BREXIT AND INTERNATIONAL TRADE

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BUSINESS MODELS

Weathering the storms: small firms, big challenges

International shocks, disrupted supply chains and red tape have combined to rising operating costs. How can SMEs adapt to thrive?

Sophia Akram


Tom Barrett via Unsplash

Steff McGrath's business, Something Wicked, is all about women's empowerment. Edgy, kinky, luxury and leather. At the same time, McGrath is adamant that this shouldn't mean the exploitation of women in another country, which is why her brand is all about being British as well. It uses a careful collection of suppliers across the supply chain, with the leather polish sourced from an award-winning beekeeper in London, stockings sourced from a rare surviving hosiery manufacturer, while a female saddler in St Albans makes handmade cuffs and collars.

Despite trying to keep the whole manufacturing process in the UK, Something Wicked is still the kind of small outfit that has suffered since Brexit, somehow evading the dividends pro-leave ministers promised from leaving the EU.

From attending trade shows in Paris and New York, selling wholesale and direct to consumer and migrating to a new ecommerce platform, Something Wicked was on the road to an exciting endeavour – but the Brexit "cliff edge" led to the end of EU orders.

McGrath's is one of the many businesses in the UK and EU that incurred the wrath of Brexit red tape, many of which had supply chains that stretched beyond their own borders leading to higher costs, delays and increased bureaucracy. Throw in all kinds of unpredictable factors, such as the pandemic, global conflict and future uncertainty, and traditional business models are being continuously tested, especially when they have to import and export goods.

In response, business models have had to be adapted for survival but this might not be a bad thing. As well as re-envisioning how businesses operate, these upsets have caused business owners to build sustainability, business continuity and resilience into their operations, while staying ahead of the curve and trying to anticipate the next thing.

Assessments have clearly laid out the increased costs that new border arrangements have added to businesses following Britain's exit from the EU. These might arise from paying intermediaries to complete paperwork; government or port fees; or correcting administrative errors due to unclear new rules and procedures.

Smaller businesses lack the same resources, staffing power and financial stability to respond to these administrative burdens as larger enterprises, which can relocate and leverage more financial assistance. Brexit's impact on small businesses has thus been seemingly disproportionate as they find it harder to export to the EU and whose business performance is hindered by burdensome regulation.

"A fifth of small firms currently export – the lowest point since the spring of 2020 when restrictions aimed at halting the spread of Covid first took effect," says Lucy Monks, who is head of international affairs at the Federation of Small Businesses.

> **There's no question that crises create an opportunity. It's important to remind ourselves just how innovative and creative we were in the first six months of Covid**

"At the same time, one in eight small exporters have temporarily or permanently stopped sales to the EU – and a further one in 10 are considering doing so," she adds.

Tasnime Rotherham, business owner of Very Craftea, says that difficulties exporting after Brexit meant she couldn't capitalise on, say, a viral post that captured potential international customers. The complexity around sending goods abroad with the red tape involved made her stop sending goods to the EU. And as a small business, she did not find the fluid developments easy to understand.

Each passing month since Brexit, she discovered more things she and her peers didn't know about, like the code you have to have on every packaging, without which the package will be returned and sometimes that postage would not be refunded. Each time a new issue hindered the business owner during this period, the price for the consumer would go up, she says. Customs would also hold things up but no one, it seemed to Rotherham, understood what was happening or had the right paperwork. Rotherham says she has had to suspend shipping internationally, which has hindered her growth.

As well as shouldering the impact of Brexit, other global uncertainties have directly and indirectly impacted small businesses.

For instance, Covid-19's sudden onslaught meant that the brick-and-mortar shops McGrath was supplying with her garments were closed during much of the lockdown and so weren't taking stock.

Before the impact of Brexit red tape, Rotherham also saw purchases of her loose-leaf tea and embroidery kits paused during the pandemic because they were considered as simply "nice to have items".

It is not only supply that has been affected by the global uncertainty; there have been demand shifts, too. Covid-19 saw many households prioritise essential goods over services like hair salons but reopening meant a sharp reversion on what goods and services consumers were spending.

For Natalie Quail and her premium oral care at-home teeth-whitening brand, SmileTime, there was an unexpected demand that they frustratingly couldn't meet.

"Everyone had their smile full front and centre every day on Zoom. So we saw an increase in demand," says Quail, "but we struggled at the beginning to meet that demand with our supplier because factories had shut down in the US and Asia." Even when factories started to reopen after a few months, she says difficulties persisted at international ports.

Dr Monika Paule is the CEO of Caszyme, a Lithuania-based research and development company in the field of CRISPR-based molecular tools, whose clients include innovative corporations and startups, mostly in the US, Europe and Asia.

The pandemic brought Caszyme multiple challenges, in particular, as an industry player that relies on laboratory work which can't be done remotely and uses specialist materials that have an expiry date not dissimilar to food. The stockpiling, says Paule, ties up the financials and holds back investment. That said, the need to move fast to avoid waste means meticulous and advanced planning that has done away with their previously lean business model.

The war in Ukraine, trade wars and embargoes have further pushed some away from Asian suppliers and toward those closer to home. The conflict also meant Simply Wicked's expansion into international orders to Russia hit a wall, as their drop shippers could no longer access that market due to sanctions.

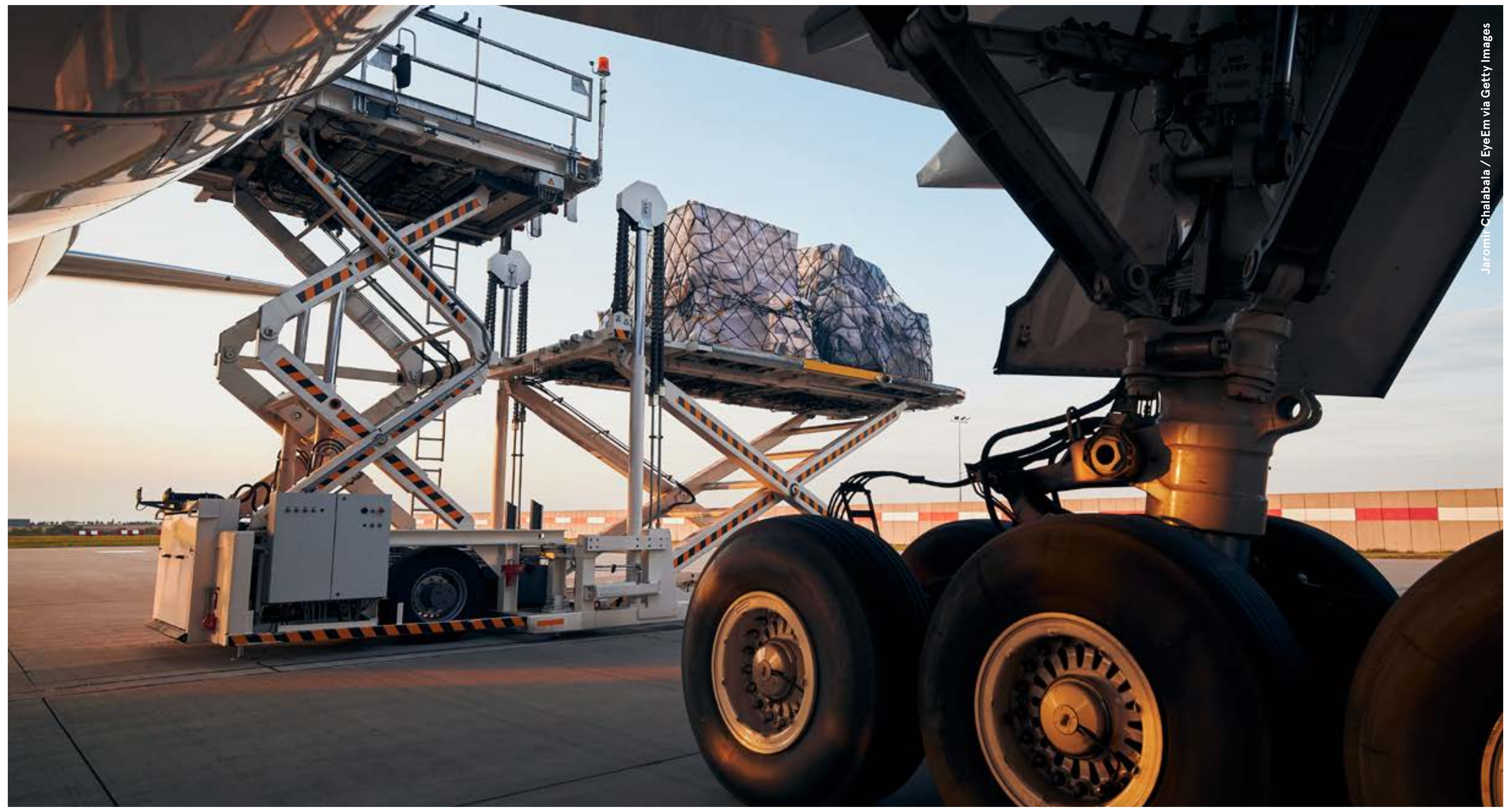
"For the last three years, it feels like I've had a baseball bat and I keep having to bat away one thing after another, just to try and keep changing," says McGrath.

Business models have certainly been adapted, including by replacing popular just-in-time global manufacturing supply chains with just-in-case arrangements.

Businesses in EU-member countries like Lithuania – particularly small businesses – also have to consider whether keeping the UK as an export market is worth the additional effort, paperwork and cost, according to Rasa Uždavinytė, who is the director of international trade development department at Innovation Agency Lithuania.

Those with a high dependency on this market will integrate the additional internal and external processes to deal with the bureaucracy. Others will turn to ecommerce if they have consumer-orientated businesses.

Uždavinytė notes how geopolitical developments, such as the trade war with China and certain embargoes, have disrupted Lithuania's high-tech industries, particularly its laser industry, which depends on components from China.



Jaromir Chalabala / EyeEm via Getty Images

In response, "Lithuania is focusing on diversification and looking for new markets that relate both to exports and to import the supplies," Uždavinytė says. That might mean more talks with and suppliers from Taiwan or the US. That lesson of diversification is universal across industries and jurisdictions as businesses have learnt to seek additional income streams.

Common learnings from the past few years reveal two key themes to prepare for challenges and uncertainty to ensure continuity and resilience in business operations: monitoring the landscape; and joining networks and business communities to share resources and information to help respond to unexpected shocks.

For instance, Paule says, to build resilience it is important to have a broad mindset, while keeping up to date about global and events can help with anticipating future disruptions. For many, that means preparing for a possible recession and shrinking economy and therefore, reduced demand.

Connecting with larger business networks and associations can also help to level the playing field for smaller enterprises, particularly those that are marginalised. The London Chamber of Commerce and Industry notes that there is a further disproportionate impact on small businesses run by particular communities of colour. The impacts between these communities will differ but Richard Burge, CEO of the London Chamber of Commerce and Industry, notes there is often unacknowledged racism from the rest of the world toward some of these businesses.

"Then there is access to advice and services, which can disproportionately hit businesses because they just aren't part of that loop," says Burge, acknowledging that the importance of including bodies such as the Black Business Association within the chamber rather than sitting outside of it.

As a South Asian business owner, Rotherham felt that relevant information wasn't reaching many business owners among the South Asian communities in the UK. But she found services like the Business and IP Centre, a British Library-based initiative rolled out to certain libraries around the country, invaluable during lockdown to access services and programmes.

Quail says industry-specific resources, in her case beauty-related forums and trade publications, can offer timely advice and information. The key thing, says Quail, is that you do the research and find solutions that are best for you rather than following people's advice blindly. In addition, owners of small businesses must learn the skill of being responsive and nimble to navigate future challenges.

While consecutive shocks have damaged businesses and their bottom lines, Julian Birkinshaw, professor of strategy and entrepreneurship at London

Supply and demand: timelines have been affected by red tape

Business School, says there may be a silver lining to the need to react to uncertainty.

"In the earliest six months of Covid companies came up with innovative new products and ways of offering their own service. What is difficult but important is to remind ourselves just how innovative and creative we were in that period," he says – adding that it's easy to fall back into old ways of working.

Each business that survived is likely to have had to pivot or invoke an additional revenue stream. Quail had to stockpile and is thinking about offering more hygiene over cosmetic products to weather any downturn, while Paule says that Caszyme had to take their business planning process to granular levels with a forward-looking approach.

For Rotherham, it's important for her to focus on her local customers and find more stockists, while McGrath has adapted her business into something quite different from what it looked like three or four years ago – but without swaying from its mission.

"It's a manufacturing business at its heart," she says, and her pivot built on the rising sentiment in Britain to reshore production and build new brands. McGrath started incorporating made-to-order fulfilments from other businesses by utilising her existing machinery and staying within the undergarment segment of the market.

