# IoD input to the Government’s Trade Strategy

***About the IoD***

*The IoD is an independent, non-party political organisation representing approximately 20,000 company directors, senior business leaders, and entrepreneurs. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.*

We welcome the opportunity to input views to the development of the Trade Strategy.

The international trading environment is challenging for UK business, although the supply shocks caused by the pandemic and Brexit have started to ease.

Data from an IoD survey in December 2023 shows 34% of members export regularly and 19% on an ad-hoc basis. 12% responded they have an exportable product but are not currently exporting, evenly split between those who have never exported and those who have stopped exporting. This 12% cited ‘sufficient demand in the UK’ (51%), ‘lack of staff capacity’ (27%) and ‘changes to the trading relationship with the EU’ (24%) as primary reasons they are not currently exporting.

Two key themes stand out here. First, with the majority feeling there is sufficient demand in the UK, there is a perception that international exports are not necessary to drive growth. Second, businesses feel constrained by the exporting environment in that they do not have the resource, and are deterred by trade barriers.

UK-EU trade remains hampered by Brexit-related trade frictions. Administration and customs red tape has left UK businesses at a competitive disadvantage to EU companies not burdened by controls and the lack of free movement of people across the UK-EU border remains a priority concern.

Many firms have sought to rethink their trade strategies. However, while larger firms are better able to diversify export strategies into new markets, many smaller businesses have stopped exporting altogether. Meanwhile, businesses continue to ‘de-risk’ supply chains in light of geopolitical tensions surrounding China.

## The global context

The global trading environment looks set to trend towards less globalisation and increased regionalisation. Geopolitics is playing a bigger role in companies' exporting strategies, and heightened risk is causing firms to re-examine supply chains and export markets to gain better security against potential shocks. Against this context, the government's approach of balancing all trading partners to create business in all possible opportunities, whilst understandable given the poor prognosis for UK growth, comes with uncertainties.

The UK should avoid becoming too dependent on China as an economic partner from a national security perspective. Similarly, it should be careful not to compromise its relationship with the US in light of President Trump's strong anti-China rhetoric. Overall, it is going to be extremely difficult for the UK to navigate between the competing interests of the world's three main trading blocs.

With the EU being the UK's primary trading partner, accounting for 41% of UK exports in 2023, the government should focus much of its trade promotion activity there. Exports to the US and China account for 22% and 4% respectively. Therefore, the UK's reset of relations with the EU, removing barriers to business with our closest and biggest ally would provide businesses with the most practical opportunities for trade.

Meanwhile, as a smaller nation, taking a pragmatic, deal-making approach from individual trading partners internationally will provide alternative opportunities. The UK's accession to the Comprehensive and Progressive Trans-Pacific Partnership is a good example of where the UK has taken advantage of expanding global demand in a large free trading bloc with strong growth prospects.

As we cannot assume that the world is heading back to a multilateralist, free trade regime any time soon, the UK needs to be flexible and agile. This requires a fundamentally different approach to trade policy compared to that of the 2000s and 2010s.

## The 2021 Export Strategy

In 2021 the Government produced an export strategy to encourage businesses to expand internationally. It was based on a 12-point plan which brings together guidance services, funding initiatives and the role of government in connecting UK businesses with international opportunities.

The emphasis on support for SMEs within the strategy was welcome. However, it felt more like a collection of guidance pieces than a structured strategy.

The IoD would therefore encourage the government to form a trade strategy that is put into the context of the challenges stopping businesses from reaching their export potential. It would first set out a meaningful export target for the UK based on what success looks like. It would then cover practical support offerings for businesses against key policy issues such as the trading relationship with the EU, and how businesses can best benefit from Free Trade Agreements. Finally, it would lay out trade advice structures and funding initiatives.

### 1. Set a meaningful exports target

**The IoD is calling for:**

- **A chained-volume target of £900bn of exports in 2019 prices by 2030**
- **A second target of 15% of all businesses exporting either goods or services by 2030**
- **To be able to judge when UK export levels are truly improving, there must be a measure of what success looks like.**

The Institute of Directors urges the government to aim higher on its strategy for export growth – the previous target set by the Conservative Government of £1 trillion exports in current prices by 2030 is not sufficiently stretching.

