



The Global Language of Business

# Defending cross-border trade

## An agenda for export



A report by GS1 UK, May 2017



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## About GS1 UK

GS1 UK is a community of over 31,000 members working in retail, healthcare and more. We're one of 112 independent, not-for-profit GS1 organisations operating across 150 countries worldwide. We help businesses automate and standardise their operations, supply chains and data through the common language of GS1 global standards.

# Defending cross-border trade

## An agenda for export



Gary Lynch

“Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world.”

David Ricardo

Two hundred years ago David Ricardo outlined his theory of trade in *Principles of Political Economy and Taxation*, showing that countries should specialise in what they were comparatively best at producing and trade with each other. He showed that trade between countries was beneficial even if one country could make everything more efficiently than everyone else.

Having apparently won the intellectual argument, Ricardo – the intellectual godfather of cross-border trade – might not, perhaps, have anticipated the attacks on free trade embodied by the world’s new protectionist-in-chief, Donald Trump.

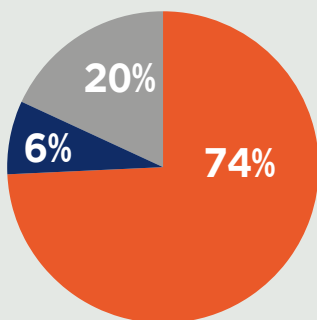
GS1 UK surveyed more than 1,000 British businesses from our membership, employing in excess of 100,000 people across the country, to establish what they make of the two greatest challenges to cross-border trade currently facing British business – the re-emergence of protectionism (personified in the anti-trade populist figure of Donald Trump) and Britain’s exit from the European Union.

While Britain is exporting fewer goods to the EU (down from £150,685m in 2012 to £144,175m in 2016), our exports to the rest of the world are growing (up from £150,936m in 2012 to £157,230m in 2016)<sup>1</sup>. Almost three-fifths (58%) of businesses have seen their cross-border trade increase in the last five years, with just 8% saying their cross-border trade had fallen. On average, our exporters reported 29% of their sales are made overseas while 22% reported that between half and all of their business was international.

While that is a strength, it also leaves us vulnerable to the apparent international rise of protectionist sentiment and to a geopolitical shift away from the EU. In this report we outline a broad analysis of the current issues British businesses are facing. Our findings reveal that:

- While just **4%** of British businesses view economic policies restraining trade between countries positively, 52% think the Trump administration will be better for Britain’s trade with the US than the Obama administration was – despite Trump’s protectionist rhetoric
- But **76%** of British businesses see an EU/UK trade deal as more important than a US/UK deal
- **59%** of British businesses are worried EU leaders will impose tariffs on UK trade as a price for leaving to the EU
- **87%** of businesses think the Government needs to do more to explain the benefits of free trade to the public

### Brexit priorities: What should the government focus on delivering when negotiating with the EU?

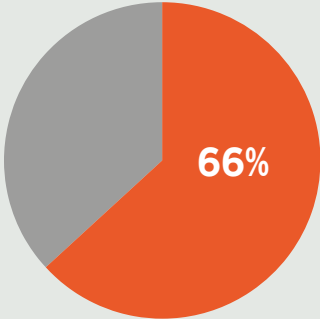


● Barrier-free trade with the EU is more important than restricting the free movement of people

● Restricting the free movement of people is more important than barrier-free trade with the EU

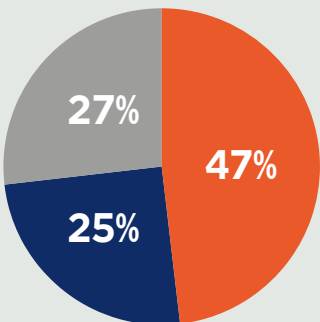
● Don't know

<sup>1</sup>UK Trade In Goods Publication Tables February 2017: UK Trade In Goods By Area – ONS



66% think the Government should tackle Britain's domestic transport infrastructure – including airport expansion – “as a matter of urgency”

**Do you agree with Boris Johnson that the UK should take the “machete of freedom to the brambles of EU regulation?”**



- Agree
- Disagree
- Don't know

- Super-exporters (businesses where exports represent more than half of their sales) say they think their exports will fall 11% in the event of a tit-for-tat trade war with the EU

But we also present our *agenda for export*, an overt course of action for the Government to follow to facilitate cross-border trade. Our findings show:

- In the Brexit negotiations, **74%** of British business want the government to focus on negotiating barrier-free trade – just 6% would rather the government prioritise curbing immigration
- **66%** think the Government should tackle Britain's domestic transport infrastructure – including airport expansion – “as a matter of urgency”
- **66%** want the Government to work towards the elimination of customs duties
- **62%** want the Government to lower corporation tax to 12.5% - similar to Ireland
- **59%** of British businesses want to see better access to export financing for SMEs
- **58%** think the Government should introduce export tax credits
- **47%** agree with Boris Johnson that the UK should take the “machete of freedom to the brambles of EU regulation” – only 25% disagree
- **41%** want the UK to go even further and adopt a non-interventionist model similar to that of Hong Kong – while just 18% disagree

The future of cross-border trade is clearly a huge issue for British business and one GS1 UK wishes to bring to the attention of a much wider audience.

The globally-accepted GS1 System of standards is based on the principles of enabling interoperability between trading partners. Our standards underpin supply chains and ecommerce across the world, and support more efficient customs processes. Our work with the World Customs Organisation helps improve the effectiveness and efficiency of customs administrations across the globe, facilitating trade while ensuring its security.

We've been working for over 40 years to facilitate cross-border trade between companies across the globe.

Now we want to defend it.

Gary Lynch  
CEO of GS1 UK



# Attacks on free trade



For decades there has been a consensus that globalisation brings more jobs, higher wages and lower prices, for richer countries as well as developing and poorer nations. That's changing.

It started small. In 1999, anti-globalisation demonstrations hit Seattle. More recently, the US presidential election has been the epicentre of the rising tide of dissent against free trade<sup>2</sup>. Trump's answers to the challenges – as he sees them – that trade and globalisation present the US, is to implement border charges to hobble multinationals' cross-border supply chains; and to rewrite the trade deals that help them do business<sup>3</sup>.

