully rely on at the moment.

Businesses who have not exported before also tell us they are sensing a level of risk in global economic conditions that is disincentivising them from starting to export. Factors stated have been the impact of supply chain disruption, the fallout from the war in Ukraine, rising prices, and the difficulties in recruiting staff.

"staff recruitment and inflation are the two biggest risks that we see… If we had staff, we would be growing faster" (Aerospace, medium business)

"we have been constrained by finding enough people to be able to cope to run the business" (Chemical distribution, medium business)

"I'm still waiting for goods that we ordered nine months ago." (Chemical distribution, medium business)

These types of global issues have also made importing more difficult, which has had a knock-on effect on the ability to export. While supply chain disruption has eased as the world opened up post pandemic, businesses have still encountered challenges relating to shipping delays, commodity shortages, and a significant hike in import costs. Many have considered moving their supply chain closer to the UK, or onshoring completely in response to this global uncertainty.

Similarly, businesses are telling us they are much more aware of geopolitical pressures influencing the trading environment. This is partly a result of supply chain issues directly related to the war in Ukraine. But the war has also ignited the debate about relying on external countries, especially those with different ideologies to the UK. For example, one member told us they are now thinking about the balance between moving our supply chain closer to home and engaging in exports further afield.

There is a renewed perception therefore that nations are putting barriers up against each other, which is damaging to free trade. One member said, "It seems to me geopolitically now we are kind of breaking up into groups again… we would see China as definitely reducing its good relationships with the west and vice versa. That is an issue for any industry. So we seem to be going back to the east vs west and maybe losing globalisation, which is bad economically." (Chemical industry, medium business)

In response to some of these problems, many businesses are telling us they are diversifying products to increase their competitiveness in the face of global trade disruption. A chemical company told us that during the pandemic they pivoted to manufacture their own hand sanitiser. Another told us his business increased its investment in Research and Development to stay competitive: "You've got to look for new opportunities and move up the food chain a little bit by developing products that are more advanced and adapting". (Construction, medium business)

Size matters: a typology of exporters.

The experienced exporter

In general, these types tend to be on the bigger end of the business spectrum, the larger end of SMEs and beyond. Exports usually make up a significant proportion of the business. They already have established international links and have had practice at expanding into new markets.

In terms of export strategy, this group leverages their network, invests in going to trade fairs, and is constantly planning for growth. Some focus on establishing subsidiaries in new markets. Others target developing countries where they can take advantage of demand and where there is sometimes less local competition. Larger businesses are more likely to have diversified their business in response to external challenges like Brexit and the pandemic. A large number have had the resource to hire a team of staff dedicated to their export strategy, and similarly in response to Brexit to take on the customs work.

In this sense while Brexit has certainly been difficult, these experienced exporters have found they are becoming accustomed to the changes put in place by the Trade and Cooperation Agreement. Customs procedures and regulatory divergence are a pain point, and take time and money, but with their capacity they can more often than not shoulder the burden.

What is more frustrating is staff shortages, which obstructs growth, as they cannot direct as much resource into the exporting effort.

Interestingly, these experienced exporters either have made really good use of government support, or no use at all. For some, government networking opportunities like the tradeshow programmes have been the most useful way for companies to secure international business. Government services have been helpful at introducing them to new contacts across the world. Government support has enabled them to gain experience.

For others, and perhaps the majority, since they already have internal expertise, they do not need government interventions. Free Trade Agreements do not impact on business much because of their already established links.

The discouraged exporters

This category comprises those who used to export but do not anymore. The most common reason businesses cease exporting is Brexit. They cite difficulties dealing with customs, the lack of competition, or being cut off from EU initiatives like Horizon Research and Erasmus have significantly hampered firms' abilities to export.

These businesses tend to be smaller, often sole traders or those without past export experience. A combination of Brexit, hikes in prices, commodity shortages, staff shortages, and international geopolitical pressures has crippled business confidence and resource.

Most say there is not much the government could do to incentivise them to restart exporting since they have taken such a hit over the past few years. Some have contemplated new markets beyond the EU, however with the EU being so close, so well connected, and so familiar, they do not feel other markets would make up for the loss of EU trade.

And unfortunately, a lot of the time it is not the choice of the business to stop exporting, it is that EU-based companies no longer feel they can do business with UK companies due to Brexit related border friction. If firms within the EU already have access to markets within a customs union which do not require extensive documentation, proof of origin, labelling, and costs, why would they expend resource on businesses which do?