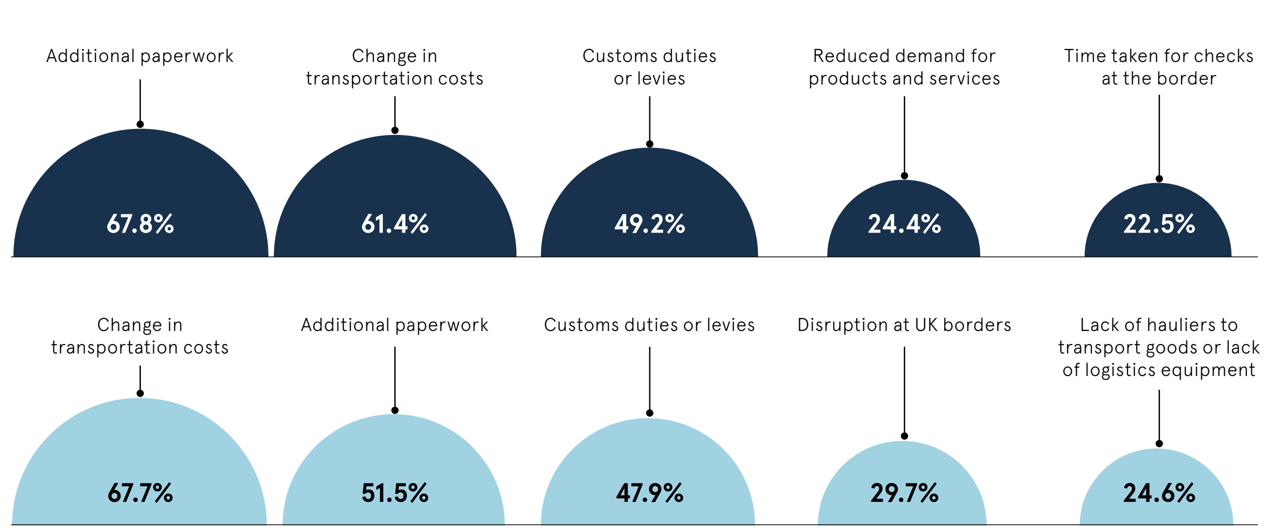
"It's almost like sticking with what we do but we can help other people develop a brand. If we can support another brand to set up or to manufacture in the UK, why wouldn't we? It's growing the skills, and that next generation of skilled manufacturing coming back to the UK would be a great, great thing to happen," she says.

As long as small businesses can access the support, information and resources they need to innovate, diversify and adapt, they may be able to weather whatever incoming storm is on the horizon. ●

> **If small businesses can access the support, information and resources they need to innovate, diversify and adapt, they may be able to weather whatever incoming storm is on the horizon**

THE UK'S NEW TRADING OBSTACLES

Biggest export and import-related challenges for UK wholesale and retail businesses in 2022



ONS, 2022

Commercial feature

Employer of record: the secret to international expansion?

As firms struggle to find talent in the UK, many are onboarding staff in locations overseas using an employer of record model. So, what are the benefits?

Global supply chain disruption, rising inflation, and skills shortages are making it harder for firms to find the talent they need within the UK. So, a growing number are starting to onboard and support staff in locations around the world, a trend accelerated by the shift to remote working during the pandemic. Yet hiring in country often comes with additional costs and red tape, and firms are increasingly turning to employers of record to help simplify the process.

These partner companies act as a bridge, employing local nationals or expatriates on a firm's behalf in countries where they don't have an entity. Mauve Group, one of the leaders in the space, helps UK, US and EU businesses to onboard staff in 107 countries worldwide. It also helps employers with visa and immigration issues, setting up and managing businesses in new markets, and coordinating project management requests abroad.

"As an employer of record, we employ the overseas worker ourselves, making sure they are registered on the payroll in the country of work, that they're paid correctly in the local currency, and that the right taxes and social contributions are paid on behalf of that worker to the authorities," says Mauve Group's chief executive, Ann Ellis.

"We're also responsible for making sure the employee has a contract of employment which is compliant with the labour laws of that country, and for taking care of all HR matters. All the client has to do is manage that worker on a day-to-day basis and oversee the responsibilities of their job."

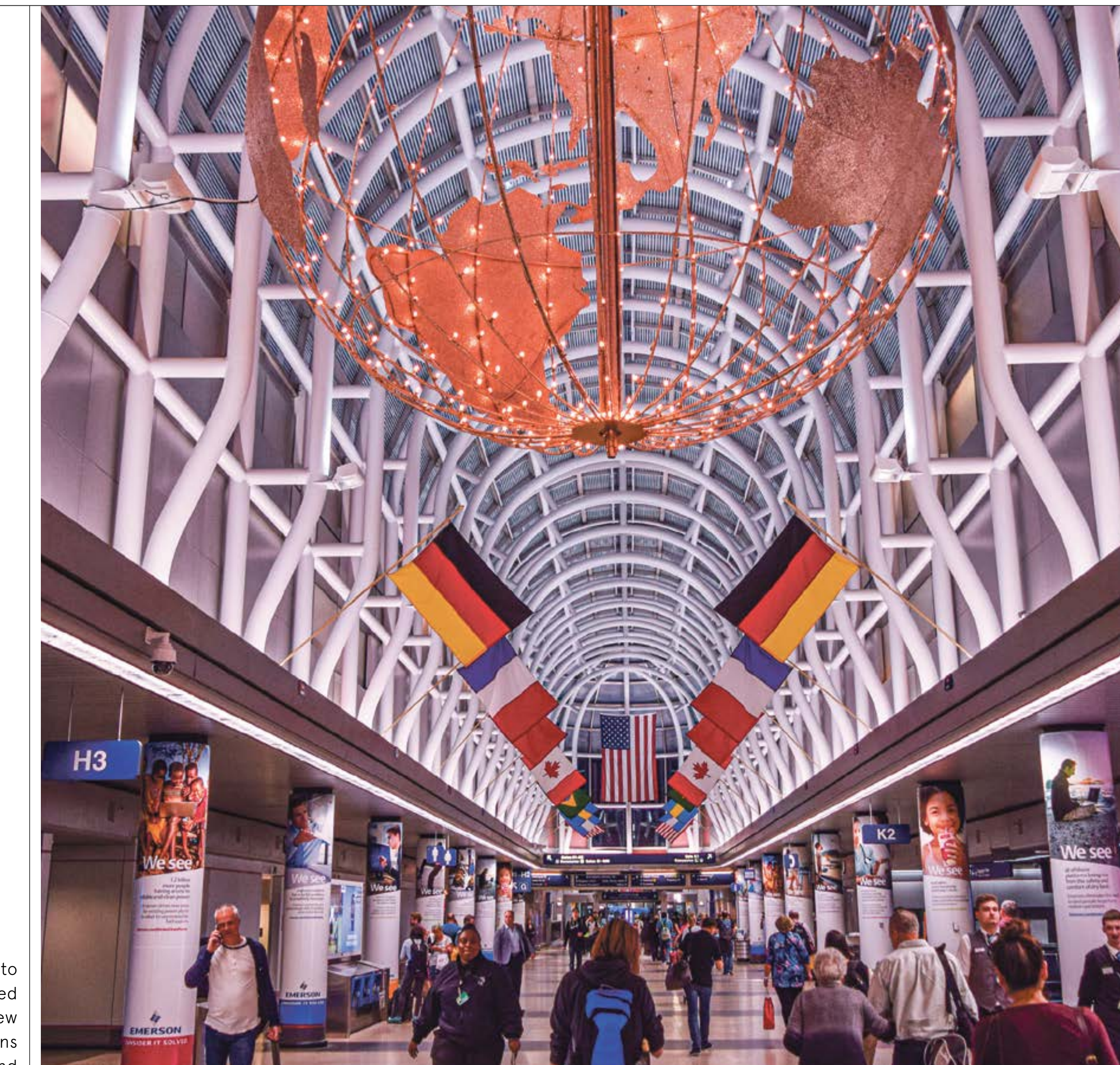
Demand for Mauve's services shot up after the Brexit vote in 2016, when companies in a host of industries found themselves struggling to attract the foreign talent they needed in Britain. This was partly due to new immigration rules, partly perceptions of the UK being less welcoming and partly fears about potential barriers to doing business in the future.

The trend has only accelerated since the pandemic struck in 2020 and many foreign workers in Britain returned to their home countries. The normalisation of remote working has also played a part, along with soaring wage inflation, which has made it less affordable to recruit within the UK's borders.

"The pandemic has made hiring in-country a much more alluring option," says Ellis. "In part, employers need to meet worker expectations in an increasingly competitive recruitment landscape, and that means giving them the flexibility to work wherever they want. But companies also want to access a much larger talent pool, and the employer of record model allows them to do that in an affordable and efficient way."

It's not just about sourcing talent. UK companies are also increasingly looking beyond the EU for opportunities to grow internationally, and here the employer of record model can help. Setting up in international markets can be costly and is not without risk. To hire local talent who can scope out the opportunities, a UK firm will typically have to set up a new company in that country first. Yet this can take months in some places and it costs money to maintain the new company. Moreover, if it all comes to nothing the firm may have to shut up shop again, incurring yet more cost.

"The resource considerations are immense when setting up in a new market, and it might not be worth it," says Mauve's global sales manager Annette Ord. "However, as an employer of record, Mauve lets clients dip their toe in a market without committing much resource. In Brazil, it often takes 20 weeks-plus to set up a branch or a limited liability company so you can hire locally, but Mauve can onboard staff in that market in two to four weeks."



Employers of record are also vital when a UK business decides to stay in a country for the long haul. Every market has its own labour and tax laws and staying on top of them can be time-consuming. Firms who break tax rules unwittingly may find themselves fined or blacklisted.

However, Mauve has spent more than 25 years ensuring UK firms remain compliant overseas. Its team is on hand 24 hours a day to answer queries, both via its hub offices in the UK, Cyprus and Dubai, and through remote employees and external partners on the ground in every market it operates in.

"The last thing you need is to hit regulatory hurdles in a new market, and so Mauve makes sure its clients avoid unforeseen risks," says Ord. "We stringently follow local laws when setting up our solutions and companies in-country – giving the client confidence in that knowledge."

Mauve has worked for a wide range of clients including large FTSE 100 companies, major US universities, technology start-ups and NGOs such as Comic Relief and Wateraid. In one example, it helped a UK-based software and business services provider to hang on to valuable workers who decided to return to their home countries during the pandemic.

"They wanted to understand any risks to the company or the employee before they went ahead," says Ord. "So, our in-house compliance department audited the scenarios of multiple current employees and explained any risks, red flags and guidelines on how to proceed. It resulted in them adopting an employer of record solution for two employees in Ireland and one each in Spain and Sweden."

In another example, Mauve helped a UK-based scientific research consultancy to relocate an employee to Hong Kong, where the organisation did not have an entity set up locally with the ability to employ. Mauve onboarded the worker through an employer of record solution and continues to employ and payroll the staff members in-country.

Since then, Mauve has helped the organisation to employ workers in India and the US, allowing it to secure scientific talent that meets the specific and unique requirements of the business. As Ellis explains, Mauve's ultimate goal is to help its clients expand and capitalise on new opportunities, wherever they may be.

"Hiring talent abroad is becoming vitally important to businesses but it needn't be complicated," she says. "As an employer of record, Mauve takes the stress out of the process while ensuring firms have the flexibility they need to build their businesses internationally."

