

Beyond the headlines

UK business, Brexit and international trade

An insights-based report from London First and EY
April 2021



Foreword

The UK is embarking on an independent trade policy for the first time since 1973. Leaving the European Union's Single Market and Customs Union on 31 December 2020 marked the largest change to the UK's international trading environment for a generation which came against the backdrop of another exceptional event: the Covid-19 pandemic.

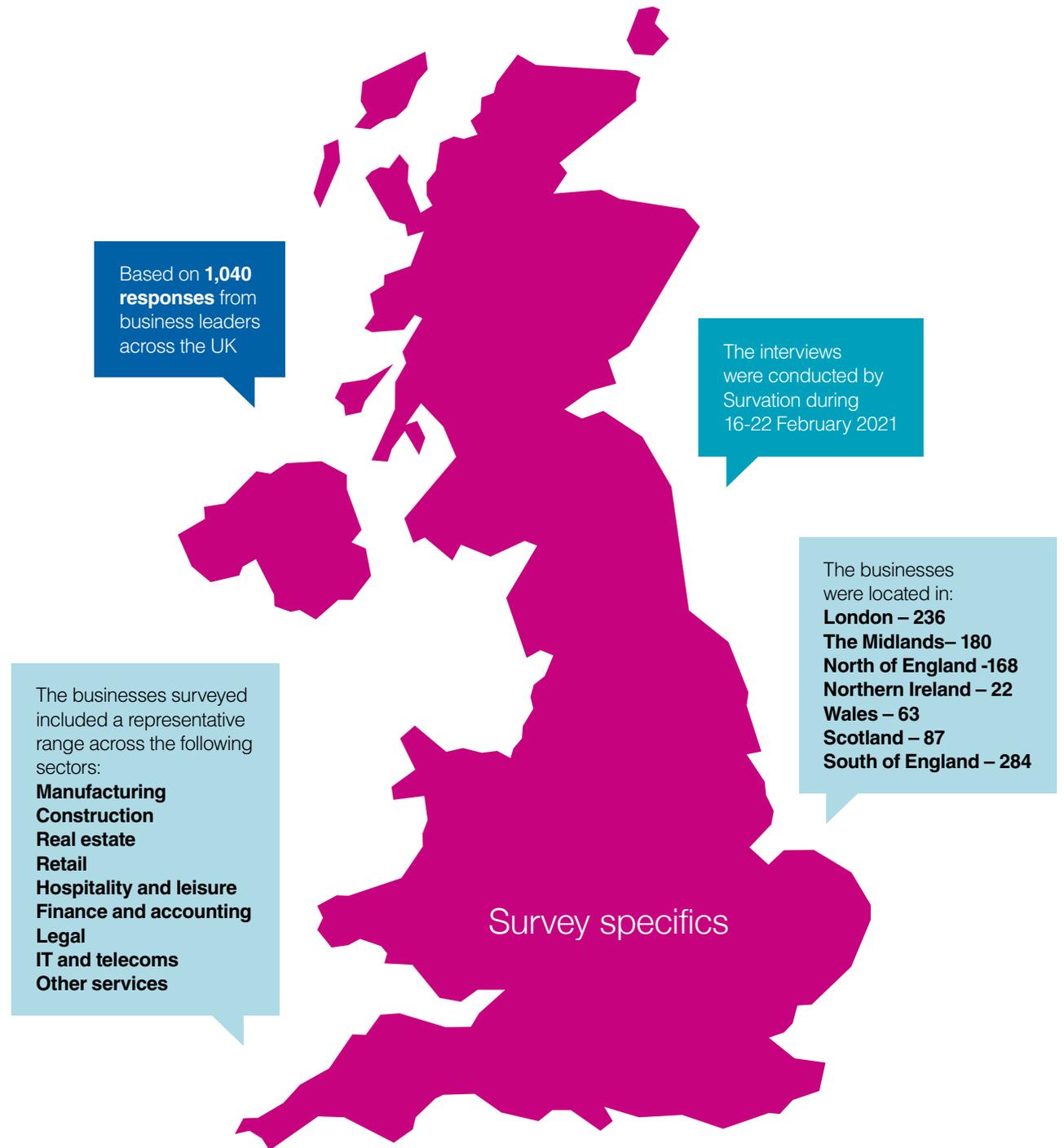
In this report, we have focused on the challenges businesses are responding to as they adapt to these changes. For businesses operating in, and across, the UK we hope that this report helps to shine a light on what is needed to help them overcome disruption and harness opportunities. It is our hope that it will also help policymakers to tailor their responses when engaging with businesses and highlight where more focus is needed as the trading environment evolves and additional trade deals are agreed.

We are pleased to have worked with London First on this survey looking how UK businesses are adapting to these challenges and looking to seize new opportunities.



Sally Jones

Partner, Trade Strategy, EY



Executive summary

The last 12 months have had a dramatic impact on how we live and do business. The lion's share of that change has been driven by the pandemic but the impacts on business of transitioning to a new trading environment should not be underestimated. Nearly three quarters of firms have been experiencing disruption, some short-term, but with a worrying sense that these impacts may persist into the longer-term. Action needs to be taken now to enable the positives to be harnessed: around a quarter of businesses are looking to engage in new markets and, with the right support, that number could grow.