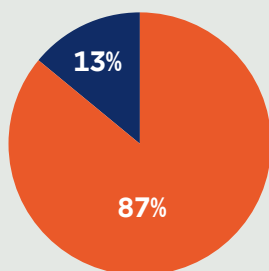
This is not a solely American phenomenon – a wave of protectionism has swept the developed globe. Global Trade Alert says governments took more than 400 discriminatory actions against foreign competitors between January and August 2016. Compared with the same period in 2009, four times as many protectionist measures were introduced. According to some economists, this is affecting growth<sup>4</sup>. Marine Le Pen

regularly attacked trade, globalisation and the “Thatcherite” policies of her opponents in the race for the French presidency<sup>5</sup>. Even the International Monetary Fund (IMF) has joined in the debate, with a warning at the end of September last year that free trade is increasingly seen as only benefiting the well off<sup>6</sup>.

British business bucks the anti-trade populist stance: just 4% of British businesses think economic policies restraining trade between countries are a good thing – while 13 times that many (47%) view them negatively.

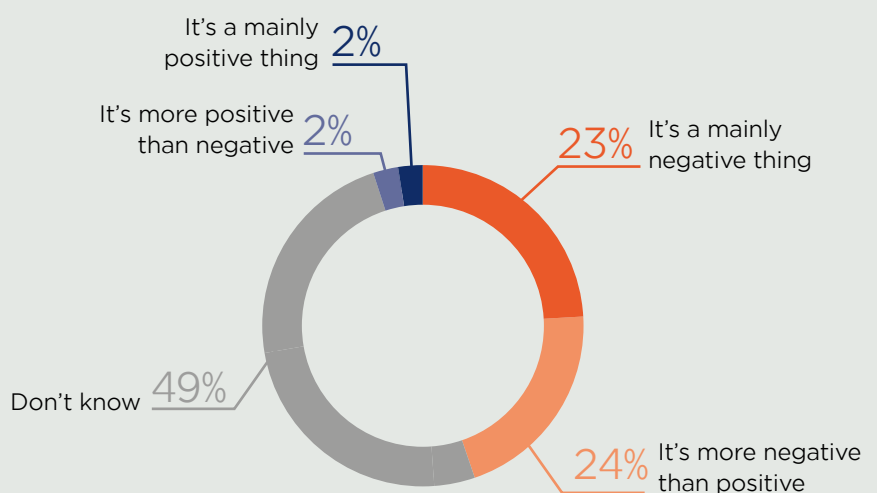
The organisations we asked said they wanted free trade defended against these protectionist attacks. A huge majority, 87% of businesses that we polled, said that the Government needs to do more to explain the benefits of free trade to the public.

**Do you think the UK government needs to do more to explain the virtues of free trade to voters?**



● Yes  
● No

**What's your view on protectionism?**



<sup>2</sup> Financial Times, [Global Trade: Blocking Moves](#), 12th October 2016

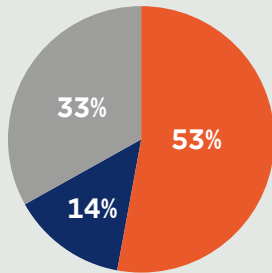
<sup>3</sup> Economist, [Multinational Companies: In Retreat](#), 28th January 2017: 12

<sup>4</sup> Financial Times, [Global Trade: Blocking Moves](#), 12th October 2016

<sup>5</sup> Economist, [France's Presidential Election: In the Pink](#), 28th January 2017: 32

<sup>6</sup> CityAM, [No wonder free trade is under threat: We are only just remembering its downsides](#), 11th, October 2016

**Do you agree that free trade helps lift people out of poverty?**



- Yes
- No
- Don't know

British exporters see concrete benefits in cross-border trade, beyond the opportunity to increase sales and profits (83%). Other tangible benefits include: enhancing a business's profile with new and existing clients in Britain (39%); gaining awareness of emerging needs in other markets and new opportunities that may arise (38%); diversification (35%) and lower per unit costs (21%). Exporters also cite gaining new knowledge and experience (20%); expanding the lifecycle of products (14%); selling excess production capacity (12%); and compensating for seasonal demands (10%) as benefits of exporting.

And there are wider benefits to society, too. The rise of commerce and industry

in the eighteenth and nineteenth century saw – as the economist Deirdre Nansen McCloskey has put it – “a rise in Europe and the Anglosphere of real, inflation-adjusted incomes per head, from 1800 to the present, by a factor, conservatively measured, of about 30.” To put it another way, incomes rose by 3,000 percent.

A majority of our respondents to our survey (53%) agreed that trade helps lift people out of poverty – with just 14% saying that it doesn't.

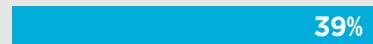
Despite the benefits to business – despite the benefits to society – there are threats on the horizon. At first glance, the biggest of these appears to be Donald Trump.

**What are the main benefits of cross-border trade for your business?**

Increased sales and profits



Enhancing your business's profile with new and existing clients in Britain



Gaining awareness of emerging needs in other markets and new opportunities that may arise



Diversification



Lower per unit costs



Gaining new knowledge and experience



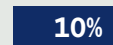
Expanding lifecycle of product



Selling excess production capacity



Compensating for seasonal demands



# Britain's exporters think a Trump presidency will be good for trade



Trump's protectionist message and inflammatory language on trade — such as accusing the Chinese of 'raping' the US — won him the sort of voters who might have voted for Bernie Sanders<sup>7</sup>. Trump's inauguration speech proclaimed a new age of American protectionism — "protection will lead to great prosperity and strength"<sup>8</sup>. Following his inauguration, he removed the Transatlantic Trade & Investment Partnership (TTIP) from the White House website and denounced TTIP's Pacific equivalent for setting out to "rape" US economy<sup>9</sup>.

But in his confirmation hearing, Rex Tillerson, the US Secretary of State, acknowledged that going head to head with China would not be a smart thing to do. The world's two largest economies were "deeply intertwined", he noted<sup>10</sup>. This suggests Tillerson thinks Trump's protectionist messages were little more than electioneering. That's possible. Trump has long been noted for his sceptical attitude to US alliances with Japan, for instance. But come mid-February this year, his approach to Japan had begun to look more conventional<sup>11</sup>. In the Commons, Secretary of State for Foreign Affairs, Boris Johnson has said he thinks Trump's "bark is worse than his bite".