> **Companies also want to access a much larger talent pool, and the employer of record model allows them to do that in an affordable and efficient way**

78%

of UK businesses reported difficulties in finding staff

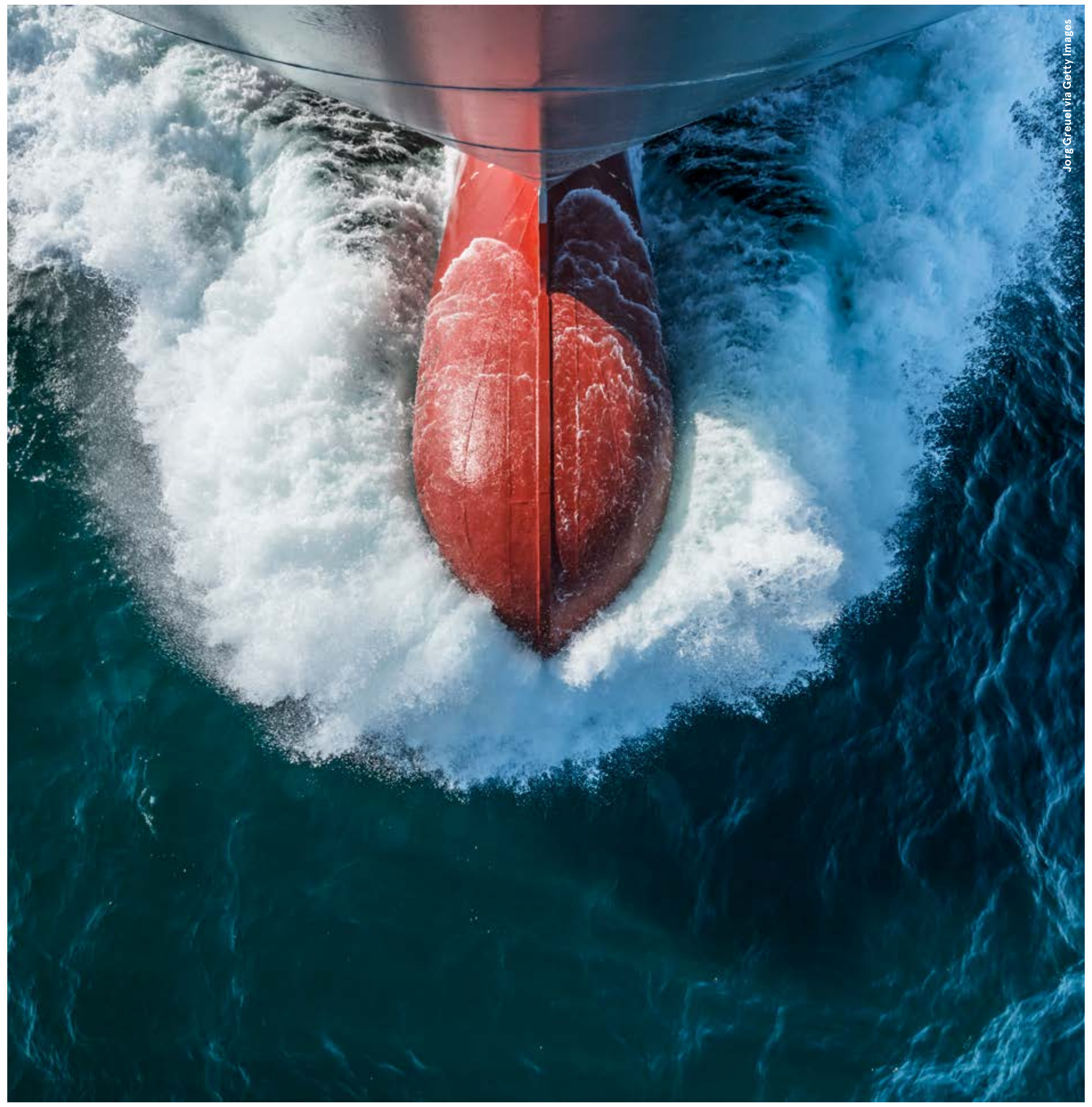
British Chambers of Commerce Quarterly Recruitment Outlook Q1 2022

43%

of surveyed UK companies are seeking to expand their operations globally

Hitachi Capital survey, 2021

For more information please visit mauvegroup.com



Jorg Greuel via Getty Images

TRADE FINANCE

Britannia waives the rules

The UK's Electronic Trade Documents Bill will make it possible for international trade to use e-documents

Ouida Taaffe

It probably isn't a surprise that a lot of the rules in international trade are based on English 'law merchant'. England, after all, was the pre-eminent global naval power for centuries. What might be more surprising is that those laws, as they stand, require trade banks to courier around 4 billion documents around the world each year.

Why do they do that? Because some of the documents they handle – like a ship's bill of lading – give title to the goods but only when the document is in paper form. Under current English law, if something is not physically tangible, you can't possess it. That is why a paper bill of lading has value and an e-bill of lading is on shakier ground.

There have been calls to change this for many years and it looks as though it will now finally happen – partly thanks to the harsh light that Covid lockdowns shone on the existing practices. The UK's Electronic Trade Documents Bill is expected to come into force before the end of 2022.

And that is not the only major legal shift. The G7 agreed to collaborate on electronic transferable records in April 2021. The International Chamber of Commerce (ICC) described that decision as "momentous".

What the G7 greenlit is the backing of the Model Law on Electronic Transferable Records (MLETR), which was adopted by the United Nation Commission on International Trade Law in July 2017 but slow to take off. As at the end of 2021, just seven jurisdictions were on board.

The MLETR is agnostic as to technology; it can include information from any industry standard (which often means more information than a paper document); treats e-documents as equivalent to transferable documents or instruments; and is recognised across borders.

> Paper-based transactions, which still dominate international trade, are a source of cost, delay, inefficiency, fraud, error and environmental impact

When the G7 ministers described their decision in a statement, they said: "Paper-based transactions, which still dominate international trade, are a source of cost, delay, inefficiency, fraud, error and environmental impact."

That neat summary may have lowballed the problems. The change in law that will allow e-documentation, says Chris Southworth, the secretary general of the ICC, UK, "is commercially, far and away the most transformative change in trade by a long distance. What it allows us to do is sweep away all paper and bring in technology and innovation at scale."

Digitising global trade holds a lot of promise simply because the sector is so vast. The biggest freight ships can carry 24,000 containers, each of which requires its own paper documentation that has to be couriered through many hands. The United Nations Conference on Trade and Development says that around 750 million containers were moved at ports worldwide in 2017.

The costs – and potential for mistakes – associated with that are one of the main reasons for the $3.5bn (£2.81bn) 'trade gap' – the trade finance that isn't available to SMEs – both in the UK and in emerging markets – because they can't afford to use the existing system.

The All-Party Parliamentary Group on Trade says that more than half of SME applications for trade finance are rejected and that less than 8% of SMEs use traditional forms of trade finance. It says that "mostly manual" bureaucracy at banks means that it can cost £60,000 to onboard an SME. It sees lowering the cost of finance and bringing more SMEs into the trading system "as an imperative … in the context of month-on-month exports falling since Q1 2019".

Research from Coriolis Technologies says UK trade fell by around 18% in value terms between December 2020 and the end of February 2021 and the number of exporters, their revenues and their turnovers have been falling since Q4 2019 by between 5% and 25%. Larger businesses have been doing better – partly because they are better able to take bureaucratic hurdles. Those hurdles are both a function of Brexit, but also of the stricter rules on, among other things, anti-money laundering, brought in after the 2008 financial crisis.

Removing sand from trade gears, then, can only help – something that the new law looks set to do. "The EU is the most sophisticated customs union in the world," Southworth says. "Goods can flow with ease, but less than 1% of trade documents are currently in digital form."

But smoother processes are not always welcome. What about the potential for job losses as machines take over tasks currently done by people, such as checking trade documents at banks?

"The reality is that it's already hard to find good document checkers," says Alex Gray, head of trade and transaction banking at the London Institute of Banking & Finance. "Digital processes will enable trade finance professionals to focus on the judgement calls that machines can't make and leave the routine work to the computers. It's a real win for the industry."

Perhaps the biggest challenge to fully digital trade, though, is that not all economies are equally ready. "The world is a diverse place, with diverse capabilities. Half the world doesn't have internet access," Southworth says.

"In some parts of the world the cost of trade is higher than its value. It's super, super important that we help governments talk through the policies and changes that are needed," says Southworth. "The risk for everyone is that we have a fracturing of global trading."

To try to ensure that doesn't happen, the ICC is working on a Digital Standards Initiative for a "globally harmonised trade environment". The DSI is mapping every country in terms of its stage of digital readiness and its digital capabilities and laws, and offers practical support. The board includes the Asian Development Bank, the World Trade Organization and the World Customs Organization.

However, even countries that should be able to move quickly still face challenges. "Trade is a very old activity, everyone is comfortable with the systems already in place, so digitisation is also about behaviour change," Southworth says.

Still, allowing e-documentation is a historic shift in international trade and one that, done right, should be transformative. ●

90%

of world trade relies on trade finance

WTO, 2022

$1.7tn

the trade finance gap in 2020; an all-time high

45%

of trade finance applications by SMEs are rejected

Asian Development Bank, 2021

INSIGHT

'The UK's biggest opportunity is creating a digital environment in which trade can happen'

A Q&A with **Chris Southworth**, secretary general, ICC United Kingdom, on vulnerability and opportunities in the global trade system

Q How would you describe the state of international trade?

A The trading system has been under immense strain, but Covid and Ukraine have accentuated the pressure. All forecasts for global trade have been downgraded. Covid accelerated a trend toward regional supply chains, as did the rise of populism across the globe and the political tensions between major power blocs such as China, the EU and the US.

Ukraine is uniquely challenging because it is the breadbasket for much of the world. The conflict is blocking key trade routes, particularly between Europe and Asia, which is affecting food, but also other commodities like energy.

There are also unintended effects of political actions related to the conflict. Some indigenous communities in Ecuador, for example, that rely on Ukraine and Russia for flours and shrimp, have been cut off, because with sanctions in place those trades cannot be financed.

This is a good example of the complexity of the global trading system. We saw it with the 2008 financial crisis and with Brexit, but it's a reminder that we must understand how trade operates before pulling levers without offering economic support to affected communities.

Q What trade opportunities exist for the UK after Brexit?

A We can't get away from the fact that the EU is essential to UK trade. Since Brexit we've seen a 20% drop in total trade with the EU and that gap won't be easy to fill. While other countries are moving toward regional trading blocs to guard against global pressures, the UK is arguably more exposed than any other major economy.

Our long play right now is the CPTPP, which is about the UK positioning itself politically. But it's not immediate enough to be a 'trade' strategy. The recent trade agreements with Australia and New Zealand will have a positive impact on the UK's ability to trade into Asia, but should be viewed in context. They mark the beginning of the UK trading independently and are a signal of the kinds of deals we can secure, but they won't scratch the surface of the massive decline in trade with the EU.

The UK's standout deal is the digital economy agreement with Singapore, which is a great piece of leadership from the UK and has set the standard internationally. It provides businesses with everything they've wanted in terms of the digitalisation of trade and indicates what can be done with digitalisation in future agreements. That is the UK's biggest opportunity: creating a digital environment in which trade can happen.

Q What impact will digitalisation have on the international trade landscape?

A Based on business cases that were published last year, if we can successfully digitalise trade, there's a $10tn growth opportunity in the G7 commonwealth alone. There is nothing in the trading system that comes remotely close to that kind of scale. The digitalisation of global trade is the most significant digital transformation initiative in the world.

We operate in a trading system based on laws and processes from the 1800s, which still rely on physical, paper documents. Covid highlighted the problem, as trade ships were often left to sit in port for weeks while paperwork followed. It was a great illustration of the antiquity of the trade system.

The technology exists, of course, but it's about the application and standardisation of digital trading processes. Digitalisation comes with huge efficiency gains and creates the opportunity to bring more companies into the system by driving down the cost of trade. By some estimates, digitalisation can cut trade costs by 80%. There's a prize to be had if we can achieve this goal. ●

Chris Southworth
Secretary general
ICC United Kingdom

Commercial feature

The power of leadership communities after Brexit and Covid

CEO communities are helping firms solve labour shortages and other critical challenges in the post-Brexit, post-Covid era

The UK's January 2021 Brexit deal caused trading relationships between Britain and the EU to decline steeply by increasing red tape. This has been compounded by several other daunting challenges, including runaway inflation, post-Covid supply disruptions and the Ukraine war.

Though they may struggle to admit it, such systemic shocks can create fear and panic among chief executives, but a good network of peer support can help them feel safe and avoid feeling stressed at difficult times.

Through organised networks and forums, business leaders can quickly gain comfort by realising they are not alone in the challenges they face, and they can garner early knowledge to help them focus on opportunities and feel more confident.

CEO networks can also provide coaching, mentoring and education to prepare leaders for such challenges.

In volatile, stressful situations, one major challenge for business leaders is a lack of reliable information. Being part of a network of trusted members can make a huge difference.

Xavier Mufraggi, CEO at global business leader community YPO, says: "With challenges like Brexit, CEOs can't rely on online information. They need to speak to other business leaders to get a clearer picture of trends."

He adds: "Unfortunately, in some business forums, no one wants to be the loser in the room. Everyone says they are doing well, even when they're close to insolvency. I saw this myself in other CEO forums during the 2009 financial crisis. If you can't trust what others say, you're wasting your time."

> With challenges like Brexit, CEOs can't rely on online information. They need to speak to other business leaders to get a clearer picture of trends

"As a non-profit," he adds, "the main priority isn't revenue, but rather, trust." To reinforce this, YPO also arranges its forums to avoid members talking to direct competitors.