As Government sets its eyes firmly on the recovery and on reinforcing Global Britain, this highlights the importance of tackling the immediate impacts of Brexit and helping firms to move into a stronger trading position. Our data shows that while there is no silver bullet, up-to-date detailed guidance from Government, alongside a helpline for more nuanced advice coupled with the right financial support, would help businesses, particularly SMEs, to adjust. It is critical to put UK businesses in the strongest possible position now, so that they can take advantage of the positives and move towards recovery.

We found:

Navigating the new trading relationship between the UK and EU

75% of businesses surveyed were experiencing some form of disruption to their business following Brexit. This is despite 71% of businesses saying that they felt prepared for Brexit prior to the end of the transition period. 49% of businesses expect the disruption to continue over the long-term.

Impact not yet realised for services businesses

The highest levels of disruption (29%) were felt in the regulated services sector, which includes finance, accounting, legal services, IT and telecoms. These new barriers include restrictions on the mobility of personnel, EU Member State-specific market access barriers and the uncertainty caused by unilateral regimes such as the data adequacy decision needed for data flows and financial services equivalence.

The types of disruption

A significant percentage of businesses reported that the following areas were causing disruption to their operation, customs and supply chain (72%), tax and VAT (70%) and regulation (68%). 43% of those citing customs as an area of disruption said that the changes have led to delays in their goods.

Increasing costs

Nearly a third (29%) say that their cost base has increased as a result of the disruptions or having to source from new suppliers. Of those experiencing an increase to their cost base, nearly half (49%) said they will need to pass costs on to customers.

Impact on people

62% of businesses reported that they will be impacted by the new rules governing business travel between the UK and EU due to the new restrictions on what activities can be undertaken without a work permit. Businesses have also already felt the impact of the new immigration system in their recruitment practices, with 22% reporting that they have faced difficulties attracting international talent to UK positions.

Looking to international markets

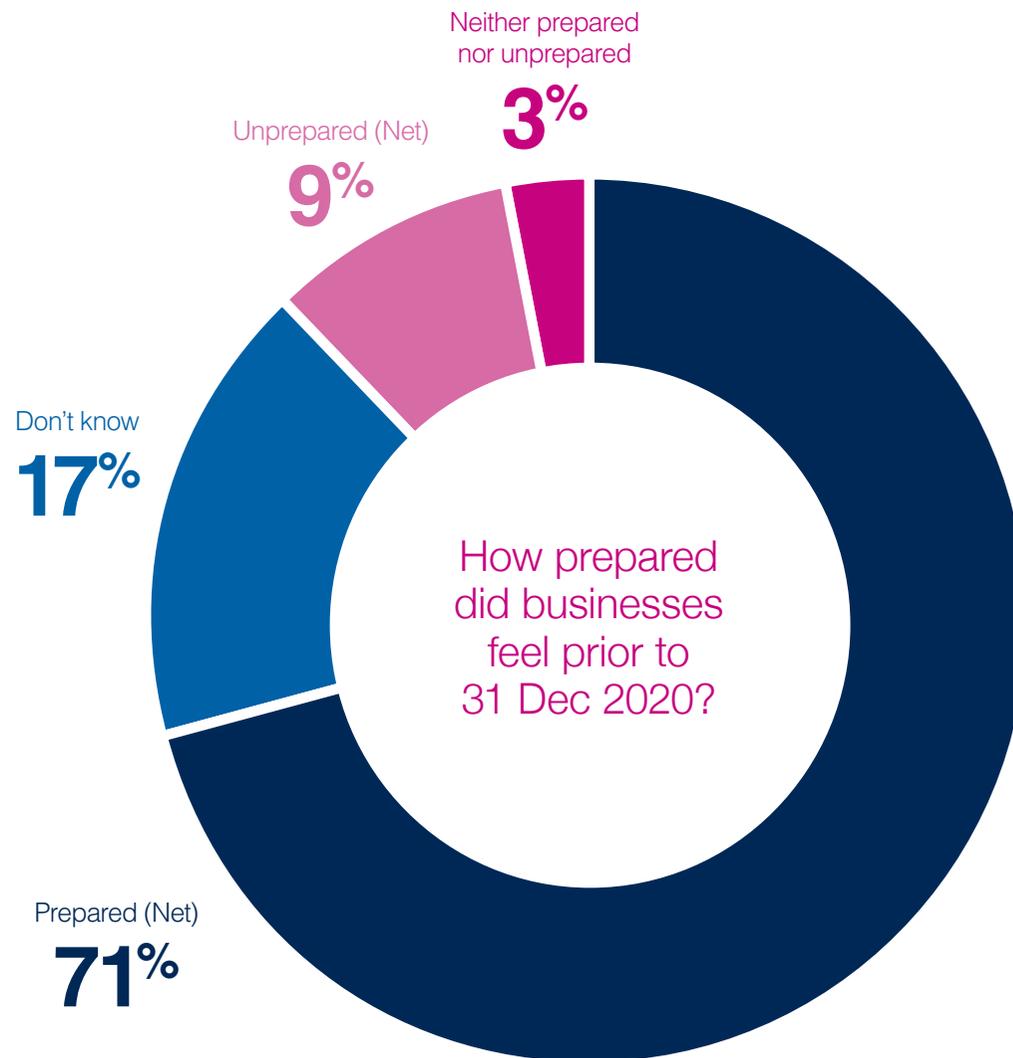
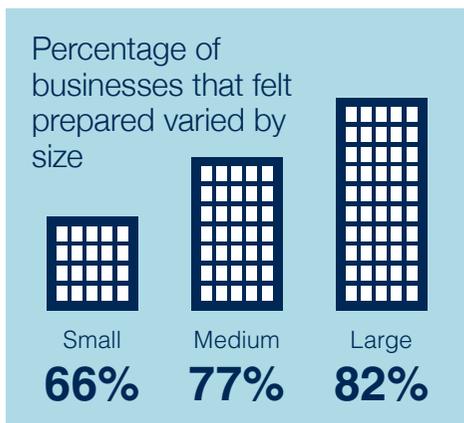
Just over a quarter (26%) of firms now say they have a better understanding of how to access new markets around the world, while 24% say they now see Brexit as an opportunity to diversify their activities and products. Just over a quarter (26%) of businesses want to see the UK Government negotiate more ambitious trade agreements.