Having secured the Presidency, the subtleties of Trump's policies appear to be more pro-trade than his podium speeches. The theory goes that Trump doesn't actually oppose trade or trade deals per se — as he said: "Nobody makes deals like I do". What Trump is against is unwieldy deals between large numbers of countries<sup>12</sup>. He does not want to revive the Transatlantic Trade and Investment Partnership (TTIP) — the deal between the US and the EU which collapsed last year — because TTIP included provisions, for example, for companies to take foreign governments to court for refusing to open up the running of public services to international competition. To do this would have required the creation of an unaccountable international court.

That would have taken it well beyond an ordinary trade agreement. He favours doing trade deals with one country at a time. While he has pulled the US out of the Trans-Pacific Partnership (TPP) — a trade deal between the US and eleven other Pacific-rim countries — he also says that he wants to do bilateral deals with those same countries. This gets to the heart of why Trump is so scathing of the EU and why he thinks that Britain is "smart" to get out. He believes in sovereign nations with strong leadership, not in signing away powers to international bodies run by distant people with no popular mandate.

Of course, the practical obstacles of doing a deal would be daunting. Formal talks with the US are not allowed under EU rules until after Brexit. Congress requires up to six months' notice of a planned trade pact from the White House. It took four years to ratify the quickest trade deal that the US has ever struck<sup>13</sup>. But during his visit to America, Boris Johnson was repeatedly assured by senior politicians that a trade deal with the UK is a priority. He says Trump's team want a trade deal with Britain "fast". Similarly, on her trip to Washington in January, Theresa May hinted at the possibility that Britain and the US could remove trade barriers between the two countries before the UK even leaves the EU<sup>14</sup>.

<sup>7</sup> Spectator, [It's Trump vs Hillary: a race that should terrify all conservatives](#), 7th May 2016

<sup>8</sup> Spectator, [Trump has just created a vacancy for a world leader in free trade, step forward Theresa May](#), 20th January 2017

<sup>9</sup> Times, [Free Trade First](#), 23rd January 2017

<sup>10</sup> Times, [Chinese Checkers](#), 12th January 2017

<sup>11</sup> Financial Times, [Donald Trump's tack towards the mainstream on Asia](#), 14th February 2017

<sup>12</sup> Daily Express, [President Trump is a man we can do business with](#), 17th January 2017

<sup>13</sup> Times, [Free Trade First](#), 23rd January 2017

<sup>14</sup> Politico, [Welcome aboard May Force One](#), 26th January 2017



“There’s a whole range of areas that we will be looking at... There will be a limit to how far we can go in terms of a formal trade agreement until we’ve actually left. But I think there is much that we can do in the interim in terms of how we can remove some of the barriers to trade in a number of areas, so that we are able to see an advantage for both of us, even if we have not been able to sign that legal free-trade agreement.”

Theresa May, January 2017

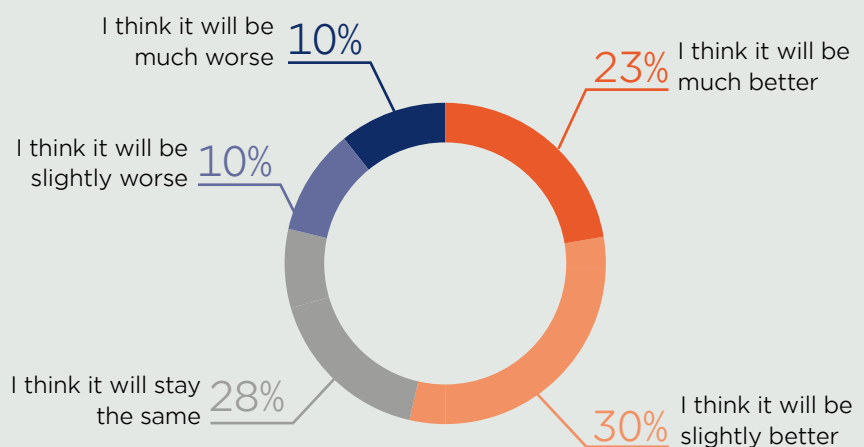
Furthermore, pro-trade Republicans in Congress, including Paul Ryan, the Speaker of the House of Representatives, seem eager to expand markets for US goods and services. A potential Democratic Speaker (Nancy Pelosi) could scupper a deal<sup>15</sup> - which may motivate Trump’s advisers to get a deal done quickly.

The Wall Street Journal has suggested that “the President could benefit from showing that he can deliver the “fair deals” he promised in the campaign” and said Trump and May “should get one done fast”<sup>16</sup>. The Economist has suggested a trade deal can be closed as soon as Brexit takes place, most likely in 2019<sup>17</sup>.

No wonder. The economic opportunity of a trade deal would be ‘huge’. Each country already exports more than \$100bn to the other every year and we export more to the US than any other country<sup>18</sup>. A trade deal could open new opportunities for US manufacturers and farmers whose access to Britain has been limited by the EU’s excessive regulation<sup>19</sup>.

When we asked, “Given Barack Obama said the UK would be ‘at the back of the queue’ for a UK/US trade deal after Brexit, how do you think Trump’s administration will affect UK/US trade?” just 20% thought the Trump administration would be worse for UK / US trade.

**Given Barack Obama said the UK would be “at the back of the queue” for a UK/US trade deal after Brexit, how do you think Trump’s administration will affect UK/US trade?**



<sup>15</sup> Wall Street Journal, [The Trump-Brexit Opening](#), 26th January 2017

<sup>16</sup> Wall Street Journal, [The Trump-Brexit Opening](#), 26th January 2017

<sup>17</sup> Economist, 2017, [Bagehot: A Difficult Hole](#), 28th January, 28

<sup>18</sup> CityAM, [As she vows to renew the Special Relationship, is Theresa May right to be cosying up to Donald Trump?](#), 27th January 2017

<sup>19</sup> Wall Street Journal, [The Trump-Brexit Opening](#), 26th January 2017

A 52% majority of businesses said they thought Trump would be better for Anglo-American trade (while 28% said they didn't think it would make any difference).

When it comes to trade and the economy, British business is clear. Donald Trump is good for business.

There might be other more positive effects from the Trump presidency, too. A quick US/UK deal could provide extra leverage in Britain's negotiations with the EU itself<sup>20</sup> – a tangible benefit of Brexit should divorce from Brussels start to prove costly in terms of growth and investment. A rapid trade deal with the US could prove Britain had a better trading future outside the EU than in<sup>21</sup>.