"As Brexit-related crises unfold, our members can reduce their feelings of stress because they have rapid, advance information," says Mufraggi. "This enables them to start seeing opportunities. They know they still might lose money due to Brexit. But talking to trusted peers enables them to make smart decisions before others."

YPO member Andrew Landsburgh, director of Code Pod Hostels, says face-to-face networking events restarting post-Covid have been helpful as informal discussions are a huge benefit.

"One major issue we're dealing with is labour shortages," he says, "But it's been comforting to find out it's not just a Brexit issue. There are labour shortages across the world. Every CEO we speak to mentions it. It's also been great to learn there are pockets of talent available in India and Africa – and about what's working or not in recruitment."

Mufraggi says early information was also critical when Covid hit China in January 2020. YPO informed its network of 32,000 CEOs in 142 countries by the end of January, enabling them to prepare for the logistical disruption weeks ahead of others.

In this way, leadership communities can help CEOs face any new crisis.

Landsburgh says many members have recently been sharing information about how to manage inflation.

"It's been amazingly useful to speak to those in developing countries who have experienced high inflation and explained where financing can go wrong and how to hedge against it," he says.

2%

of CEOs expected supply chain issues to be resolved in their industry as early as Q1 2022

51%

of businesses planned to raise prices to mitigate the impact of inflation

YPO, 2021

With supply disruptions, informal connections can help by putting the end buyer in contact with producers to find solutions. Mufraggi says that has been highly effective with YPO members during the pandemic and the Ukraine war, for example, in sourcing medical equipment quickly.

"We connect members who know they can trust each other, which speeds things up," he says. "YPO's membership renewal rate is 97% and climbing. It's lonely at the top but people realise that, during a crisis, a trusted network becomes even more important – and that, with YPO, you'll never walk alone."

INDUSTRY

Circular strategy aims to bring sustainability to fast fashion

How is the UK fashion and textile industry affected by latest EU policy that tackles sustainability across the global value chain?

Amy Nguyen

On 30 March, the European Commission published the anticipated *EU Strategy for Sustainable and Circular Textiles* as part of its Green New Deal. In a bid to make sustainable products the norm, the strategy aims to "make textiles more durable, repairable, reusable and recyclable, to tackle fast fashion, textile waste and the destruction of unsold textiles, and to ensure their production takes place in full respect of social rights".

How the UK's 34,000 businesses employed in the UK fashion and textile sector are meant to comply with these rules after the official departure from the Union in 2020 remains a grey area. Uncertainty could threaten progress on environmental sustainability – as well as incur costs for the SMEs that make up 99% of the UK's fashion industry.

The strategy has been designed to drive circularity and support citizens through the green transition as the global economy moves to decarbonise. This is especially important for Europe, one of the largest importers of clothes, which reached a value of €154bn (£130bn) in 2019, according to Eurostat.

The introduction of extended producer responsibility (EPR) within the strategy will make producers responsible for the waste their products create and incentivise design decisions that would make garments easily recycled, deconstructed or repurposed at their end of life. This is vital as only around 1% of global textiles are recycled.

Environmental campaigners have welcomed EPR, given the negative externalities associated with textile production, where brands and manufacturers, many of whom are British, flaunt £1 bikinis or 5p dresses online and don't pay the true environmental and labour costs associated with a garment. George Harding-Rolls, campaign adviser for the NGO, Changing Markets Foundation, says the promise of the EPR "could have far-reaching effects, both by making brands pay for the waste they create and by creating investments in end-of-life management for products".

The strategy's review of labelling regulations and use of digital product passports (DPPs) is another positive development. DPPs store essential product data on materials that can be used by stakeholders in the textile ecosystem. If all regulated producers were to have DPPs it could facilitate repair, recycling and the tracing of harmful substances across the supply chain and reduce waste. EON is a retail platform working alongside The Prince of Wales's Sustainable Markets Initiative Fashion Taskforce. It is creating DPPs as digital IDs for use by UK household names that include Burberry and Stella McCartney.

Elsewhere, the Commission recognised the intrinsic link between fossil fuels and textiles when it stated: "The growing demand for textiles is fuelling the inefficient use of non-renewable resources, including the production of synthetic fibres from fossil fuels." The shedding of microplastics was mentioned too, but Harding-Rolls doesn't believe this goes far enough: "The strategy falls short of recommending reducing these fossil-fuel derived fibres as a way of cutting microplastic shedding," he notes.

Greenwashing was also cast into the spotlight to comply with consumer protection laws on green claims between the UK and Europe. UK fashion businesses have already been working to adjust communications to guidance on environmental claims under the UK Competition and Markets Authority (Green Claims Code, released September 2021. The urgency of doing so is highlighted by research from the Changing Markets Foundation, which found 59% of all green claims by European and UK fashion brands from the 2021 Spring/Summer collections to be misleading.

For UK brands, adapting to the requirements of the strategy will be no small feat. Primark is working on aligning its business and sourcing decisions to the new guidance. Lynne Walker, director of Primark Cares, says: "Primark welcomes any proposals that level the playing field and create the potential to drive industry-wide change. We are reviewing the EU proposal in detail but look forward to playing our part with our ongoing work and commitments towards becoming a more sustainable business."

Similarly, a spokesperson from the John Lewis Partnership says that the EU's Textile Strategy, Circular Economy Action Plan and Sustainable Products Initiative "will do a great deal to normalise ethics and sustainability within business practices". The retailer's 2020 Partnership Plan and inclusion of take-back solutions by 2025 and commitments to use recycled and sustainable materials highlight how they are working to align their operations to the EU Green Deal.

Industry commentators have reacted with cautious optimism to the strategy, arguing that social due diligence remains largely ignored. Harding-Rolls sees that the "strategy ignores workers in the supply chain and does not create any more ambitious requirements on supply chain visibility and transparency".

It is not only NGOs that think the strategy could have gone further. Bernice Pan, founder and creative director of Deploy, a UK-based sustainable brand, adds that the stakes must be higher to disincentivise retailers on overproduction and waste generation. "It should be tangibly pushed forward to include a ban on sending unsold merchandise to landfills and incinerators. France has introduced a levy of penalty charges or taxation on companies who do so," Pan says.

If France can do it, why shouldn't the UK? Binding measures to incentivise an absolute reduction in material use, for example, through a tax on virgin materials and environmental impact, are missing from the EU Textile Strategy but need not be missing from UK regulations on fashion and textiles.

While progress within Europe is welcomed – many are scratching their heads as to where exactly it leaves the UK fashion industry following Brexit. Trading relationships are critical given that the UK clothing industry is the third-largest in Europe and the fashion and textile industry contributed approximately £20bn to the UK economy as of 2020, according to the UK Fashion and Travel Association.

Tamara Cincik, founder of Fashion Roundtable, a UK-based think tank focused on fashion, expresses deep concerns about the divergence between the UK and its EU trading partners. "I worry about the UK being left behind on the global stage in our sustainability ambitions. Brexit also means added costs and impacts," she noted.

The UK's fashion economy has experienced increased friction from Brexit trading complications such as a rise in customs and freight duties. Cincik highlights that of the 34,000 businesses in the UK fashion and textile sector, 99% of these are SMEs, and the impact incurred due to misalignment throughout Brexit is not something they can afford.

Deploy's Pan shares her experience as a founder of a British brand that lacks the human resource to dedicate to research and adaptation of changing import-export regulations. She states: "Brexit has eroded favourable conditions between the UK and EU. It has made it challenging for companies to navigate complex, divergent agendas, whilst staying competitive and weathering the pandemic storm."

> I worry about the UK being left behind on the global stage in our sustainability ambitions

Alongside an increase in costs, the UK cannot afford to fall behind on environmental progress, especially in mitigating textile waste as our landfill capacity continues to rapidly diminish. A 2020 study by Labfresh found that the UK is the fourth-largest producer of textile waste in Europe.

The EU strategy addresses textile waste. It states that, by 2024, it will be mandatory for brands to disclose the number of discarded products and there will be a ban on destruction of unsold textile goods.

For any strategy to work both in the UK and EU, it must go beyond voluntary initiatives.

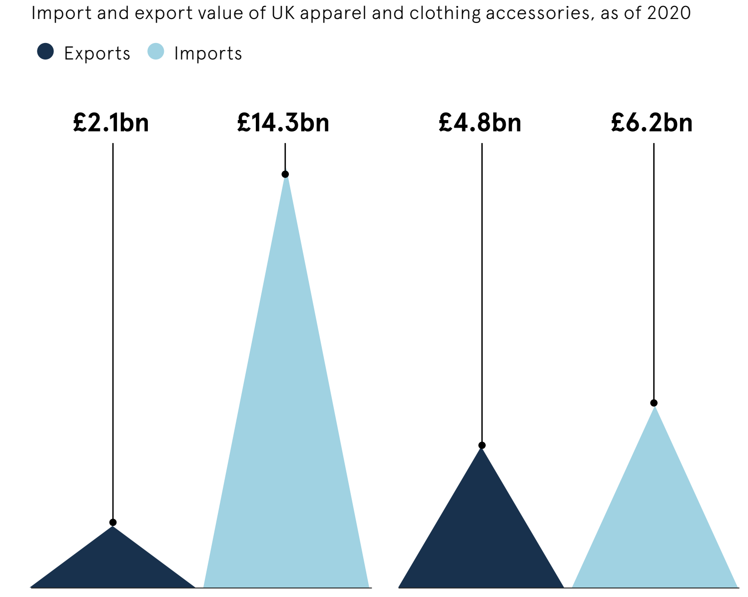
The 2018 UK inquiry, *Fixing Fashion: clothing consumption and sustainability*, was rejected by the government on all 18 clauses that put forward ideas such as the introduction of a 1p garment levy to tackle fast fashion. Two years later, in October 2020, the Environmental Audit Committee said it would reopen the case but tangible advancements are yet to be made.

Successful future policies require a holistic approach, incorporating environmental, social and commercial factors and legally binding targets. What remains certain is that progress to create long-term sustainability cannot stop at the border of the EU, given the globalised nature of the textile value chain. ●

TRADE IN TEXTILES

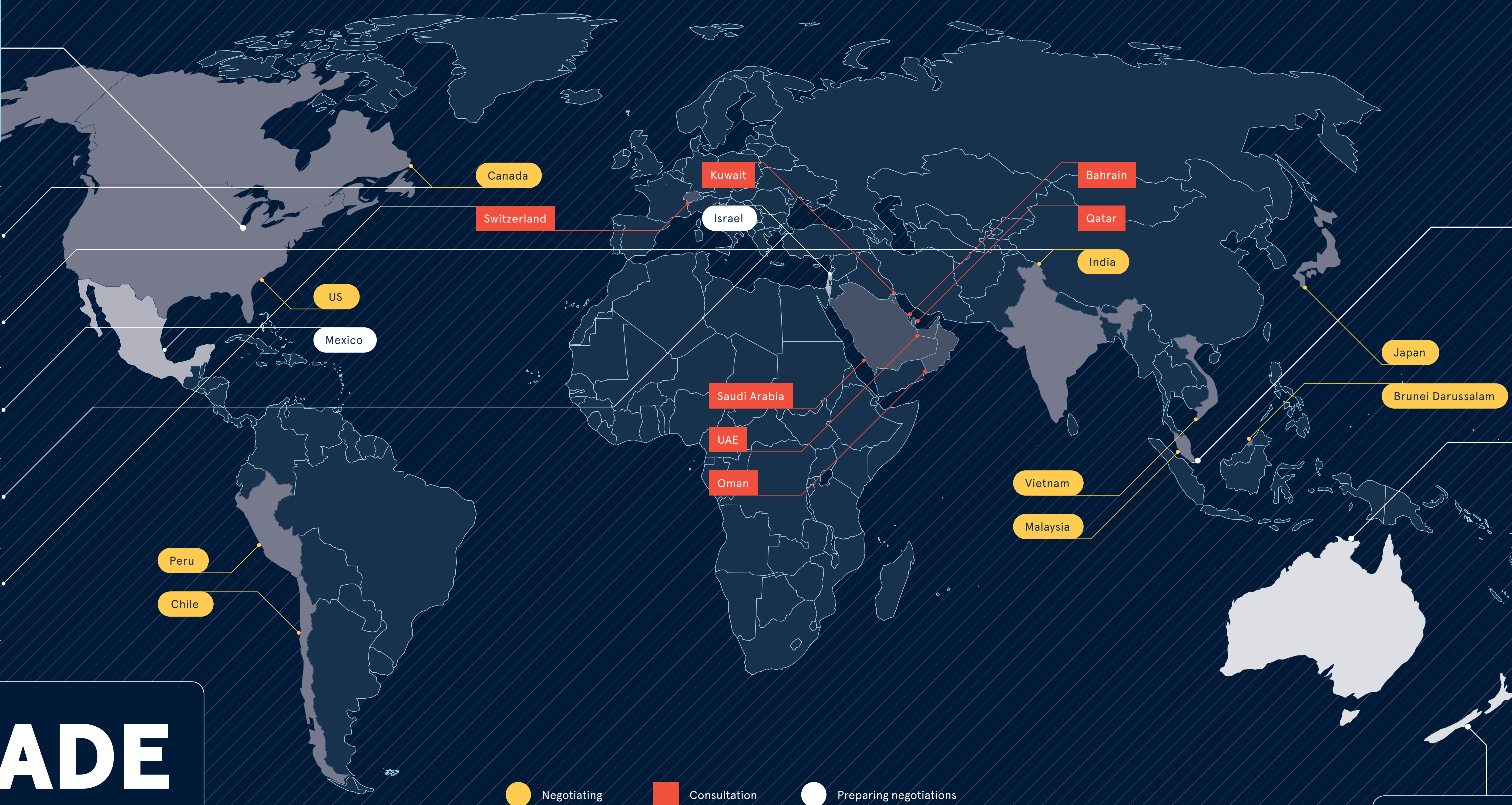
HMRC, 2021

Import and export value of UK apparel and clothing accessories, as of 2020



UK TRADE AFTER BREXIT

Since leaving the EU, the UK has maintained many of its trade relationships through various mechanisms that quickly replicate existing trade agreements countries have with the EU. But a fully independent UK is now developing its own trade strategy. The UK's 'new' free trade agreements have thus far focused on Australasia and the Pacific rim, but trade negotiations with the US and India are ongoing, and there's hope for an agreement with the GCC on the horizon