Expectations vs reality of Brexit

London First and EY conducted research into the immediate impact of Brexit on the international trading environment and UK businesses' current expectations for its longer-term impact. It's clear that an overwhelming majority of UK businesses have been impacted, with 75% experiencing disruption and one in five businesses experiencing high disruption. Overall, 22% of businesses currently anticipate a decrease in their trade with EU markets.

This level of disruption will have been frustrating for the 71% of businesses who felt, at the end of the transition period, that they were prepared. There might have been a gap between expectations and reality, which may have been exacerbated by the last-minute nature of the final agreement.

Clearly, their preparations were not enough to shelter them from difficulties; it's a moot point whether the preparations themselves were insufficient or whether businesses did as much as they possibly could to get ready but some disruption was inevitable.

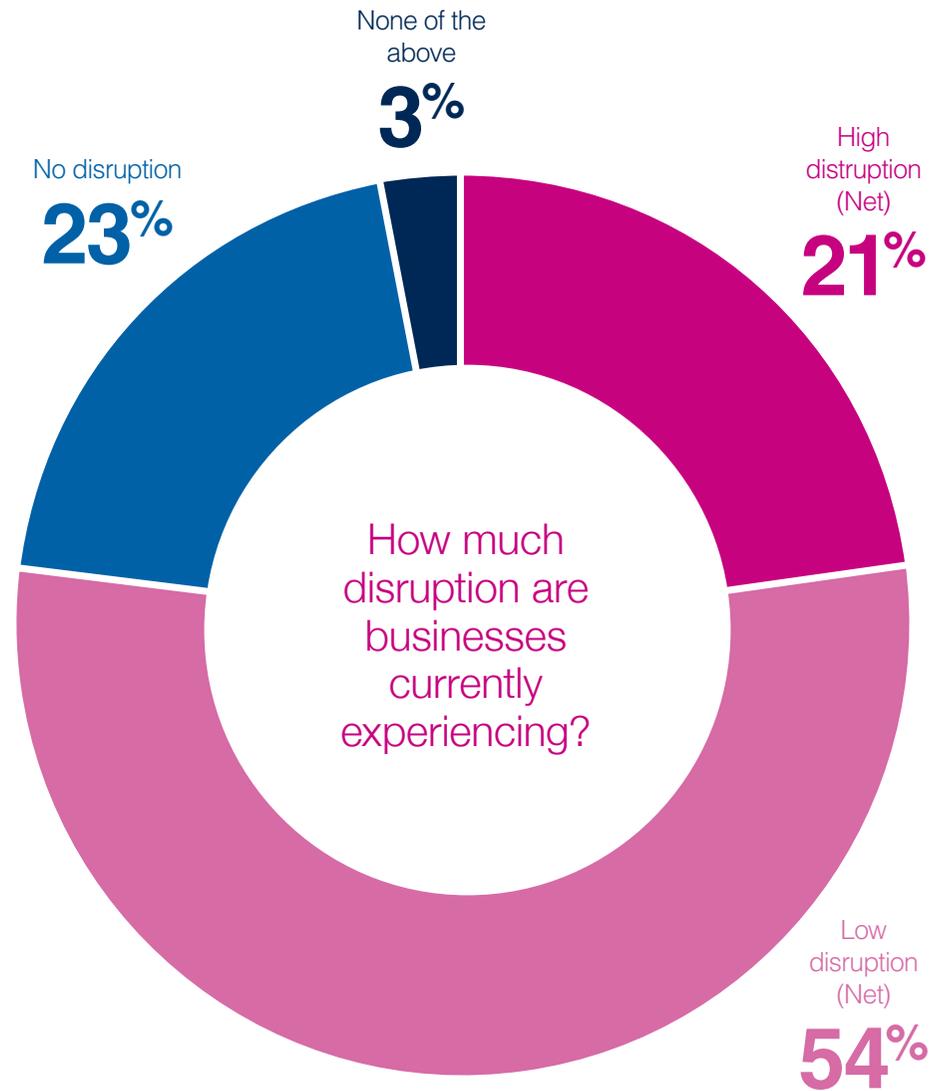


Brexit-related disruptions

In reality, we expect that the levels of disruption experienced will have been impacted by several factors. It seems inevitable that the fact that crucial guidance detailing how the new trading arrangements between the UK and EU under the Trade and Cooperation Agreement (TCA) was only published days before going into effect was unhelpful.

Information from business groups, including trade associations, was cited as the most useful source of information on the transition.

Large companies tended to account for more of those who felt they had an adequate or high level of preparation as well as those who found official sources more useful. This would suggest their greater ability to dedicate resources and personnel to preparations was a significant factor in how well they managed.