In our policy paper, Setting a Meaningful Export Target for Britain, we assessed whether the £1 trillion headline target is appropriate and consider whether there are alternative measures that better capture what government export policy is trying to achieve. We concluded that because the £1 trillion target is affected not only by inflation, but also by longer-term global economic trends, a preferable measure would be linked to the volume of trade and set at a level that takes account of trend growth rates.

In addition, we also urge a second target: to increase the proportion of UK businesses that are exporters. Meaningful targets would enable parliament to better judge the success of government policy designed to support exporters, as well as providing government itself with a framework around which it can judge the effectiveness of different policy interventions.

Moreover, it would be useful to monitor disaggregate data to assess growth in specific demographics. For example, understanding trends in different regions across the UK, as well as sizes of business – small, medium and large – could help to identify where further policy interventions might spur increased export growth.

## 2. Addressing the trading relationship with the EU

**The IoD is calling for:**

- **The creation of a single database of requirements for each different type of visa for each different EU jurisdiction that is easily accessible for business and updated as changes occur**
- **An individual agreement with the EU on business mobility and extend the 90 days in every 180 limit on travel into the EU.**
- **A restart of plans for the implementation of the Single Trade Window and use the platform to produce regular reports based on data collection to inform future developments of the technology in line with business needs.**

IoD members cite the UK's trading relationship with the EU, as set out in the Trade and Cooperation Agreement (TCA) as the primary challenge to the export environment. Being the UK's closest and biggest trading partner, reducing friction at the UK-EU border should be at the forefront of an export strategy.

Data from an IoD survey in July 2024 found that 45% of members are finding the UK's trading relationship with the EU challenging.1 Of these, 30% said paperwork presented the biggest challenge to business, while time taken for checks at the border (18%) and customs duties (17%) are the second and third key concerns.

Free Trade Agreements (FTAs) with international markets offer businesses wider opportunities for growth. While FTAs are not necessarily seen as a solution to declining UK export performance, it is important companies are able to understand and grasp the benefits of trade deals.

*Changes to business mobility and travel*

Member data from December 2023 shows that for those businesses which have an exportable product but do not currently export, the most helpful action the government could take would be to pursue an agreement with the EU on business mobility and visa rules.

During our qualitative research of the business mobility issue, members have told us that administration and visa documentation have been burdensome and long and complex to understand, varies from member state to member state and often has to be completed in the destination country's language.

Then, they have told us that getting through passport controls has been much longer and clunkier than it was before, disincentivising business travel in the first place: "Travel within Europe has become less convenient, with occasionally long waits to get through the "non-EU" gates at passport control when flying through an EU hub." (Sole trader, professional, scientific and technical activities)

Separately, members have told us that they are finding it difficult recruiting the right employees with the right skills, and that the new relationship with the EU has exacerbated their skills shortages now businesses have access to a much smaller pool of people from which to recruit.

In June last year we asked businesses if they are facing difficulties in hiring staff due to a shortfall in EU applicants. 27% responded yes – with 17% of those saying it is harder now to recruit skilled workers, and 10% saying harder to recruit unskilled workers.

Similarly, in July 2021 we asked businesses why they think they have been experiencing skills shortages, and 38% responded due to a lack of potential EU recruits.

For example, one member told us: "It will take us up to 3 months to get a work permit for each member of staff and will cost €345 each. (pre-Brexit immediate start, no paperwork, no cost). If a member of staff is sick and we need to send another, the job stops while the paperwork is processed or we have to apply for several staff as back up… additional cost. Previous requirement = zero. The permit has a good deal of boxes to tick – staff must have been with us for 1 year +, they need at least 3 years provable experience, and provable relevant qualifications etc. Previous requirement = zero." (small business, construction)

Another said, "Before Brexit we would attract candidates for both medical writing and account management roles from Europe – free movement meant it was easy for them to move in and out of the country to live, and having staff with native French/German/Spanish is useful.  Since Brexit we have not had a single candidate." (small business, pharmaceutical industry)

Another explained what was required to obtain a freelance visa to work in Germany, and described a list of 18 conditions, such as application forms, recommendation letters from previous employers, CV and cover letter, portfolio of previous work, profit and loss statements. All of this had to be completed in German.

Many members have told us they refer to EU guidance for information on visa requirements for each member state because UK sourced advice is unclear.