INDIANA, US

Although the UK's trade negotiations with the US have been stalled for over a year, on 27 May the UK signed its first state-level agreement with the US state of Indiana. The Memorandum of Understanding with Indiana aims to strengthen investments and imports and exports between the two parties, particularly in the areas of renewable energy, advanced manufacturing and pharmaceuticals. It is also being championed as a springboard for more state-level agreements in the future. Indiana imports roughly $1.4bn (£0.93bn) of goods from the UK, and conversely the UK is the state's seventh-largest export market.

£21.4bn total trade in goods and services between the UK and Canada

£24.3bn total trade in goods and services between the UK and India

£4.2bn total trade in goods and services between the UK and Mexico

£5.0bn total trade in goods and services between the UK and Israel

£38.4bn total trade in goods and services between the UK and Switzerland

SINGAPORE

Singapore and the UK signed the UK-Singapore Digital Economy Agreement at the end of February. Another 'agreement in principle' and thus not yet in force, the trade deal will cover digitised trade in goods and services, and provide a framework for foundational components of a digital economy, including data flows, cybersecurity, digital contracts and invoicing, regtech, fintech and payments. It will also catalyse tech partnerships between the two signatories aimed at addressing AI and other emerging technologies, lawtech and digital identities. Though its impact is difficult to predict, total trade between the UK and Singapore was valued at £16bn in 2020, with financial services trade alone accounting for roughly 10% of that total. Singapore has previously signed digital partnership agreements with Australia, Chile and New Zealand.

Name
UK-Singapore Digital Economy Agreement

Signed
February 2022

Singapore's estimated digital services trade value with UK in 2021
£6.44bn

AUSTRALIA

The UK-Australia Free Trade Agreement is the first new trade agreement signed by the UK since leaving the EU. Covering goods, services, digital trade and intellectual property, the agreement removes most tariffs between the two nations, though some restrictions on agricultural trade will remain for up to 15 years. In addition, UK citizens under 35 will be able to live and work in Australia more easily. The economic impact of the agreement is expected to be limited: UK GDP is projected to increase by 0.08%. Although it is estimated that most economic sectors will benefit from the deal, three sectors – agriculture, forestry and fishing; semi-processed foods; and manufacturing of transport equipment – will likely see a negative impact.

Name
UK-Australia Free Trade Agreement

Signed
December 2021

Australia's total trade value with UK in 2021
£14.4bn

NEW ZEALAND

Two months after its first post-Brexit trade deal, the UK signed a second agreement in the Australasia region, this one with New Zealand. The UK-New Zealand Free Trade Agreement is currently an agreement in principle, meaning both countries must take the agreement through their domestic parliamentary procedures before it takes effect. When it does come into force – ideally by the end of 2022 – the agreement will remove most tariffs on imports and exports, but protections will remain for 'sensitive' agricultural products. In addition to goods, the agreement will cover services, government procurement, digital trade and intellectual property. The agreement is expected to increase UK GDP by 0.03%, and will positively impact most assessed sectors, with the exceptions of agriculture, forestry and fishing, and semi-processed foods. But all economic effects – positive and negative – will be small.

Name
UK-New Zealand Free Trade Agreement

Signed
February 2022

New Zealand's total trade value with UK in 2021
£2.5bn

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

Recent agreements with Australia, New Zealand and Singapore are important in their own right, but they also factor into the UK's longer-term strategy of gaining a trading foothold in Asia and the Pacific region. In February 2021, the UK applied to join the CPTPP: an agreement among 11 Pacific-rim countries across all four hemispheres. Signatories include Australia, Canada, Japan, Mexico, New Zealand, Peru, Singapore, Vietnam, Brunei Darussalam, Chile and Malaysia, although the agreement has not yet come into force in these last three. The UK has pre-existing trade agreements with Australia, Canada, Chile, Japan, Mexico, Peru, Singapore and Vietnam, and has an agreement in principle with New Zealand, but the government believes the CPTPP will provide better engagement with the Indo-Pacific region, among other future markets.

Gulf Cooperation Council (GCC)

In October 2021, the UK launched a consultation on trade with the GCC. Total trade value between the UK and the GCC reached £30bn in 2020, but Westminster hopes that a new agreement will provide a sophisticated framework for trade specifically in emerging industries, as well as updates for goods and services that have become central to the trading relationship between the partners. Negotiations look set to begin in 2022 and the topics high on the list of priorities will likely be agriculture and the food and beverage sector; technology, life sciences and digital trade; and renewable energy and infrastructure. The UK also hopes a new agreement will deepen its engagement with the GCC's healthcare and education sectors. The GCC is composed of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

SMES

Going abroad

International expansion is a tricky business for SMEs. They must establish local relationships, build brand recognition, overcome language and cultural barriers and grapple with administrative burdens. But the harvest could be well worth the toil. Here, three small businesses offer some timely tips to help ambitious SMEs make a success of overseas expansion

Alec Marsh

Westend61 via Getty Images

Brompton

Fast becoming one of Britain's great exporting success stories, the tale of how the west London folding bike-maker Brompton went global is down, it seems, to serendipity. Its first export market was built by the passion of people who bought the bike when they lived in London, according to CEO Will Butler-Adams, and then took it – along with the lifestyle – home with them. That's how the firm's first overseas business began in places like Holland and Germany.

When Butler-Adams took over Brompton in 2008 it was making 6,000 bikes a year. He said they would get that to 25,000. "It was clear we couldn't do that in the UK alone," he says. "We knew enough from the experience that we had in the Netherlands and Germany that this bike that Andrew [Richie] had created was relevant to different cities. It wasn't just a London thing."

Armed with that insight Butler-Adams got airborne, visiting places where he thought "this bike could do OK". Don't overthink it, he advises, don't waste time on elaborate plans and strategies – just fly economy and "go, go, go". Talk to people, have meetings. Listen. Then come back and if you still think it could work, then invest time and effort fleshing out a plan.

This, broadly, is what Brompton did across the world, building businesses with sole distributors operating in dozens of territories – people they believed with the passion to build the brand in each market. "The first phase was to get on a plane and travel," says Butler-Adams. The second phase was to bring the distribution in-house: "Eventually we wanted to grow faster than they [the distributors] could." So from around 2005, Brompton began buying out the distributors, and working directly with retailers in markets – a model now established in more than 16 territories, including Japan ("A real test for us," says the CEO).

The firm went to mainland China in 2010 and now sells around 15,000 bikes there, through a franchise partner, partly to keep down investment costs. In the US, Brompton is using its own store network. In Germany, the firm works with the existing retail network.

Fully 75% of the 100,000 bikes that the firm makes in Greenford are exported to some 48 countries worldwide – but Butler-Adams is clear that's not good enough. "Look at the markets we're in," he says. "The UK should be 3% [of sales] not 25% on a pro rata basis." His new goal is for sales in Germany, China and the US to exceed UK levels within five years. That's driven by autonomous boards with a non-executive chair in each territory to galvanise growth. Look at what Dyson achieved, building a multi-billion-pound business sucking dust off the floor. "This product is just as relevant to society and a lot more fun," Butler-Adams says. "We can get to a billion."

Ettinger

When Robert Ettinger joined the family business, the luxury leather goods manufacturer Ettinger, in 1990, he packed his suitcase and flew to New York. Having made some appointments in advance, he nonetheless found himself pounding the streets, samples in hand, knocking on doors. "It was hard but it worked for us in the end," he recalls.

Thirty years on, the US market, in which the royal warrant-holder's products are available at some 60 outlets, accounts for around 10% of the firm's revenues.

"Although they speak English and you'd think it would be an easy market to move into, it's not," Ettinger says. "We've really worked hard at it; we connected closely with them. Now it's the fastest-growing market in the world for us."

As well as heading over there once or twice a year, Ettinger's team keep in close contact with their US customers by regular telephone and Zoom calls. With bigger clients the firm also provides special collections of 'dual-branded' items with distinctive leather colours which are therefore exclusive to those brands. They've also engaged a New York-based PR firm and advertise there. "You just have to get the name out there in America and keep on shouting," he says.

For Ettinger, whose grandfather founded the firm in the UK in 1934, this international outlook is in the blood. "We've always been keen travellers as a family," he explains. In the 1960s, his father took the brand to Japan, "before almost anyone was over there selling our sort of product or any luxury product there". Today Japan is Ettinger's biggest global market, accounting for 12% of all sales, and through its sole distributor, whom Robert began working with 25 years ago, the brand has two standalone stores in Tokyo.

Outside Japan and Korea, where Ettinger also has a distributor in place, the firm sells directly to retailers, including across mainland China, which it entered in 2014 and where Robert believes could be bigger than the US or Japan. The biggest sales outlet for the brand now, though, is its website through which it commands nearly 30% of all sales – and these go anywhere in the world. In all, 90% of the luxury goods made in the firm's Birmingham factory are exported.

The crucial thing, Ettinger says, is not to be daunted by the task. "Do your research," he says. "Embassies have staff who will assist in selling and even help find retailers or sole distributors. Go on a trade mission. You need some help to start and the government has very good ways of doing this."

> Embassies have staff who will assist in selling and even help find retailers or sole distributors

Chapel Down

For English winemaker Chapel Down, exports are still relatively small beer. After all, it's been the work of the past 20 years to crack the UK market and change consumer attitudes here. But having been served at Buckingham Palace and 10 Downing Street, and with distribution established in the likes of Waitrose, Marks & Spencer and Sainsbury's, it is clear that this is one English sparkling wine producer that has found its feet.

Yet while Kent-based Chapel Down is still eyeing up domestic growth – the chief marketing officer Mark Harvey says English producers supply around 4.5 million of the 200 million bottles of fizz Britain guzzles each year, compared to around 20 million coming from Champagne – attractions abound from growing its global footprint.

The first benefit, of course, is the prospect of additional sales. So Chapel Down is targeting the 10 biggest champagne-buying markets in the world, the largest of which is America.

"The biggest opportunity for us all in English sparkling as a category is the US," Harvey explains, noting that it is also somewhere that 'brand Britain' plays well. "The early traction when we started to export before Covid was strong and it's really starting to pick up again now that most of the restrictions have been lifted. I think, long term, the US is the interesting market where we can scale up."

Chapel Down began working in the US in earnest in 2017 and does so by approaching wine opinion-formers – sommeliers at super-premium and luxury bars, restaurants and hotels, and independent wine dealers, in key cities. In concert, Chapel Down pitches its vintage Three Graces traditional method sparkling wine, selling it at the same price as the main French Champagne houses sell their non-vintage product.

"That approach really clicked," Harvey says, noting that the US now accounts for half of exports. "Sommeliers are interested in the fact that it's from a relatively new wine-growing region – so they're engaged in the story – and in terms of the proposition for their customers, that's bang for your buck."