Sectors and regions experiencing disruption

The highest levels of disruption (29%) were felt in the regulated services sector, which includes finance, accounting, legal services, IT and telecoms. This is in part explained by the industry-specific barriers that have arisen and the relatively low-levels of access secured as part of the TCA.

These new barriers include restrictions on the mobility of personnel, EU Member State-specific market access barriers and the uncertainty caused by unilateral regimes such as the data adequacy decision needed for data flows and financial services equivalence. While the current focus of both the media and Government is on the physical flow of goods between the UK and EU, the UK's services industry should expect to face more significant impacts after certain restrictions of the pandemic are lifted.

Besides Northern Ireland, London has been experiencing the highest levels of disruption, with 85% of businesses surveyed reporting that they were experiencing some form of disruption. In other regions of the UK, 70% of businesses reported experiencing disruptions.

Percentage of businesses experiencing high disruption by sector



Understanding-types of disruption

Despite the readiness preparations business made before the end of the transition period, serious issues have emerged. Of businesses that were experiencing disruption, 72% experienced problems with their customs and supply chain, and of these 43% experienced delays. 70% of businesses experiencing disruption had issues with their tax and VAT, notably 37% who had to register or re-register with both UK and EU authorities. Some disruptions are anticipated to take longer to resolve. Of businesses who experienced problems, 65% had difficulty with issues around talent, workforce or people.

The businesses surveyed were asked to provide additional details on the exact nature of the cause of disruptions for their operations. The spread of the responses showcases the great variety of challenges businesses were faced with and their different strategies to adapt.

Overview

Customs and supply chain



Tax and VAT



Regulatory and legal processes



Talent, workforce and people



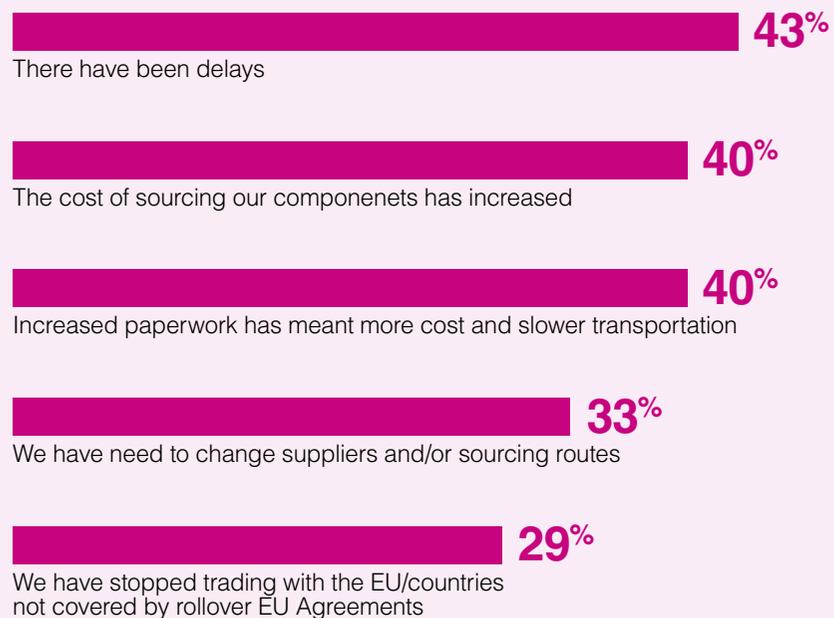
IT, systems and data



Customs and supply chain



Customs and supply chain disruptions experienced:

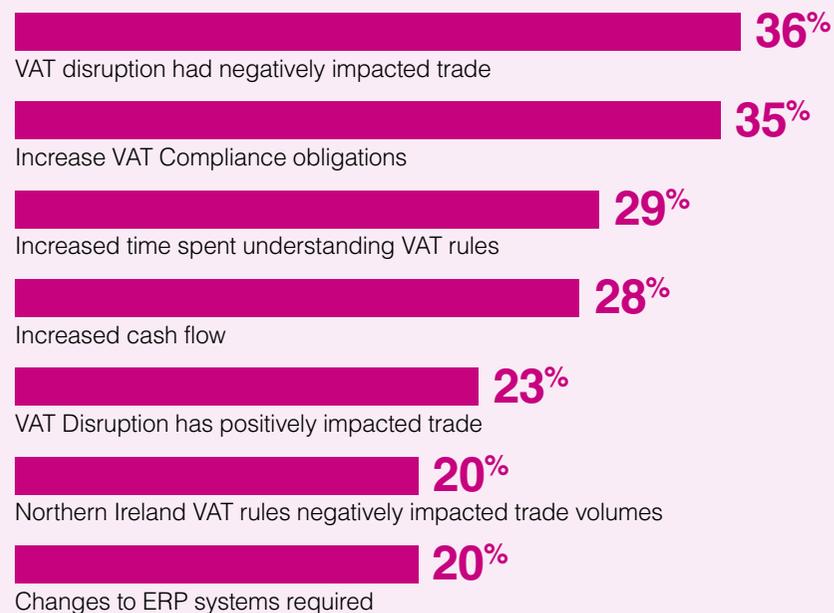


For those who reported disruption in their customs and supply chain, delays were the biggest challenge. In an increasingly competitive world, being able to deliver consistently on time is vital, and smoothing border crossings should be a priority. It is also worth noting that, although it is the least-reported option, 29% of businesses reported that they had stopped trading with the EU and countries not covered by rollover agreements.