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<sup>20</sup> Times, [Free Trade First](#), 23rd January 2017  
<sup>21</sup> Times, [Free Trade First](#), 23rd January 2017

# Britain's exporters see Brexit as an opportunity



Leaving the European Union is the most significant economic and political event for a generation. On the one hand, The Times has asserted that Britain's growth will be constrained by a decline in trade, investment and labour flows<sup>22</sup> – that the notion that Brexit inaugurates a glorious dawn of expanded possibility is fanciful<sup>23</sup>. After all, other commentators have pointed out, the UK is leaving a single market of a half-billion people<sup>24</sup>. Britain's trading relationship with Europe (and the wealth of nations that entails) currently accounts for 44% of British exports, compared with roughly 14% from the US<sup>25</sup>.

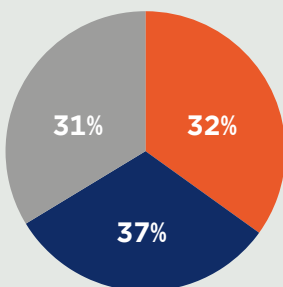
On the other, it now appears that the warnings of an immediate economic shock after a Leave vote were wide of the mark. The British economy refused to collapse in ruins<sup>26</sup>, defying the predictions of analysts, most of whom expected a recession to follow the Brexit referendum. Instead of shrinking by 1.4% in the last six months of 2016 as predicted, GDP grew by 1.2%, the fastest in the developed world<sup>27</sup>. Overall, GDP grew by 2% in 2016, faster than in any other G7 country—and the economy did better in the second half than in the first<sup>28</sup>.

contrasting economic picture that has emerged since, it is perhaps, not surprising that a consensus has yet to emerge.

Business isn't sold on the theory. Just under a third (32%) of businesses we polled said they believed Britain is "embracing free trade by leaving a customs union protected by high external tariffs"; just over a third (37%) see the decision as "a return to protectionism". Just under 31% said they "don't know".

British businesses appear confused on Brexit. Given those predictions of disaster before the vote and the

**Do you think Brexit is a positive development for free trade - or does it represent a return to protectionism?**



- It's a revolt against remaining inside a custom union protected by a high external tariff - Brexit sits squarely within the British tradition of free
- Brexit represents a return to protectionism
- Don't know

"The UK economy has been remarkably resilient since the EU referendum decision, particularly the jobs market. Unemployment remains at record lows and the recession many expected if the Leave vote won has failed to materialise. As a business we've continued to go from strength to strength and even though record numbers of people are in work, employees and job hunters have never been savvier about keeping an eye on the next move as visits to our site have proved."

Doug Monro, Co-founder of jobs site Adzuna

<sup>22</sup> Times, [Jam Tomorrow](#), 21st November 2016

<sup>23</sup> Times, [Jam Tomorrow](#), 21st November 2016

<sup>24</sup> New York Times, [Theresa May's 'Global Britain' Is Baloney](#), 20th January 2017

<sup>25</sup> Times, [Free Trade First](#), 23rd January 2017

<sup>26</sup> Telegraph, [Theresa May should explain how she will seize the opportunity of Brexit on immigration](#), 16th November 2016

<sup>27</sup> Daily Mail, [Hallelujah! An end to bloody interventions](#), 27th January 2017

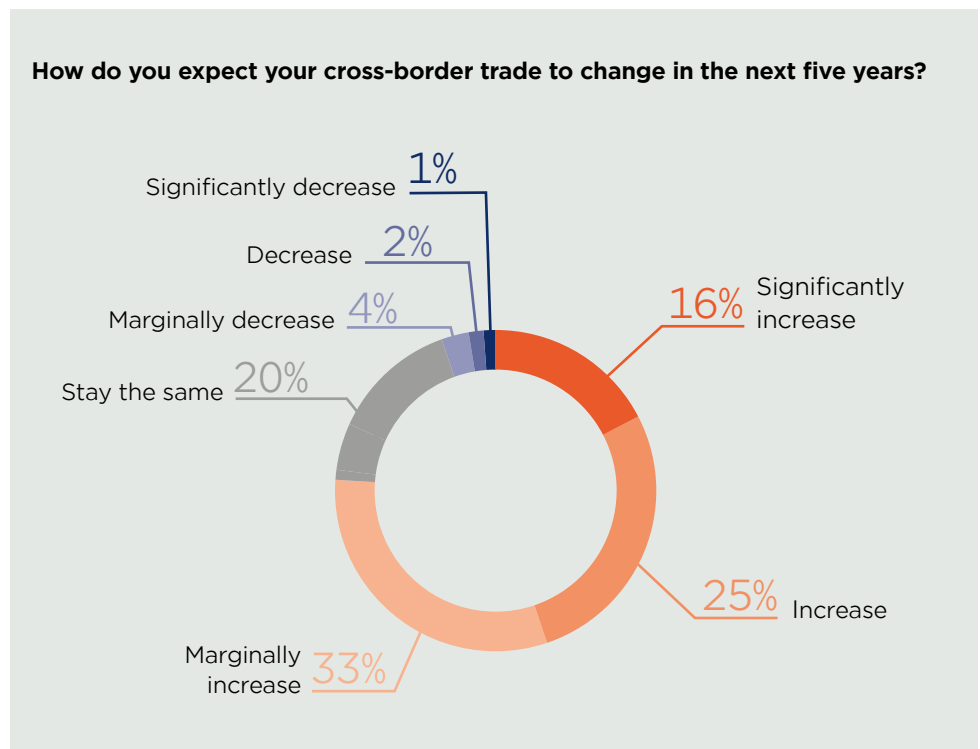
<sup>28</sup> Economist, [Britain's consumer boom shows signs of petering out](#), 4th February 2017: 23

In practice, it's a very different matter. When we asked businesses how they thought their cross-border trade was likely to change in the next five years (i.e. after Brexit), 74% of them said they believed their cross-border trade would increase in the next five years - while only 7% thought it would decrease.

Furthermore, the growth was by no means marginal with respondents, on average, expecting their cross-border

trade to increase by 30% or an annual compound growth rate of 5% per year. And businesses that are already exporting expect to do even better, forecasting the amount they export will increase by 32% - or 6% per year.

When it comes to unfettered trade with the rest of the world outside the common external tariff - it appears Britain's exporters like their chances.