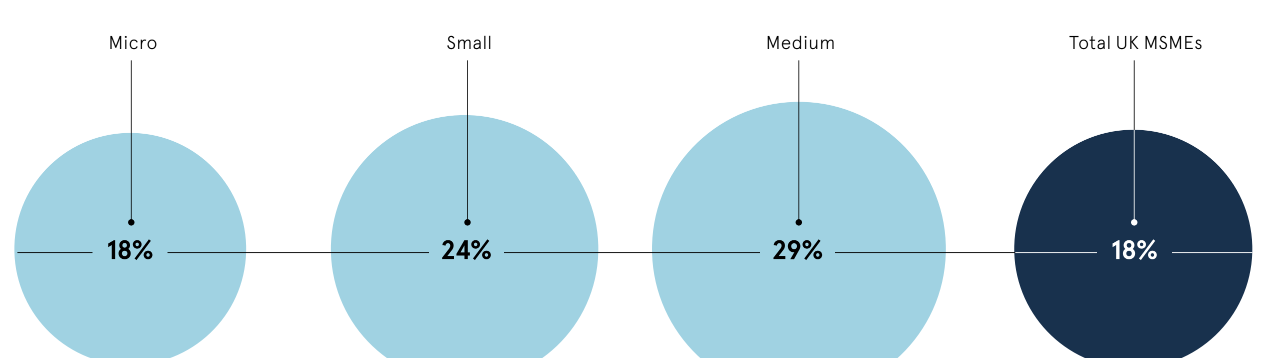
The rest of the world is still perhaps 15 years behind Britain in its appreciation of English sparkling wine, believes Harvey, so there's a large untapped market. As a result, Chapel Down aims to make exports a tidy 5% of its sales by 2026.

The key, says the marketing chief, is to remain focused on the most important cities and build there – thereby avoiding the trap of low volumes in too many markets. The international approach will also reap other rewards.

"Having listings in high-profile accounts in key cities around the world is powerful," Harvey says. "Many of our customers travel and to see Chapel Down in top restaurants in New York, California or Hong Kong is all positive for the brand." ●

SMALL-TIME EXPORTERS

Share of UK MSMEs exporting goods and services abroad in 2020, by company size



BEIS, 2021

Commercial feature

Reaching new markets in a post-Brexit world

AI, CMS and SEO can help make your international business expansion a success, but Gráinne Maycock, vice-president North America, UK and Ireland, Acolad, explains why employing human expertise is crucial to reaching markets abroad

What does a translation agency do? As Europe's largest language services provider, we often receive this question. Our message is that translation is just the tip of the iceberg when it comes to language services and that you should consider your agency an essential partner for international business. When chosen wisely, your translation agency can be a growth enabler and help you reach new markets.

Naturally, an agency should be good at the basics. You want to work with translators with not only native proficiency, but who live and work in your target market. Language is all about nuance. Only a local can really express your communications in the vernacular. Even in English, you wouldn't expect a Liverpudlian to use the same words as a New Yorker.

It is also vital to employ translators who are specialists in your technical field. Legal texts require a legal expert – the vocabulary is too sophisticated for a non-expert to handle with aplomb.

Language services go far beyond translation. Transcreation is where specialists adapt and localise marketing messages for their home market, moving beyond source content. A slogan used in Denmark may not go down well in Saudi Arabia. A transcreator knows how to retain the heart and soul of the campaign, while ensuring it resonates with your target market.

Above all, we are a consultancy for global growth. Our network of 60 offices in 25 countries, with a network of 20,000 translators, gives us unrivalled insight into world markets.

The mediums through which you communicate are also important. Campaigns often incorporate audio and video. A strong agency will be able to work across all media, creating subtitles and voiceovers to ensure that your message gets across.

Search engine optimisation (SEO) and online marketing is another major part of marketing. An agency can take the lead on your international SEO campaigns, researching keywords and providing strategies to maximise product visibility in a new market.

Where a translation partner can really shine is how they embed with your work practices and simplify processes. Emailing documents back and forth gets old quickly. At Acolad, we can connect to clients' content management systems (CMS) and platforms via an API. This means, for example, we can directly update translations when needed. An ecommerce site may have hundreds of pages to translate. Rather than cutting and pasting words, this integration allows each translation to be automatically updated on the client's site, saving massive amounts of time and labour and eliminating errors. Our library of connectors ensures we can integrate with almost any client platform.

Artificial intelligence and machine learning now play a key role in translation. Documents can be translated in an instant and post-editing by a human can refine the text when needed. Acolad currently employs around 250 experts in our research and development department. Our goal is to combine technology with human expertise.

Translation is therefore so much more than words. Acolad currently offers 70 distinct services, including everything from digital marketing services to quality assurance. Clients rely on us for insights into their target markets and count on us to accompany them through every step of their campaig

So, what is a translation agency? If you want to accelerate exports and crack new markets, it's time to rethink what that phrase really means.

> When chosen wisely, your translation agency can be a growth enabler and help you reach new markets

A partner for global growth

"We have established a solid partnership with the Acolad team in the last year. They currently help us localise our Marketing and Product content into over 10 languages, but they do much more than that. They have played a critical role in partnering with our technical teams and educating stakeholders. They essentially act as our extended localisation team, helping us plant the seeds for scaling our brand, content and product internationally."

Cristina Triviño Castillo,
Head of localisation, Sprinklr

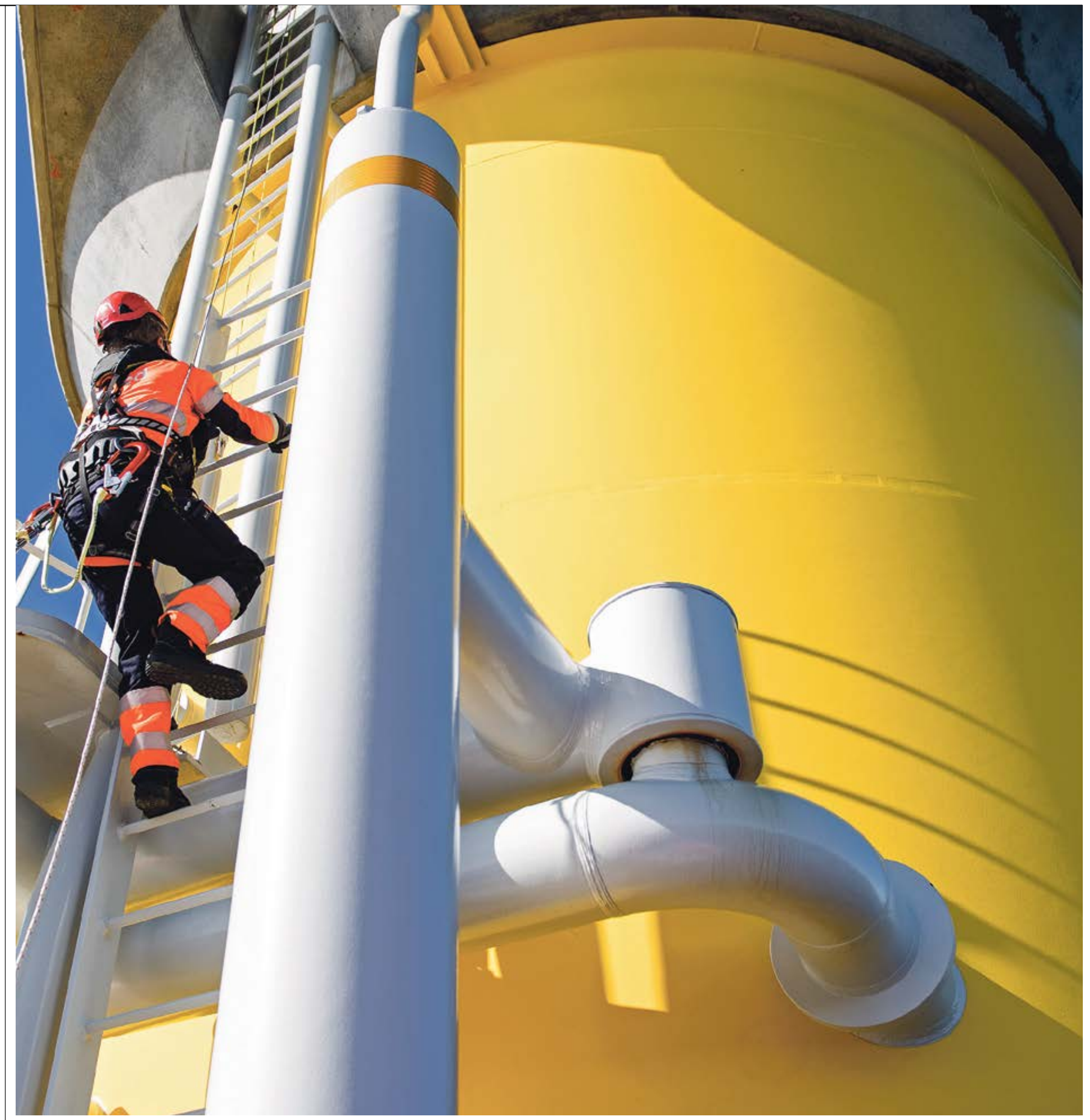
Ready to accelerate your global growth? Visit us at live.acolad.com/en/times

acolad.

Commercial feature

Supporting UK companies with innovative trade finance solutions

UK Export Finance hasn't just explored the world to find the best clean energy opportunities for UK exporters, it can also provide the financial support to pursue them



Between 2020 and 2021, UK Export Finance (UKEF) provided £12.3bn to launch UK exporters into the global supply chains. When private finance vanishes and the market gets tough, UKEF is leaving no stone unturned to help exporters sell internationally.

Supporting over 100,000 UK jobs

If you're an exporter who needs financing, UKEF can help. The sums involved are huge. UKEF provided £12.3bn during 2020-21 alone; 79% of which went to SMEs and all of it involving UK supply chain operators.

The knock-on effect is massive. Up to 100,000 UK jobs were supported by UKEF in just 12 months.

This is because finance makes trade happen. And UKEF provides insurance, guarantees and loans where the private sector will not, backed by the strength of the government's balance sheet, to keep the wheels of trade turning.

This is not just for big business. Last year, individual support was as small as £297, all the way up to £1.1bn. With UKEF's support ready to reach hundreds of global markets, the scale of the potential for UK exporters is massive.

Connecting UK companies with global opportunities

Sometimes knowing the opportunity exists is the first step towards unlocking it. And UKEF connects companies with overseas opportunities in many ways. It helps: UK businesses, large and small, to access the finance, insurance and guarantees they need to export; overseas investors to buy British products and services, with direct lending; commercial lenders to invest abroad, by guaranteeing their loans; UK exporters trade with peace of mind, by insuring them against default; global businesses to expand their UK-based supply chains.

To further connect UK businesses with overseas opportunities and buyers, UKEF hosts supplier fairs. These are one-day events that place relevant UK SMEs directly in front of international buyers, who are actively looking for UK products and services for their overseas projects.

The benefits for the UK are clear. In just one year, UKEF managed to help connect more than 500 UK companies with international opportunities through supplier fairs before the pandemic.

One such company was a Scottish family-run firm, BHC Ltd., which won a £20m export contract to provide 8,000 tonnes of steelwork and 100,000 square metres of metal decking for the Kumasi Market in Ghana after being introduced to a partner at a UKEF-run supplier fair event.

Brian Hewitt, managing director at BHC Ltd says: "UKEF helped us secure this huge international contract. Not only has this helped our business, but it has also bolstered the local economy during these difficult times."

UKEF also has a network of international finance executives that engage with overseas governments and multinational companies looking to buy from the UK, creating trading opportunities for British businesses.

Through financing, UKEF has supported UK businesses to export to a diverse range of projects, these include providing guarantees of £500m to finance several offshore wind projects in Taiwan. One of these, the Greater Changhua 1 Offshore Wind Farm, has a capacity of 605 MW, powering more than 650,000 households, enabling Taiwan to generate 20% of its power from renewable sources by 2025.

Within the provision of these sites several UK companies benefited, including Trelleborgs from the North West and East Anglian-based firm Seajacks. "This contract is an important milestone for Seajacks," says Sebastian Brooke, Seajacks' COO. "This is the second major UKEF-backed project we have supplied in Taiwan, and we are proud that British vessels will be installing these offshore turbines that will help power Taiwan's green energy revolution."

UKEF has become a shock absorber to the markets

UKEF is a pathfinder and treasure hunter for clean energy opportunities in hundreds of countries globally, with over £7bn in sustainable deals since 2019. It is currently ranked first in the TXF global sustainable finance league tables for 2021, among its Export Credit Agency (ECA) peers.

During the pandemic, UKEF stepped up and became a shock absorber to the markets, says Richard Simon-Lewis, a member of UKEF's executive committee with over 20 years of experience working in renewable energy and clean growth sectors: "It increased its capacity to support exports to around 120 markets making it easier to support international projects with long-term growth potential to increase UK trade and create opportunities for British business."