Tax and VAT



Tax and VAT disruptions experienced:

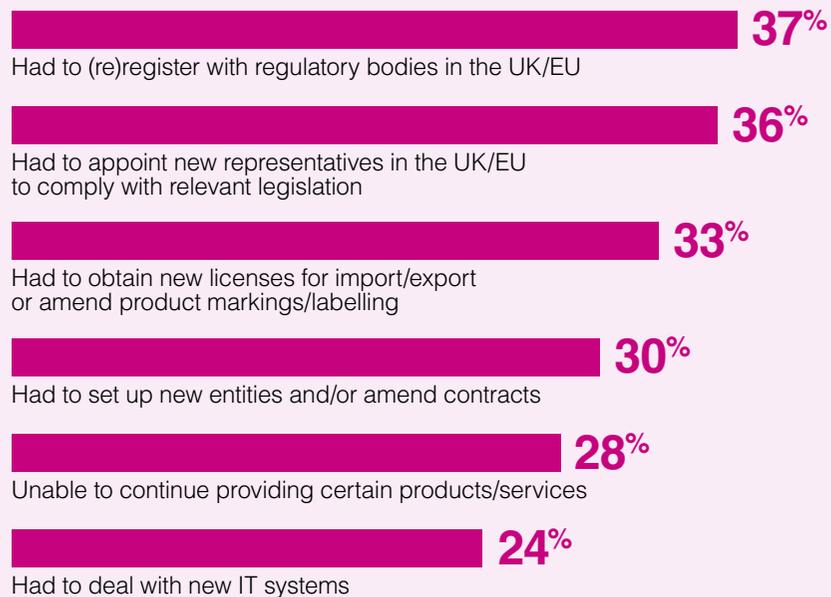


Those undergoing tax and VAT disruption reported a wide range of problems, with each of the problems applying to at least a fifth of those businesses, and only a quarter reporting improvements. The general negative impact on trade (36%) was mostly based on increased obligations (35%) and costs in time (29%).

Regulatory and legal processes



Regulatory and legal processes disruptions experienced:

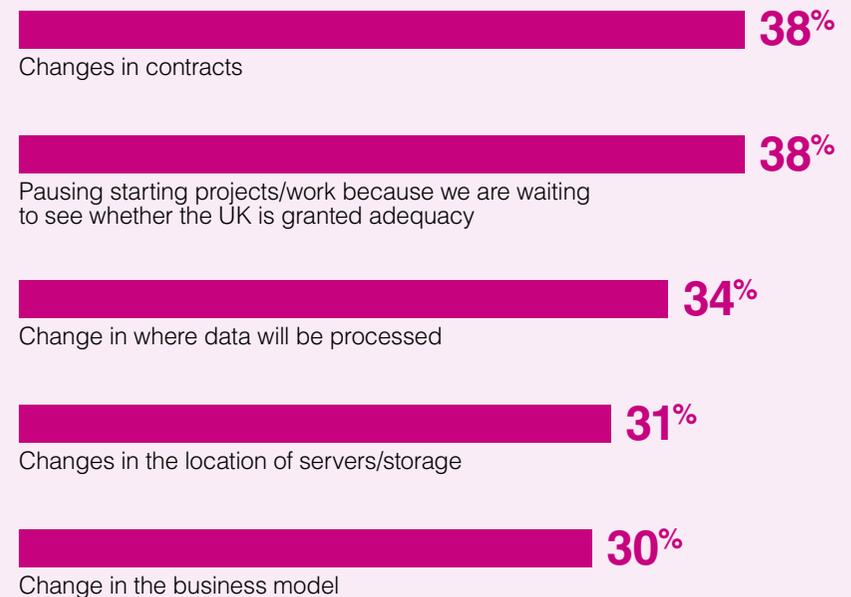


Reported regulatory and legal disruptions point mainly to short-term challenges, with businesses having to re-register with relevant bodies, appoint new staff, set up new entities, obtain new licenses, and amend contracts. However, despite these immediate costs, regulatory and legal challenges have not been fully dealt with, with 28% reporting a permanent inability to provide certain products and services.

IT, systems and data



IT, systems and data disruptions experienced:



Those suffering IT, data, and systems disruption also reported significant short-term disruption, with many citing changes to contracts, business models, and locations of servers and data-processing. However, one significant longer-term issue was raised: pausing new projects because of concerns over UK data adequacy (38%).