The potential future exporter

The final category consists of those who have not exported before, but have an exportable product and so potentially could do so. As with those who used to export but no longer do, this category mostly consists of small businesses, including sole traders offering consultancy services. In particular, these are businesses who offer consulting services, some even doing so on the side of main jobs or in retirement.

These businesses are often deterred from exporting because they do not feel they have the resources necessary to do so. They do not feel they can handle customs processes, or commit to researching new markets, or dedicate time to overseas business.

Before Brexit, the EU would have been an obvious and easy choice for small businesses as an initial export market, however now, they feel that regulation is too big of a hurdle. The gain is absolutely not worth the investment.

There are a few that have said they might consider turning to international markets, but only if their local business proves a success, and they can establish a strong base within the UK from which to export.

In the next section we consider the role of government, if any, to increase the ability of each of these types of exporters to flourish.

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Implications for government

Businesses are looking for clearer, more practical support from government.

In our September 2022 survey, 24% of members responded that they have used the Export Support Service. 16% say they have spoken to a government trade advisor. Only 4% have used the UK Export Academy.

Across our exporting categories, the majority of members are not confident that government guidance and support can help them. A lot are not aware of what support is available to them. Those who are aware are quite split in their view of how helpful it is. Government trade advisors are seen as offering quite basic advice; finding someone with the right expertise in their local area or sector is more difficult.

Guidance pieces and factsheets are considered to be too complicated to break down, or not detailed enough and not a solution to individual problems specific to each business. There is a broad consensus that there is a necessity for more sector-based guidance. Businesses also tell us there is not enough guidance on the cultural aspect to doing business with other countries, particularly those with cultural business practices that differ from the UK.

However, many members, especially those with some export experience who have engaged with the government trade department before, have noticed there has been more a push from the Department for Business and Trade by way of export support since Brexit. We have picked up tangible examples of supportive trade missions, and firms that have benefited from the Export Support Service, and introductions to contacts.

It is most helpful for businesses to be able to receive over the phone guidance, tailored to their individual circumstances, and from trade experts. This is why services like the Export Support Service are more useful than written guidance.

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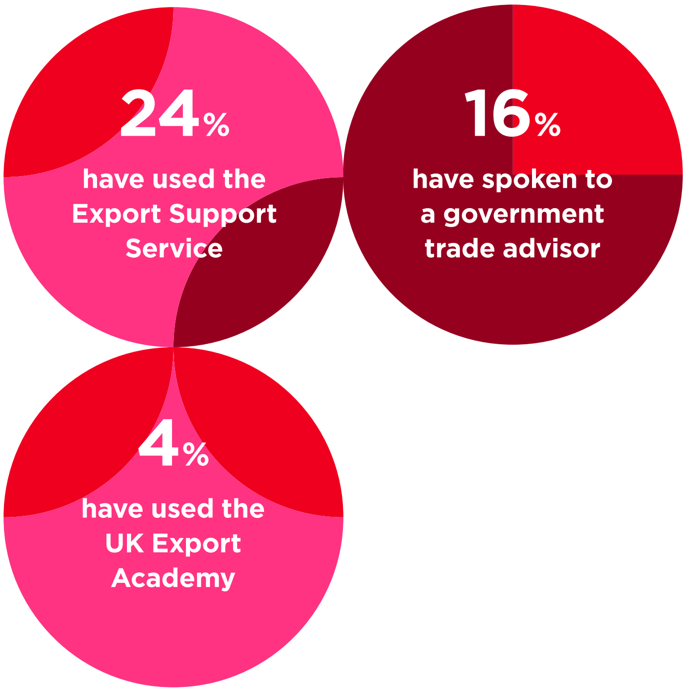

"[DIT] recommended a couple of contractors for us that do government work that they can vouch for that have a good reputation track record in the country. They've arranged meetings for us with them. One of our guys is going out on one of their trade missions. So it's an example of how DIT are really practically supporting exporters again, which is really good". (Engineering, medium business)

Members have been very positive about DIT's Tradeshow Programme, which offers support for access to trade shows and trade fairs. Since businesses rely on networking and word of mouth for new business, these types of events are important for businesses looking to expand.

On the other hand, it is only SMEs who are eligible for support in attending trade shows. Many members who fall into the category just above the SME band, so those who we consider to be the 'middle market', have found it challenging not being able to qualify for funds.

One member told us that booking a stand at a trade fair would cost them £25,000 in total when taking into account travel, the attendance fees, and supplementing resources needed to set up their stall. They have had to assess the balance between the cost of going to trade fairs, and the value they take away from them. Often they have concluded the value is not worth the cost.