> UKEF helped us secure this huge international contract. Not only has this helped our business, but it has also bolstered the local economy during these difficult times

We'll still offer clean energy finance throughout choppy waters

UKEF has now expanded its support with new and upgraded products that will benefit those in the green economy. It has a hefty £2bn direct lending facility dedicated to financing clean growth projects overseas. It has also introduced more flexible products, the Export Development Guarantee (EDG) and the General Export Facility (GEF), which give companies vital financial backing for their general financing needs, not only those linked to specific contracts.

UK businesses are invited to connect with UKEF's export finance managers around the UK on how to take advantage of these schemes, with UKEF's expertise and opportunities going way beyond offshore wind, solar PV, desalination and healthcare.

Simon-Lewis says: "We know the markets are not magically going to recover following the pandemic. We need to be there for those SMEs and when the going gets tough, we need to keep going and turning stones over to track those opportunities down for these companies in their hour of need."

UKEF promises that this financial support will remain even as the recession bites and private finance is hard to access, Simon-Lewis adds. "We complement, not compete with the private sector, or commercial banks in providing liquidity. When the market tightens up and the tide goes out in terms of risk appetite, that's where ECAs come into their own."

£12.3bn

The amount of money UKEF provided from 2020-21, largely to supply chain operators and SMEs

UKEF, 2022

To find out more, please visit great.gov.uk/trade-finance/

UK Export Finance

SHIPPING

The shipping news

The political landscape resulting from Brexit is yet to provide long-term certainty for British businesses relying on shipping

Brittany Golob

Depending on the port of call, the shipping forecast for post-Brexit trade ranges from bleak to slightly concerning to business as usual. The challenge is a pervasive cloud of uncertainty that hangs like a pall over the Irish Sea.

The political backdrop perpetuating this is the 2019 Northern Ireland Protocol, which effectively proposed a border in the middle of the UK, drawing a line in the sea between Northern Ireland and Great Britain to impose customs checks on goods shipped from the EU to the UK.

Businesses relying on shipping – and with 95% of goods imported and exported into and out of the UK via maritime ports that is a significant number – have had to adapt to these shifting tides.

Goods that may have once gone through the Calais land bridge or through south-eastern UK ports are now finding their way to the UK via northern ports like those in the Humber or via Ireland and Northern Ireland. "The real issue is that the border has created things in people's minds about problems," says the UK Chamber of Shipping's director of policy Peter Aylott. This, he says, has resulted in companies predicting disruption due to Brexit and pre-emptively changing their shipping patterns to keep trade moving.

Aylott adds that they know at the front end that the market is distorted by companies taking pre-emptive decisions to prevent disruption due to Brexit, the pandemic and the war in Ukraine. But, he says: "We're still seeing issues where there have been consignments of foodstuffs in France that have been refused."

One of the main industries affected by this uncertain political and economic landscape is the food and beverage sector. Customs checks on food and beverages, which were due to begin for items arriving from the EU – or from Northern Ireland – in July 2022 have now been postponed again until 2023.

Industry bodies and companies alike have clamoured for these checks to ensure the safety of food products. That need has to be balanced with the challenge of where customs checks will occur and the delays they may add to the process. But, with Northern Ireland's role in post-Brexit trade still uncertain, companies are still left at sea in terms of planning.

A spokesman for the British Meat Processors Association, which represents the meat industry, said the landscape was too uncertain now to determine what will come. "Nothing has changed," he says. "The government signed the Northern Ireland Protocol in 2019 and there's been a lot of talk about a variety of things that could happen. But we have a series of hypotheticals."

He did add, though, that companies have adapted to the new normal in post-Brexit trading, and while frictionless trade would be more effective, decisions at the company or industry level will have to wait until the government determines its customs strategy. "We're in a wait-and-see pattern. Even if the UK government did act, there would probably be a long lead-in time. It's hard to look that far forward."

Addressing the challenges facing the food and beverage industry, Stuart Machin, COO of Marks & Spencer, and a cohort of co-signatories from across the sector wrote directly to the prime minister to appeal. The letter states: "As we look ahead to 2022 and beyond, we need to continue that [government-food industry] partnership to build a sustainable, resilient food sector for the long term." And one of the key issues highlighted in the letter is "frictionless trade for Northern Ireland and EU goods movements".

"We need a long-term sustainable solution for goods movements into Northern Ireland," the letter says, outlining technology that could facilitate easier transfer of goods without delays or product loss due to customs controls. This would entail "an audit scheme with requests from certification and physical checks based on risk and specific intelligence, and penalties for failure".

The London School of Economics Centre for Economic Performance found in April that imports from the EU to the UK since the implementation of the Trade and Cooperation Agreement decreased by 25% relative to global imports to the UK. Because of the delay in the implementation of customs checks, the trade agreement and the Northern Ireland Protocol are still causing uncertainty.

But the systems are in place to deal with shifts in trade patterns, whatever the political outcome.

There are several indicators pointing to a shift in shipping patterns, in some cases seeing goods moving through Irish or Northern Irish ports or UK ports other than in the South East. The rate of goods passing through Dover had steadily increased from 25% of the total share of imports in 1992 to a peak of 46% in 2017, according to research by the University of Hull. The Brexit referendum in 2016 may have caused that pre-emptive resilience planning on the part of importers and exporters to shift goods to a more diverse range of ports. The share of goods passing through Dover in 2020 was 38%. Department for Transport data from 2020 – due to be updated for 2021 this September – notes that London processed the most tonnage at 47.4 tonnes, followed by the Humber port of Grimsby & Immingham with 45.6 tonnes.

Dafydd Williams, head of policy, communications and economic development (Humber) at Associated British Ports (ABP), has noted a shift in customers shipping through Humber ports instead of the South East because of the pandemic, Brexit and the need to ensure resilience in the supply chain. ABP has invested in the infrastructure supporting its Humber ports and sees its free port status and location remain a motivator for trade with Europe.

"For trade that flows through the central and northern parts of the UK, it's quicker and cheaper. A lot of logistics operators have started to work that out, so we think the flow is partly a longer-term shift and partly a response to some of the concerns about conditions," Williams says.

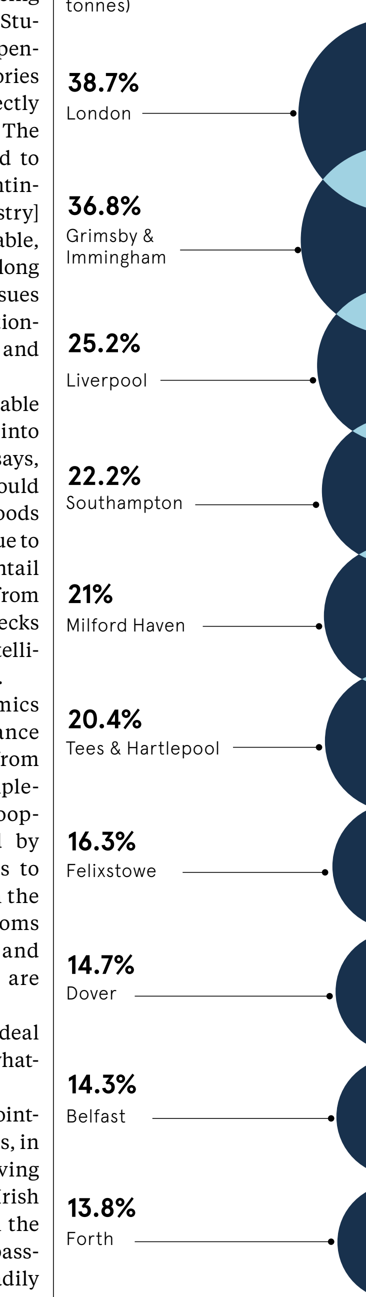
> Even if there was action by the UK government, there would probably be a long lead-in time before anything happened. It's hard to look that far forward

Williams and Aylott both note that shipping's resilience shone through the Brexit and pandemic period. Regarding the political landscape, Aylott adds: "The facts are that during the pandemic, the UK and Ireland and most of Europe didn't starve. That's the success of shipping."

With a new government in place in Stormont and the further delay in the implementation of customs checks on EU imports, the seas remain stormy. But shipping will, as Aylott says, keep sailing.

TRAFFIC CONTROL

Leading UK sea ports by freight handled between Q1 and Q3 2021 (in million tonnes)



GOV.UK, 2021

FREE TRADE

Continental market shifts

The revival of a centuries-old partnership is carving out new economic pathways for a post-Brexit Britain

MaryLou Costa

A colonial UK and Australia were once firm trading allies. It's said that in the 1880s, less than 100 years after the British colonised the famed 'land down under', the UK was the source of 70% of Australia's imports and the destination for up to 80% of exports.

The 20th century painted a different picture. Australia, keen to prove its independence, began favouring trade deals with the US and Asia, while the UK gravitated towards its European neighbours.

Yet 2021 saw this partnership revived, with the new UK and Australia deal becoming the UK's first official new free trade agreement (FTA) since exiting the EU. The deal, which is expected to increase UK GDP by 0.08%, ushers Britain into a new post-Brexit era ripe for capitalising on the southern continent's rich agricultural, mineral and energy resources – not to mention incentivising young Australian workers to help plug the former 'mother country's' talent gap, in a period when job vacancies outnumber candidates.

It also points to strengthening ties with Asia, setting a precedent to establish more bilateral agreements.

But how do these new opportunities stack up?

Tariffs averaged 2.8% for UK firms importing from Australia and 2.4% for Australian firms importing from the UK before the FTA was agreed, notes Ana Boata, global head of macroeconomic and sector research at Allianz Trade. The FTA removes these, Boata confirms, estimating that UK businesses can expect export gains worth up to £150 million a year.

"Those in the UK's automotive, machinery and equipment, and agrifood sectors are set to be the biggest winners. Meanwhile, Australian exporters of precious metals and stones – as well as standard metals – are currently accounting for two-thirds of the UK's imports," she says.

Yet, before getting ahead of ourselves, Boata adds that the real rewards won't be reaped until next year, as supply chain bottlenecks are expected to prevail until then.

Bilateral trade agreements can also lead to the homogenisation of standards and regulations that are much needed following the pandemic, says Irina Surdu, associate professor of international business strategy at Warwick Business School. Many of the problems and delays experienced during the pandemic in industries such as medical device manufacturing and pharmaceuticals, she adds, have been related to red tape, as well as varying policies and legislation in the medical sector. A trade deal with Australia could also help safeguard the UK from the energy crisis, spurred by Russian sanctions, by tapping into Australia's resources.

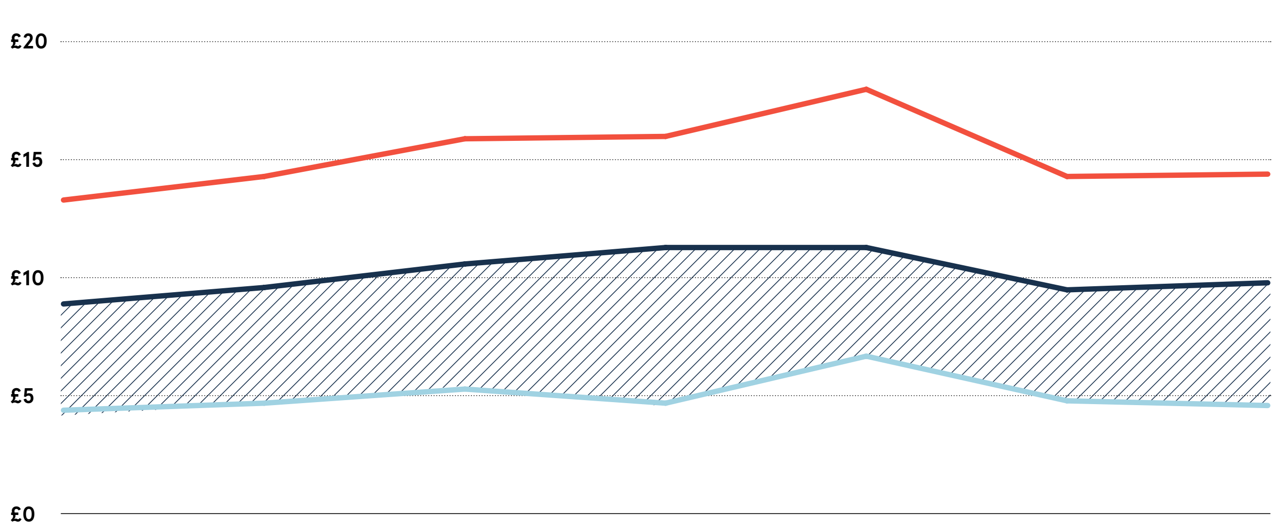
"So, exchange of knowledge, technologies and expertise is most welcome and would reduce the costs of moving forward in these industries," she says.