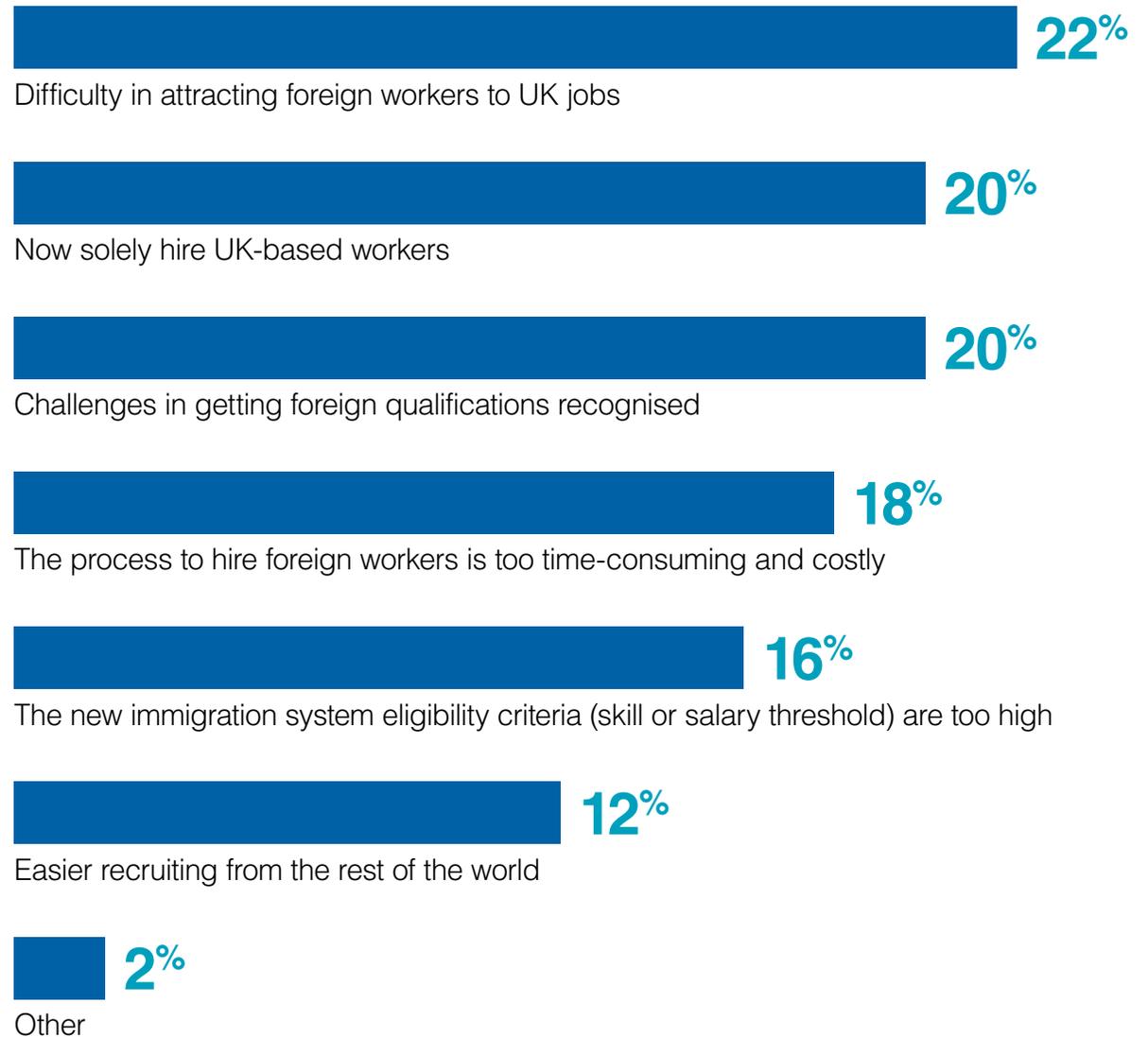
Businesses transferring protected data from the EU to the UK can expect continued uncertainty even if an adequacy decision is granted by the European Commission. This is due to the automatic review clause in the draft decision after four years and the high likelihood of legal challenge at the European Court of Justice.

A focus on people

Following the introduction of the UK's new points-based immigration system, 22% of businesses reported difficulties in attracting foreign workers to the UK. A further 20% reported it would be a challenge to get foreign qualifications recognised in the UK. 41% of businesses thought they would be impacted by the TCA due to new limits to activities that UK nationals can undertake whilst in the EU without a work visa or work permit. This will have implications for UK businesses' recruitment strategies.

London and Scotland were the areas worst affected by these workforce issues with over 28% and 24% of firms respectively saying that they have already had trouble in attracting foreign workers to jobs in the UK. In other regions of the UK 18% of businesses on average reported similar difficulties.

These numbers are somewhat limited in their interpretability as mobility is currently severely hampered by COVID-19 travel restrictions, but we assume more companies will face similar issues, especially in attracting EU workers, as we move out of this stage of the pandemic.



11% - Not applicable, the impact of COVID-19 has reduced current recruitment;
 15% - Not applicable, we have always just hired UK-based workers; 7% - Not sure

Impact of the new business visitor rules

The new rules for business visitor visas (which do not allow for many types of work but merely for meetings, short research, to receive training and attend trade fairs, and will differ by EU Member State) are going to impact how companies operate. 41% of firms responded that they will be highly affected while another 21% assume they will be moderately affected by the changes. Over two-thirds of businesses in London thought they will be impacted in their business operations by the new rules governing business travel.