# Exporters are looking to the Anglosphere

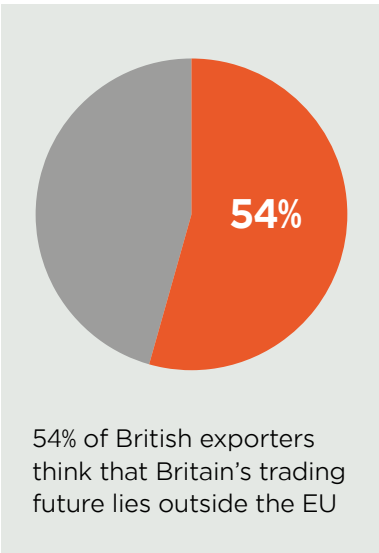


During the referendum, the picture painted by the Leave side was one of escaping from under the EU external tariff to be free to import cheaper food from Africa, re-establish free trade with New Zealand and Australia, do free trade deals with America and Canada, and sell more whisky to India and more insurance to China. That certainly does not seem impossible.

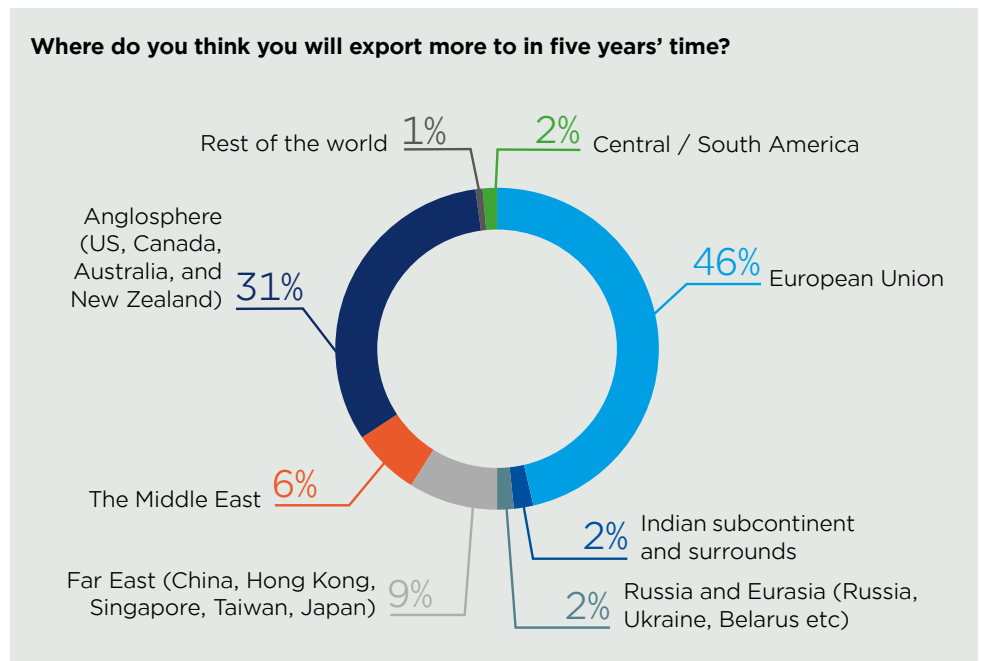
Bill English, the New Zealand Prime Minister, has said he hopes negotiations on reaching a trade deal could start as soon as possible once Britain has left the EU. English said: “We are ready to negotiate a high quality trade agreement with Britain when it is in a position to do so.” Standing alongside English, Theresa May pointed out that the UK/New Zealand trading relationship is worth more than £3bn a year and that Britain is New Zealand’s fifth largest bilateral trading partner<sup>29</sup>. The Prime Minister said they agreed on the potential for a “bold” trade agreement and New Zealand is thought to be seen in Government as one of the best prospects for an early trade deal once Britain quits the EU.

down barriers. Canada has also been “champing at the bit” to do the same<sup>30</sup> with finance minister, Bill Morneau hinting at a new trade deal with Britain once it leaves the EU<sup>31</sup>.

When we asked exporters whether, given the UK has already received offers for outside the EU, if they thought Britain’s trading future lies within the EU – 54% thought our future lay elsewhere. In 2015, when Britain was still firmly within the European Union customs union, approximately 22% of our exports went to the US, Canada, Australia, and New Zealand<sup>32</sup>, a group of countries sometimes referred to as the Anglosphere<sup>33</sup>. But nearly a third (31%) of the exporters we surveyed thought they’d be exporting more into those four countries in five years’ time, when we are outside the European Union’s common external tariff. Given their goals, the diplomatic climate appears to favour Britain’s exporters.



In January 2017, Australian diplomat Alexander Downer proposed a quick trade deal post-Brexit, insisting the two countries could trigger a “significant intensification” of trade by tearing



<sup>29</sup> Sky News, [New Zealand PM praises Theresa May's Brexit 'clarity and determination'](#), 13th January 2017

<sup>30</sup> T Sun, [The anti-Brexit mob won't stop their moaning and most of it is cobblers as we all know economic forecasts are a mug's game](#), 18th November 2016

<sup>31</sup> Sun, [Yes We Canada](#), 16th November 2016

<sup>32</sup> ONS, [Geographical breakdown of the current account](#), The Pink Book, 2016

<sup>33</sup> Ireland would also be part of the Anglosphere – it is, however, a member of the EU



# Export will be via e-commerce platforms



A great deal of this export growth will come via online marketplaces. Online e-commerce platforms have greatly increased the variety of goods and services that can be bought and sold cross-border. There is a rising cohort of small firms using e-commerce to buy and sell on a global scale. Up to 10% of American's 30m small firms already do this to some extent. PayPal says transactions involving "multinationalettes" are running at \$80bn a year, and growing fast.

Jack Ma, the boss of Alibaba predicts that a wave of small Western firms exporting goods to Chinese consumers will go some way to redressing the balance of the past two decades of massive Western firms importing goods from China. Royal Mail announced it was joining Alibaba's Tmall Global's online marketplace, linking small British companies with Chinese consumers, back in 2015<sup>34</sup> - offering British exporters an entry point into China.

The boom in cross-border e-commerce is so significant that it can be gauged by the success of express-delivery firms. At the end of January 2017, UPS revealed record revenues for the fourth quarter of 2016. Since 2008 half of the increase in express-delivery volumes has come from shoppers buying items online from another country.

The majority of businesses that GS1 UK surveyed are focusing on eBay, Amazon, Google Shopping or Alibaba.