*Changes to customs procedures*

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 same knowledge, resource and time 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-sized business)

Those who have had the option 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 their location. 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 has not been helpful at finding a solution. This problem has been particularly linked to Ireland. For example, one member said, “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-sized business)

But, while administration has created a certain amount of friction at the border, 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.

Anecdotally, many businesses 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. For example, one company told us that their 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 we probably lost a couple of distributors.” Another confirmed that “…the distributors just said ‘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’.”

Digitisation of border processes will significantly help to remove barriers to trade for members.

IoD members had been really encouraged by the development of the Single Trade Window policy. Firstly, burdensome paperwork has impacted business’ abilities to trade seamlessly with the EU. Removing the administrative barrier would make it a lot simpler for businesses to send and receive goods across the border both in terms of cost and time.

Secondly, as the government continues to sign new trade agreements with nations across the globe, having the right technology at the border would help the UK and its new trading partners to be able to engage in more seamless customs exchanges.

The Single Trade Window could also be used as a tool for data collection and reporting. For example, Singapore's single window, known as TradeNet, includes a function for documenting and facilitating the exchange of export declaration information with interoperable single windows in partner countries. This electronic document contains multiple data sets which supplement risk management and help to reduce customs clearance times for traders.

This type of reporting could be important in the government's mission to control and track border data, and to maintain connectivity with international single trade windows, also enabling it to produce regular reports based on data collection from the Single Trade Window to inform future developments of the technology in line with business needs.

However, the Government announced that it is halting the development of the Single Trade Window due to financial constraints following the Budget. This is frustrating, particularly given extensive industry engagement and the project's proximity to completion.

## 3. Capitalising on Free Trade Agreements

**The IoD is calling for:**

- **The consultation process for FTAs to be 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.**

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. 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 to some of those markets.” (Construction, medium business). He told us he has been grappling with tariffs as high as 25% - 35% in some African countries.

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 emphasis on tariff and customs related barriers, rules of origin procedures and trade remedies in relation to goods. Hence services traders feel they don’t gain much from trade deals.

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)

But for some, who are looking to expand, these ‘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)

The overall rhetoric therefore is that FTAs are an enabler of easier trade flows, but not an automatic 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.

## 4. Guidance and support

**The IoD is calling for:**

- **Create a one-stop-shop style portal for all export guidance and funding initiatives. This would include contact information for local trade advisors, simplified, step by step guidance sheets for processes throughout the export journey, and details for customs helplines.**
- **Better facilitate business to business connections by publishing a database where firms can find buyers and partners across the globe, attend trade shows and access UK embassies in international markets.**
- **Provide training for International Trade Advisors to ensure advice is consistent and dependable across all regions.**
- **Reopen an equivalent of the Internationalisation Fund to provide grants to SMEs and first-time exporters, which can be used for travelling to new markets, attending trade shows, using translation services and employing consulting services.**

- **Monitor and publish the impact of government assistance for exporters - teams both 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.**

IoD data shows there are a significant number of members who feel they lack the relevant tools needed to export internationally. In response to an IoD poll in December 2023 of those businesses which do not currently export, 11% responded this is due to a lack of availability to finance and 16% said they do not have the relevant knowledge and skills.

Anecdotally, members tell us guidance tends to be ad-hoc and important communications often do not reach them. At the same time, GOV.UK guidance is seen to be overcomplicated, and often sends the reader into a maze of links to new pages and documents.

Meanwhile, members have had said trade advisors do not necessarily offer better advice than what is available online. Businesses consistently tell us they value tailored, in person advice over generic guidance fact sheets and have therefore welcomed services like the Export Support Service helpline.

Additionally, funding options are limited, especially as a first-time exporter. The Internationalisation Fund, which offered finance for SMEs looking to expand into new markets, was discontinued in January 2023. UK Export Finance, which provides government backed insurance and guarantees for UK exports, is primarily aimed at more experienced exporters.

Many members also feel that the government should offer better services which connect businesses to international opportunities. For example, they have not been able to successfully use government sources to find suppliers or connect with international buyers or partners.

Overall, despite the 2021 strategy, practical export support seems rather haphazard and could be much better organised to ensure it is accessible and comprehensible for all types of business.