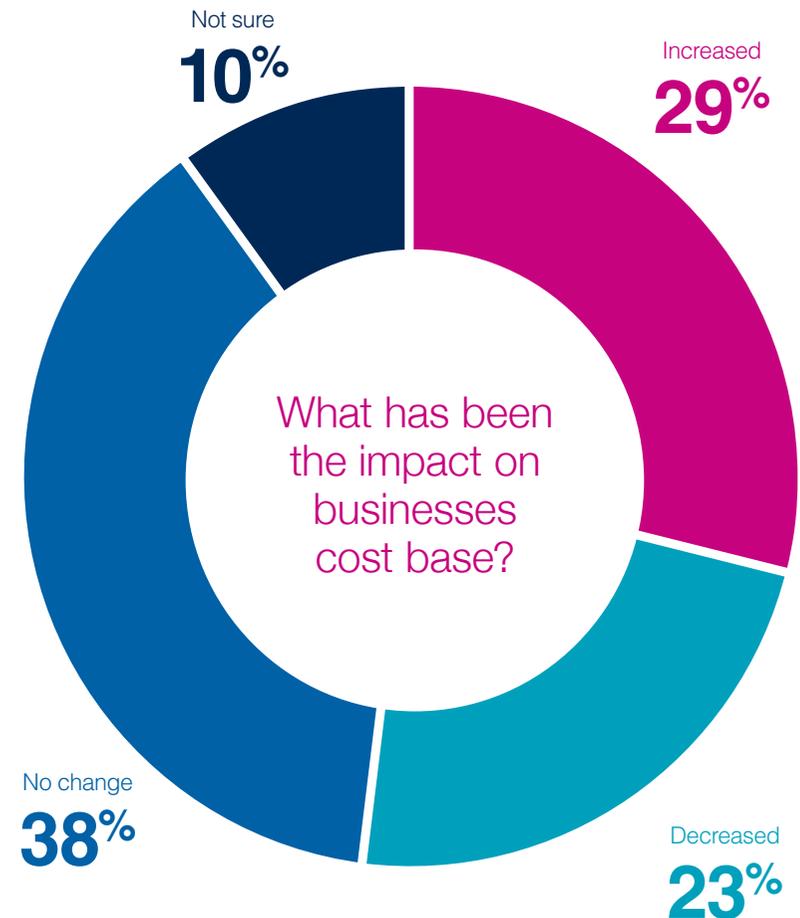
How is the disruption impacting the bottom line?

The changes in the trading relationship have impacted the cost base of business overall. For roughly one-third of the businesses their cost base has increased – this was higher for large businesses (42%) and mid-sized businesses (35%) due to their higher levels of complexity and increased exposure to international trade. Just under a quarter of companies said that their cost base had decreased, which may be as a result of pandemic-related reductions in business activity, or that as part of their Brexit preparations, firms sought to implement efficiencies to reduce their exposure.

In London the impact was higher (34%) due to the higher proportion of businesses in the finance, accounting, legal and IT sector.

Almost half of the businesses who stated that their cost base increased said that they were planning on raising prices for their customers to maintain the profitability of their operations. Meanwhile, 40% of the businesses were trying to renegotiate contracts with suppliers to save money. Others said they would try to either absorb the cost (38%) or streamline their operations (35%). Given the high response rate across each of the possible answers, it indicates that many businesses are pursuing a multi-pronged strategy.

Responses to an increased cost base

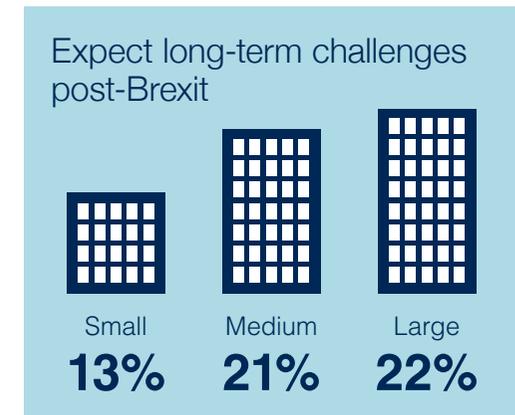
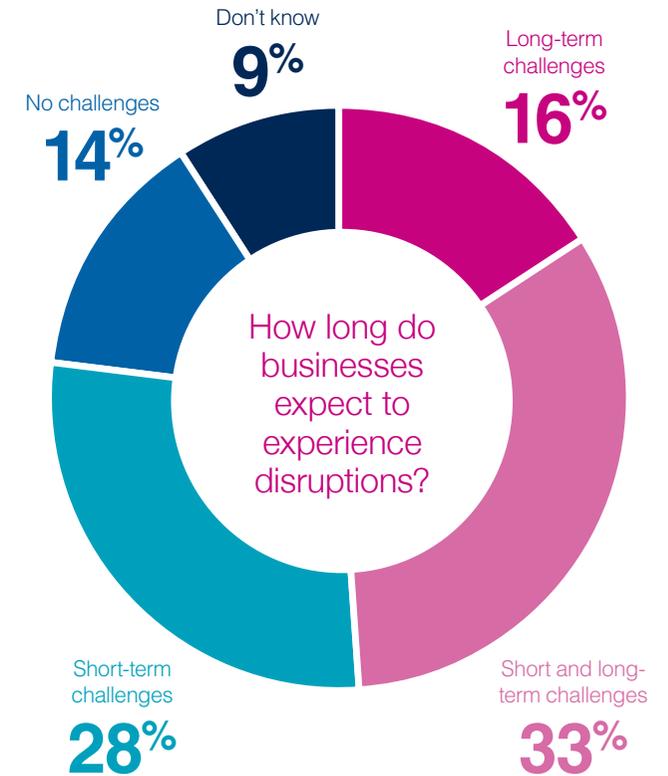


Future challenges and opportunities

Nearly half of all businesses thought that the current challenges represented a long-term trend with medium-sized and larger companies more likely to think they will continue to be impacted over the longer-term. This sentiment will mean that we can expect continuing discussions on how businesses adapt to the UK's new international trade regime and the resulting impact on their business models. A higher proportion of businesses based in London (53%) responded that they were expecting long-term challenges. However, 28% of companies across the UK and 27% of London businesses responded that they expect the current disruption to be solved in the short-term.

As with any large-scale change and disruption, Brexit's impact on the international trading environment has also generated opportunities. Over a quarter of businesses agreed that in preparing for Brexit, they have developed an unprecedented understanding of their own business operations. Around a quarter said it had either improved their resilience, developed their ability to spot new markets, or given them an opportunity to diversify into new markets or activities.