When we polled them about their use of online marketplaces, more than three-quarters of them said they would be conducting business via marketplace platforms (76%) within five years' time, with just 24% saying they didn't use marketplaces now and didn't plan to in the future. Occasional exporters (those whose exports represent less than 10%

of sales) were the least likely to rule out using marketplace platforms in the near future.

There are businesses who envisage conducting less business via marketplace platforms. One in twenty five (4%) of the super-exporters we polled (firms with exports representing more than half of their sales) said they would be using marketplaces less in the future. Given some marketplaces, for instance, charge third-party merchants a referral fee for each sale, this is understandable. But e-commerce platforms are clearly delivering a great deal for businesses getting into the export market for the first time (including access to a large global customer base, for example).

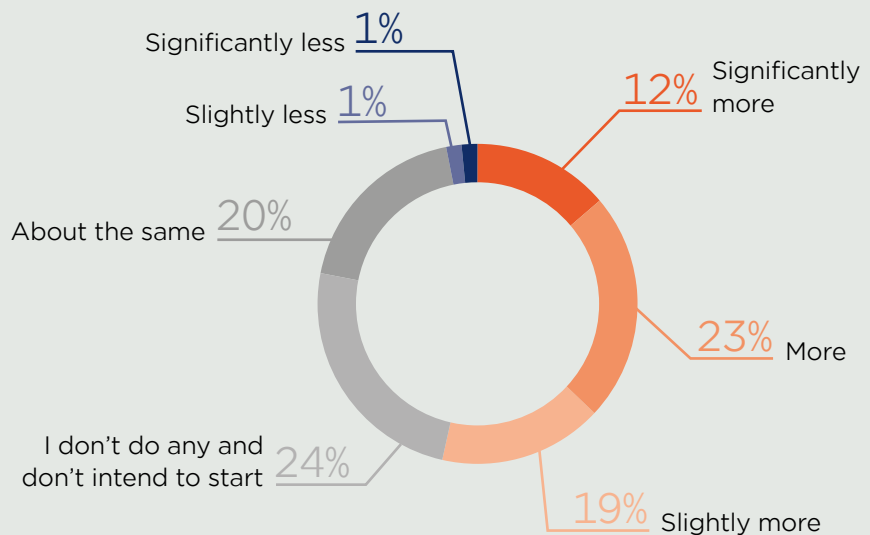
In total, over half (53%) of the businesses we surveyed thought they would do more business through online marketplaces in the next five years while 3% said they would be using them less and a fifth (20%) saying their level of use would remain static (and approximately a quarter 24% said they don't use marketplaces now and have no intention of starting). Three-fifths (59%) of exporters who are dabbling in cross-border trade but where it represents less than 2% of sales said they thought they'd be using marketplaces more in the future.

The proliferation of global marketplaces, either as multi-category behemoths or smaller niche verticals, has led to a definite shift in the attitude of UK brands and retailers towards seeing them as easy to access, low cost channels into new markets. The upshot is that marketplaces are becoming a core component of a successful export strategy. They typically allow merchants to glean a host of insights into the demand for their products, while diversifying their core revenue streams. Our opinion is that there is little doubt that marketplaces will continue to play an increasingly important role in the growth of cross border trade."

James Storie-Pugh, Pivot International

<sup>34</sup> Reuters, [Royal Mail announces China link-up through Alibaba's Tmall](#), 2nd March 2015

**In the next five years, do you envisage doing more or less business through online marketplaces such as eBay, Amazon, Google Shopping or Alibaba?**



## British business likes talk of a proper industrial strategy

In the past, Theresa May has pitched some ideas that would have been bad for business – including interfering with company boards and a cap on pay. Back in 2016, she seemed intent on limiting foreign takeovers of British companies.

At the start of the year, the Government published a Green Paper to create a 'proper industrial strategy' for Britain<sup>35</sup>. The industrial strategy involves intervening in the economy to correct perceived imbalances.

We thought that the Prime Minister's talk of a proper industrial strategy, with more active intervention into the activities of the economy, would be unpopular with industry.

We were wrong. When we asked British businesses if they thought Britain should have a proper industrial strategy, 77% of small exporters (where between 1% - 10% of turnover is derived from exports) said they thought we should have a proper industrial strategy.

Even at her least laissez-faire, the Prime Minister appears on safe ground with Britain's small scale exporters.

<sup>35</sup> HM Government, Building Our Industrial Strategy, Green Paper, January 2017

# Theresa May wants a global Britain



Since publishing the industrial strategy green papers, the Prime Minister seems to be coming round to a more pro-business, free-trading point of view.

She has talked up the success of foreign-owned firms<sup>36</sup>. She has said she wants to create “Global Britain”<sup>37</sup> – in fact, the Prime Minister was so keen on the idea that she used the word “global” 17 times in her Lancaster House speech in January when she set out her Brexit plans<sup>38</sup>. Her speech at Davos in January was described as an application for Britain to become the undisputed world

leader in “genuine free trade”<sup>39</sup>. It looks as though she now wants Britain to be the new world champion of capitalism, keeping the flame of free trade burning while it’s snuffed out in Washington<sup>40</sup>. She could, potentially, fill the vacancy created by a protectionist president for a new world leader in free trade<sup>41</sup>.

“I want to explain how... the UK – a country that has so often been at the forefront of economic and social change – will step up to a new leadership role as the strongest and most forceful advocate for business, free markets and free trade anywhere in the world. For that is the unique opportunity that Britain now has... We are among the most racially diverse countries in Europe, one of the most multicultural members of the European Union, and why – whether we are talking about India, Pakistan, Bangladesh, America, Australia, Canada, New Zealand, countries in Africa, Asia or those that are closer to home in Europe – so many of us have close friends and relatives from across the world. And it is why we are by instinct a great, global, trading nation that seeks to trade with countries not just in Europe but beyond Europe, too...”

We seek the freedom to strike new trade deals with old friends and new allies right around the world as well. I am pleased that we have already started discussions on future trade ties with countries like Australia, New Zealand and India. While countries including China, Brazil, and the Gulf States have already expressed their interest in striking trade deals with us. It is about embracing genuine free trade, because that is the basis of our prosperity but also the best way to cement the multilateral partnerships and cooperation that help to build a better world.”