There is also a general feeling that government support is more focused on goods than services. In fact, when we offered members the opportunity to contribute to this research, many responded saying they only trade in services and so they do not feel their experiences would be relevant. Services traders therefore would benefit from more emphasis on how the government can assist them in their export strategy.

FTAs help, but are not a panacea.

Members have varied perspectives on Free Trade Agreements. Most agree that they are a good indicator of partnership, that they are a perception of shared values, goals, and priorities on trade. And it is of course a benefit that they remove certain barriers to imports and exports.

However, businesses also agree that FTAs will not sway their decision on where to export to. They will export to where the demand is, and if there happens to be a FTA in place, that is an added bonus.

Within these agreements, the most beneficial provisions for business are on the reduction or complete removal of tariffs. However, advantages businesses have raised are that the agreements increase exposure and competition, and have the potential to increase regulatory alignment. For example, one member told us, particularly in relation to chemical regulation, but also generally, "if free trade agreements would recognise the regulatory standards of the UK as being equivalent that would be a very good thing". (chemical distribution, medium business)

Another said, "...for us exporting exposure is the key thing and our exposure comes from being able to be in catalogues, being able to be visible on the internet and of course one of the problems with the catalogues is getting stock there. Catalogues want you to hold stock and we can't do that because there's no free trade agreement". (manufacturing, medium business)

In relation to tariffs, members agree tariff reduction predominantly applies to goods traders: a member in the construction industry said "[FTAs] are [a priority] at the moment because it's important that we get a sensible and reasonable treatment regarding tariffs in those negotiations, or it could affect our ability to export some of those markets". He told us he has been grappling with tariffs as high as 25% - 35% in some African countries.

Again, our members highlight the difference between the approach to goods trade and services trade. It is felt that FTAs focus much more on goods trade because of their focus on tariff and customs related barriers, rules of origin procedures and trade remedies in relation to goods. Hence services traders feel they do not gain much from trade deals.

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For example, a member considered, "I think it depends on the business. So if you're a steel manufacturer or in the commodities, it matters because tariffs affect you. But if you're working in consultancy services, professional services, creative services, you're doing maybe AI and virtual reality, it doesn't [matter]... it's just good optics". (consultancy, small business)

So for many exporters, FTAs are merely a convenience. But some, who are looking to expand, this 'good optics' associated with signing deals could influence their decision. One member told us, "If I was in a room with different nationalities, the ones that have signed the trade deals will warm to you easier". (consultancy, small business)

However, for smaller businesses and less frequent exporters, trade agreements are perceived to be hugely long and complex documents that are difficult to break down and comprehend. So many may not be making as much use of the opportunities as they could be.

At the same time, there is a concern that the deals are being negotiated with speed of delivery as the primary focus, sometimes at the expense of the quality of the deal. One member feels "the world knows that the UK needs to make these trade agreements and I think in any negotiation that's not a great place to start from". (Energy sector, medium business)

Policy recommendations

The overall rhetoric therefore is that FTAs are an enabler of easier trade flows, but not necessarily a facilitator of new ones.

For businesses to really be able to feel the benefit of trade deals, they need to offer something more than they do now, particularly for services. They also need to be broken down into something smaller businesses feel confident to engage with.

1. Make the consultation process for FTAs easier for all sizes and types of business to contribute to. Currently the consultation documents take the respondent through a lengthy questionnaire that follows the FTA on a chapter-by-chapter basis. If businesses have the option to input a free-form contribution of their experience trading with the country in question, the market access barriers and where they see opportunities, they may be able to better engage with the agreements once they are signed.

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Conclusion

It is clear businesses are not feeling confident in the export environment, whether due to barriers put up as a result of Brexit, or the uncertain economic environment, or that they are sensing heightened geopolitical risk on the horizon.

For smaller businesses and discouraged exporters, these are disincentives to exporting in the first place. For bigger businesses and experienced exporters, they take away from resource and add friction to cross-border trade.

The government's export promotion strategy must therefore be put in the context of the wider policy environment in order to boost confidence and help businesses to realise the opportunities of international trade.

The Institute of Directors is a non-party political organisation, founded in 1903, with approximately 20,000 members. Membership includes directors from right across the business spectrum, from media to manufacturing, professional services to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies. The IoD was granted a Royal Charter in 1906, instructing it to “represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation.” The Charter also tasks the Institute with promoting “for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors”, which the IoD seeks to achieve through its training courses and publications on corporate governance.

The IoD is an accredited Good Business Charter organisation.

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About the author
Emma Rowland,
Policy Advisor, IoD