Future opportunities



Supporting businesses to adapt

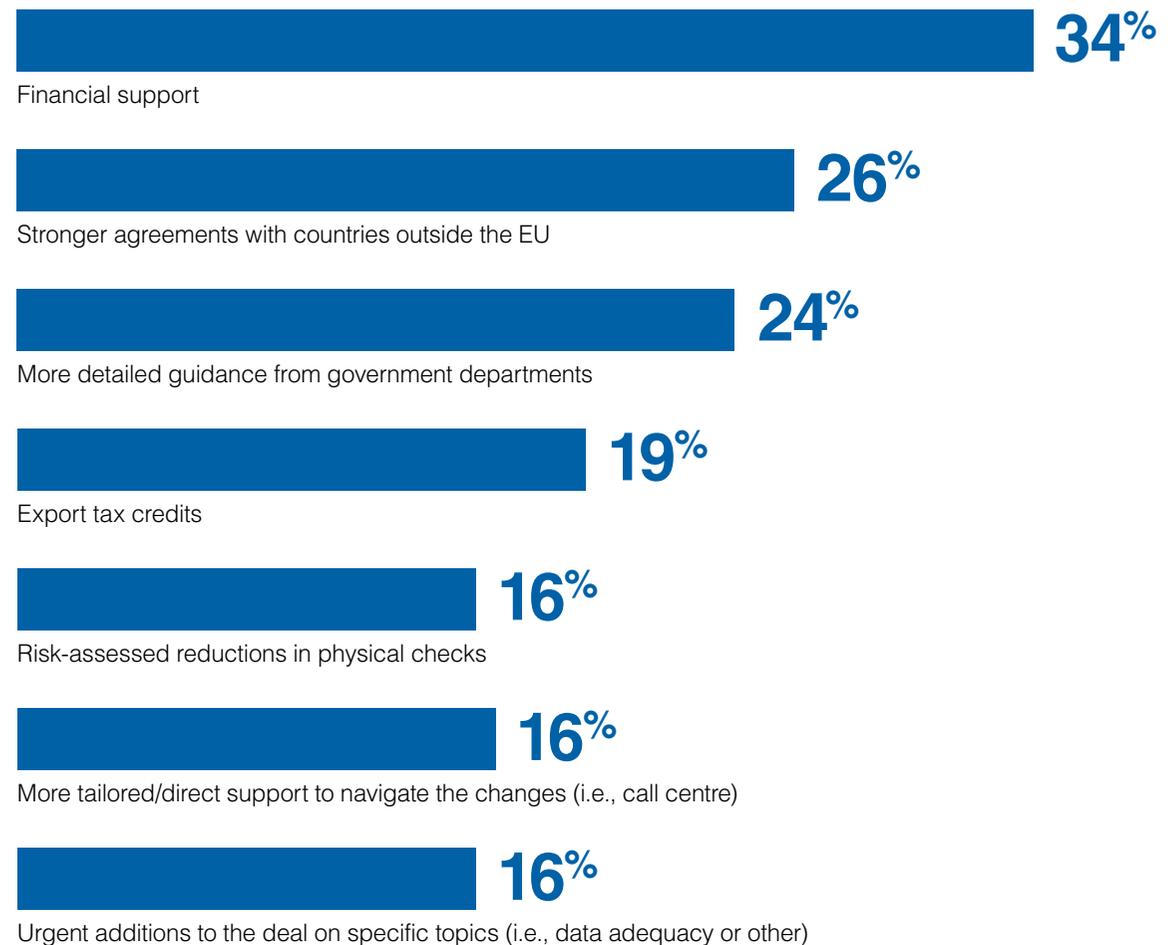
Businesses across all sectors have faced very different challenges with the new trading environment and it is clear from the responses to our survey that there is no silver bullet or single demand for government to support businesses with overcoming the challenges discussed in the report. However, there are a few broad areas where support is particularly needed.

Firstly, many businesses – especially small and medium sized ones – are struggling to adapt to a huge number of changes all at the same time. Up-to-date, detailed guidance from Government (24%) and a helpline where questions can be answered (16%) were reported to be helpful.

Secondly, financial support (34%) is also needed to support businesses with the adaptation to new systems, sourcing new suppliers, managing alterations of their business models or applications for new registrations or licenses or a host of other changes that will be costly. Remaining profitable as they adapt may be challenging.

Finally, the longer-term challenges raised in this report should be considered. The delays at the border, the increased paperwork and costs, concerns over UK data adequacy, the new challenges in foreign recruitment and so on are fresh problems faced by UK businesses. Brexit is clearly a process, not just a one off event and that process is far from finished. The message from business is that they'd like the Government to continue working with UK trading partners (26%) and the European institutions (16%) to reduce these challenges and open up new markets. In a globalised, competitive, post COVID-19 economy, taking steps to address these obstacles would put UK business in the strongest trading position. It is critical to put UK businesses in the strongest possible position now, so that they can take advantage of the positives and move towards recovery and a Global Britain.

Different means of government support needed



Other <1%; None of the above 16%



Our mission is to make London the best city in the world in which to do business for the benefit of the whole UK.

London First was set up by business leaders with the belief that by harnessing business assets we can drive positive change. We operate as a business campaigning force, with around 175 members, and are uniquely placed to champion the city

Now, we're stepping up once again. With our members – and the millions of people they employ in the UK – we are pursuing an agenda that will keep London at the forefront of global business, working with and for the whole UK.

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