Theresa May, Speaking at Davos in 2017 <sup>42</sup>

<sup>36</sup> Economist, Industrial Strategy: Less Is More, 28th January 2017

<sup>37</sup> New York Times, [Theresa May's 'Global Britain' Is Baloney](#), 20th January 2017

<sup>38</sup> New York Times, [Theresa May's 'Global Britain' Is Baloney](#), 20th January 2017

<sup>39</sup> Telegraph, [The evolution of Theresa May sets Brexit Britain on course for a bright global future](#), 19th January 2017

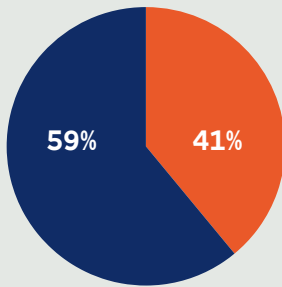
<sup>40</sup> Telegraph, [The evolution of Theresa May sets Brexit Britain on course for a bright global future](#), 19th January 2017

<sup>41</sup> Spectator, [Trump has just created a vacancy for a world leader in free trade: step forward Theresa May](#), 20th January 2017

<sup>42</sup> Spectator, [Trump has just created a vacancy for a world leader in free trade : step forward Theresa May](#), 20th January 2017

# Britain's exporters are worried they will be punished for Brexit

## How will EU leaders see the Brexit negotiations?



- I'm confident they'll see the Brexit negotiations in economic terms. EU leaders will want to facilitate trade with the UK as it's in their own self-interest – Germany will still want to sell its cars to the UK, as will France its wine. Trade will win out
- I'm worried EU leaders will see the Brexit negotiations in political terms – Germany and France view Britain's exit from the EU very dimly and they are likely to impose tariffs on UK trade as a price for leaving

So all is well for Britain's exporters? Well, not quite. It's possible that the EU may want to punish Britain for leaving and send a clear message to other countries thinking of following suit.

As the New York Times put it, you don't have your cake and eat it in negotiations with Angela Merkel<sup>43</sup>. The danger is that Angela Merkel does not see Brexit in terms of trade. Germany and France – for now, led by a pro-EU president – will want to impose tariffs on UK trade as a penalty for leaving. That post-war dream of European unity has always been more important to Germany and France than it has to the British public. The European “super state” that populist politicians like Nigel Farage have spent years claiming was the ultimate goal of the EU is one of the main reasons ordinary Britons voted Leave. Yet it is also the very reason why Merkel and her fellow EU leaders will be willing to play hardball with Theresa May in the coming months. When it comes to preserving the EU project, politics will trump economics<sup>44</sup>.

There is an economic argument that suggests, whatever the tough talk from Brussels, Brexit will work because the EU needs it to. Tariffs cut both ways. The Germans export one-fifth of their motor manufacturing output<sup>45</sup>. No matter what happens, however bumpy the negotiations between Britain and Brussels will be, Germany will still want to sell its cars to Britain, as will France its wine. Trade will win out<sup>46</sup>. Even Mark Carney has admitted the EU has more to lose than Britain

from Brexit<sup>47</sup>. Responding to Boris Johnson's comment that France might react to Brexit by trying to ‘administer punishment beatings in the manner of some World War Two movie’, French foreign minister Jean-Marc Ayrault said “there is no question of punishing the UK. That is not the position of France”<sup>48</sup>. And Europeans may be keener to do a deal that we realise: The Economist pointed out that in the wake of Trump's withdrawal from the TPP trade agreement between 12 Pacific Rim countries, this will spur on European efforts to deepen ties with big economies other than America<sup>49</sup>.

Our survey highlighted how nervous exporters are about how the EU will treat us in the Brexit negotiations. Just two in five (41%) of the businesses surveyed said they are confident that EU leaders will want to facilitate trade with the UK as it's in their own self-interest – that trade will win out.

Meanwhile, almost three in every five (59%) are worried that EU leaders will see the Brexit negotiations in political terms – that Germany and France will view Britain's exit from the EU dimly and that they are likely to impose tariffs on UK trade as a price for leaving.

<sup>43</sup> New York Times, [Theresa May's 'Global Britain' Is Baloney](#), 20th January 2017

<sup>44</sup> CNN, [Theresa May's Brexit confidence is deeply misguided](#), 18th January 2017

<sup>45</sup> Sky News, [No 10: Boris Johnson did not compare Francois Hollande to Nazi](#), 18th January 2017

<sup>46</sup> CNN, [Theresa May's Brexit confidence is deeply misguided](#), 18th January 2017

<sup>47</sup> Daily Mail, [It's not a hate crime to talk about migration](#), 13th January 2017

<sup>48</sup> Sun, [France won't 'punish' Britain says foreign minister after Boris Johnson accused Francois Hollande of wanting to dish out 'beatings' over Brexit](#), 19th January 2017

<sup>49</sup> Economist, [The World, Watching](#), 4th February 2017: 19-20

# Brexit negotiations: Prioritise delivering barrier-free trade – don't focus on curbing immigration



In April 2017, a new annual tax on hiring workers from outside the EU came into effect. Now, if a small business wants to take on an Indian engineer on a four-year contract, it will have to pay £4,000 for the privilege. Employer groups warned against the policy when it was mooted in 2016, with the Institute of Directors saying the levy would “hurt thousands of firms and make it harder to bring in skilled workers in areas where we have shortages.” Despite the pleas of British business, the idea has become policy.

In January, immigration minister Robert Goodwill told a Lords committee the policy could be extended to include workers from EU countries. Downing Street promptly distanced themselves from the off-script minister, but the Home Office (for a while at least) maintained the policy was an option.

International talent is of huge importance to businesses across the planet. Following the executive order of 27th January 2017 that banned citizens of seven, mostly Muslim, nations entering the US, billionaires from Silicon Valley complained their innovation was built on immigration<sup>50</sup>. Tim Cook, Apple's boss, criticised it to employees. Mark Zuckerberg at Facebook said he was “concerned”. Sundar Pichai, CEO of Google, told staff he was “upset” on the day of the order, and a day later the firm's co-founder, Sergey Brin, was spotted among hundreds of protesters at San Francisco airport<sup>51</sup>. Attracting

bright, talented people from around the world is at the heart of the tech business model. Brin was born in Moscow, Pichai in Tamil Nadu and Satya Nadella, the head of Microsoft, in Hyderabad. The biological father of the late Steve Jobs was a Syrian who moved to America. Half of all the American start-ups that are worth more than \$1bn were founded by migrants. Many of the engineers at tech firms were born abroad, too. In Cupertino, a suburb in Silicon Valley, half the population is foreign-born<sup>52</sup>.