> **This is an important step towards meeting the Global Britain vision that Brexit promised but is yet to deliver on**

Boris Johnson meets with then Australian PM Scott Morrison, preparing to announce the UK-Australia Free Trade Agreement

TRADING DOWN UNDER

The UK's trade with Australia (billions)



DIT, 2022

With the UK experiencing labour shortages in highly skilled industries such as financial services and technology, Australian talent could more easily plug the gap under the new FTA, Boata suggests.

Jonathan Beech, managing director at immigration law firm Migrate UK, outlines some of the new reciprocal options. Australians on the Working Holiday Makers programme will have expanded rights. They will be able to stay in the UK for up to three years with an increased cut-off age of 35, and vice versa for UK nationals going to Australia. More straightforward sponsorship requirements are also on the table. UK companies will be allowed to sponsor Australian professionals under certain visas, without needing to prove that a UK national could have been hired instead.

Professional qualifications will be better recognised across each market, with increased collaboration between accreditation and regulatory bodies.

Meanwhile, Australians interested in undertaking work in agriculture and agribusiness in the UK will benefit from more visa pathways.

"With the lack of restrictions and easy application process, plus potential to switch into a longer-term immigration status, the proposals look attractive," Beech says.

Perhaps the most lucrative opportunity that the FTA between the two countries opens is the door for the UK to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Consisting of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, the partnership brings 10 additional markets for UK exporters to target.

The appeal is evident. According to McKinsey, Asia as a whole is forecast to account for 52% of the world's purchasing power by 2040 and is economically currently worth £8.4tn. The UK government has reached the second phase of its negotiations to join the bloc. Once admitted and with Australia's support, it means many exports to member states will become tariff-free – a huge boon for UK businesses, Surdu says.

> **The world economy increasingly centres on the Pacific region**

"UK businesses have taken a hit during the pandemic and desperately need to be able to find new market routes for their services.

"Most notably, the CPTPP has developed a manual for how digital trade should work effectively. This is an important step towards meeting the Global Britain vision that Brexit promised – but is yet to deliver on," she says.

This is tipped to lead to a £460m uptick in annual export gains for British exporters, Boata estimates. This is thanks to the move not only increasing demand for UK goods but also ensuring that UK businesses are in a better position to expand their digital reach into CPTPP markets.

Meanwhile, new membership applications from China, Taiwan and South Korea mean that the CPTTP is set to "emerge as an influential forum for the setting of international regulatory standards and rules in areas such as digital trade and cross-border data flows, that are relevant to an increasing amount of global trade," according to a statement from multinational law firm Pinsent Masons. A UK government announcement acknowledged that joining the CPTPP "puts the UK at the heart of a dynamic group of countries as the world economy increasingly centres on the Pacific region".

As individual post-Brexit deals with New Zealand and Singapore have quickly followed that with Australia, precedent is being set for additional deals of this nature to be negotiated. It's in the UK's interest to do so, Surdu says. Industries such as renewable energy, military and civil technology, computing, artificial intelligence, as well as pharmaceuticals and medical equipment, are seeing a rise in vertical integration (supply chains becoming owned by one parent company) and reshoring, as national security requirements have heightened.

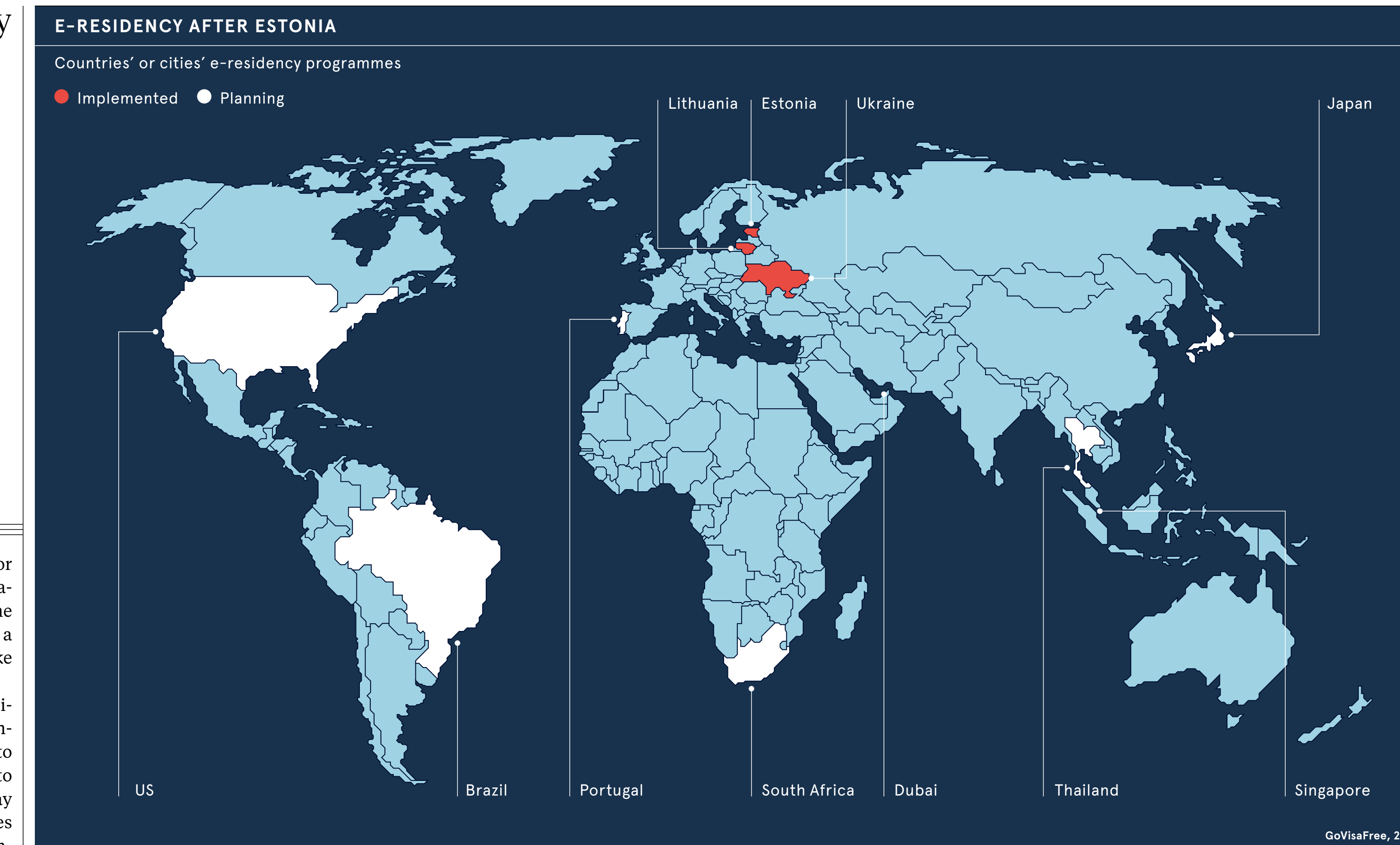
"In this context, trade agreements serve as routes to avoid trade barriers and share knowledge and expertise that may reduce the costs of doing business and growing new industries," Surdu explains. "As countries seek to build country-specific advantages in certain related industries, such as digital, financial services, more of these bilateral agreements are expected between the UK and other nations."

Whether the UK-Australia trade partnership has been renewed in light of or despite the two nations' shared and often controversial history now seems irrelevant. Both countries stand to gain significantly from creating space between the partners they came to rely on in the recent past, and forging a future together. ●

BORDERS

Estonia is the gateway to UK-EU trading

Estonia’s e-residency scheme allows Brits to found a company in the EU in the simplest way possible



Charles Orton-Jones

Everyone loves a shortcut or life hack. For UK companies looking to improve the way they trade with the EU, a scheme offered by Estonia looks like one of the best around.

Estonia is the pioneer of e-residency, a sort of honorary citizenship. With it comes the ability to open a company in Estonia, able to trade across the EU. It does away with paperwork, stopping invoices pinging over the EU-UK border, simplifies tax and admin and, most remarkably of all, can be done without even leaving our own shores. Creating an Estonian company via e-residency is becoming the most efficient way to trade with the EU.

One entrepreneur to take advantage is Rhian French. She’s the founder of a PR agency called Three Trees and a Map, which operates in the niche area of digital mapping and geospatial industries. Her clients include Ordnance Survey, Brussels-based EuroGeographics and German satellite imagery company UP42. When it became clear the UK was leaving the single market, French realised her business was at risk.

“My clients are mostly in Europe and they were concerned about the complexity of buying services from the UK,” she says.

Then, at a conference, she heard a delegate from Estonia mention the e-residency scheme. It had attractive details. Estonian e-residents are supplied with an Estonian ID card, which brings access to 5,000 online services. One of the options available to e-residents is the right to found an Estonian-registered company via the nation’s legendarily slick online interface. A key detail is the absence of any physical requirement – it can be done remotely. In fact, e-residents gain no physical rights at all: visa requirements to live and work in the EU are unchanged.

She researched various post-Brexit strategies. “It was daunting,” French says. “Terribly grown-up and complicated. So I looked at Estonian e-residency.”

She applied in early 2020. Was approved. Picked up her card. And then founded a new company in Estonia. “I thought I’d misunderstood. It was so easy. I couldn’t quite believe it was the answer.”

To make life even simpler, she used the official website to find an agency which specialises in helping freelancers and small firms, called Xolo. “It was so quick and efficient,” says French. “I’m not one for giving away free publicity, but they are fantastic.”

She connected her Xolo account with a euro bank account provided by fintech company Wise. Now she can invoice her clients in euros from her new Estonian company.

“I couldn’t work without it,” she says. “I take a monthly salary, as advised by Xolo, who sort out my invoices and VAT. It really is straightforward for someone who is into words, not numbers.”

And she still hasn’t been to Estonia: “I’m desperate to visit. My expectations are set very high!”

So who is the scheme right for? The Estonian e-residency team is admirably candid about what it can and cannot do. You cannot, for example, evade rules of origin regarding manufactured goods. Nor can you evade tariffs or quotas, where applicable.

“We have two big groups using it: business consultancy and IT,” says Katrin Vaga, a spokesperson for the Estonian e-residency scheme. “Anything involving digital services, digital products, and ecommerce.”

Estonia offers a 20% flat rate tax on dividends. If profits are retained, there is no tax to pay. Whether taxes are payable in the UK or Estonia requires a tax specialist to advise. “E-residency doesn’t mean automatic tax residency”, Vaga says. “If you establish a company through e-residency and you are based in the UK your personal taxes are still paid in the UK. Corporate taxes depend on your business model.”

The line is that Estonia isn’t a tax haven, it’s an admin haven. The Tax Foundation rates Estonia as number one in the world for tax efficiency, calculated across 40 metrics. Paper and crude PDF forms were eliminated years ago. HM Treasury can only dream of Estonia’s digital mastery. This is a nation where 99.6% of bank transactions are done electronically, and 96.3% declare income online.

Estonia is so efficient at tax and corporate law that 40% of new companies in the country are formed by EU residents, with Germany the number one source. It says something that Germans would rather register a company in Estonia than their homeland. There is a parallel with Delaware in the US, where two-thirds of the Fortune 500 are registered. “We have some research comparing us to Delaware,” reveals Vaga – currently yet to be published, but likely to be favourable, judging by her huge smile.

> **I thought I’d misunderstood. It was so easy. I couldn’t quite believe it was the answer**

Are there any rivals? Portugal is launching e-residency. Lithuania launched e-residency in 2021, with upgrades planned for summer and is modelling its scheme on Estonia’s. The Lithuanian minister for the economy and innovation, Aušrinė Armonaitė, says, “Lithuania is implementing the e-residency scheme starting in July.

“Entrepreneurs in the UK will be able to establish a company in Lithuania without stepping out of their offices in London. Our aim is to minimise the bureaucracy associated with incorporation and running a company which comes as part of the mission to make Lithuania the most entrepreneurial nation in the EU.”

The economic gains brought to Estonia by e-residents is a clear motivator. One in five new Estonian companies is established by e-residents. “Lithuania is committed to supporting our new e-residents,” Armonaitė says. “We want them to start with e-residency and use that as a bridge to learn more about our country, and maybe in the future to visit and invest.”

So far 4,048 Brits have taken up Estonian e-residency, with 857 companies started. For French, it has been a life-saver. “I want to travel to Tallinn and thank the e-residency team personally,” she says. As word spreads, she won’t be alone.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