While extending the migrant levy to EU workers seems to have been put back in the box for now<sup>53</sup>, British business is still very worried about curbs to immigrations and the interplay with access to the EU in the Brexit negotiations. When GS1 UK polled British businesses, just 6% said reducing immigration was more important to the future of their business than barrier-free trade with the EU.

“Intellectual capital is the most important asset that London as a financial centre has. If other countries limit the free flow of talent, we'd hope the UK does not follow that trend.”

Jes Stanley, CEO of Barclays speaking at the prosperity UK conference

<sup>50</sup> Economist, America First & Last, p.17 - 19, 4th February 2017

<sup>51</sup> Economist, Silicon Valley's criticism of Donald Trump, p.63, 4th February 2017

<sup>52</sup> Economist, Silicon Valley's criticism of Donald Trump, p.63, 4th February 2017

<sup>53</sup> CityAM, [Now the Tories give run around on immigration](#), 11th January 2017



# The fall in the pound has not helped British exporters



Sterling depreciated 15% in the immediate wake of the Brexit vote in June<sup>54</sup>. Pharmaceutical giant GSK saw turnover rise by £1.4bn in the three months to October 2016, mainly due to the weaker currency<sup>55</sup>. This must be good news for Britain's exporters?

When asked "Has the weakening of the pound been good for your business?" 23% of the organisations that we surveyed said it had been good for business. Of the exporters alone, 26% said the fall in the pound had been a good thing. And when we asked businesses for who exports represent more than half of their sales – the super-exporters – 36% said the benefits of the weakness of sterling (such as goods and services being more competitive on international markets) outweighed the negatives.

But for most business, the fall in the exchange rate has not been good news (or not yet, anyway) with more reporting that they have been hit by the soaring costs of imported raw materials than reporting the benefits of more competitive pricing internationally.

When asked if the weakening of the pound had been, on balance, bad for

business (such as increasing the price of raw materials), 59% of the businesses we surveyed said the fall in the value of the pound had been bad news. The story was only marginally better for exporters, 58% of whom said the fall in the pound had been negative for their business. Of the super-exporters, 45% said the negatives outweighed the positives.

And in certain sectors, the situation was far worse. While there are sound arguments as to why food is likely to become cheaper when we leave the EU, of the 154 manufacturers of food products we polled, 109 said that the weakness of the pound had been, on balance, a bad for business.

This chimed with wider figures released in early February showed export volumes had barely budged since the vote, suggesting to some that British exporters are letting sterling prices rise slightly and booking bigger profits<sup>56</sup>.

"The costs to source our lead product, fig preserve, went up to over £7,000 per tonne following the referendum result. Fortunately, I was able to switch suppliers to a manufacturer with an identical product but outside the EU – saving £6,000 per tonne. Brexit undoubtedly forced brand owners like me to think creatively to maintain margin and position."

Andrew Cairns, owner of Mummy Jamia's preserves and dressings

<sup>54</sup> Economist Espresso, The elusive export boom, 10th Feb 2017

<sup>55</sup> Daily Mail, [Myths and mendacity that corrode our trust](#), 28th October 2016

<sup>56</sup> Economist Espresso, The elusive export boom, 10th February 2017

# An agenda for action



While British businesses seem cautiously optimistic and exporters appear to have a moderately positive outlook, there are clearly some potential bumps in the road ahead. Could we do more? Could the Government turbo charge cross-border trade? Here we outline GS1 UK's agenda for export.

## Lower corporation tax

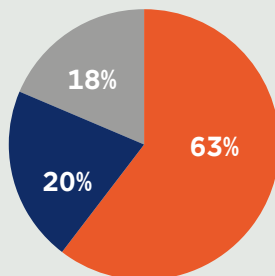
The most obvious thing the Government could do would be to lower Corporation Tax from 20%<sup>57</sup> to the same level as Ireland – 12.5% and lower in some cases.

This is not an unreasonable suggestion. In Philip Hammond's November 2016 Autumn Statement he said the Government intended to stick to its schedule for Corporation Tax cuts, with rates falling to 17% in 2020. That's down from 28% under Gordon Brown and would be roughly half the rate paid by companies in France and Germany. Theresa May has indicated she's prepared to come down below 15% if necessary<sup>58</sup>.

European leaders and officials have warned the Government against slashing taxes after Brexit. Speaking at the World Economic Forum in Davos in January, Germany's Finance Minister, Wolfgang Schäuble, said Theresa May would not be taken seriously by world leaders if she broke a G20 agreement by turning Brexit Britain into a low-tax competitor off Europe's coast.

But British business backs the Prime Minister. When we asked if the UK should adopt the same Corporation Tax rate as Ireland, almost three-fifths of the businesses (62%) we polled said they thought we should, while just one-fifth (20%) said we shouldn't (18% said they didn't know).

Should the UK adopt the same low corporation tax as Ireland (12.5%)?



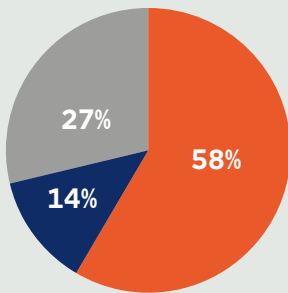
● Yes  
● No  
● Don't know

“My business is typical of most new, growing companies in that in order to expand we need to continually invest all our profit into more production. The obvious way for the Government to assist our growth is to leave us with more profits for investment and take less in corporation taxes. We will grow faster and export far more goods. This is a priority to us.”

Roddy Bridges, Managing Director of Toy Maker Ragtales

<sup>57</sup> Economist, *Business After Brexit: Leave or Remain?*, 28th January 2017: 19-22  
<sup>58</sup> Wall Street Journal, [Weak Tea After Brexit](#), 23rd November 2016

**Should the Government introduce export tax credits to incentivise British businesses to boost exports?**



● Yes  
● No  
● Don't know

## Offer export tax credits & improve access to export credit guarantees

Tax breaks could be offered as an incentive to British businesses to boost exports. Firms which boost the country's overseas sales could be given credits while rebates could be given against corporation tax bills to reduce the costs of seeking new business abroad<sup>59</sup>.

When we asked businesses if the Government should introduce export tax credits to incentivise British businesses

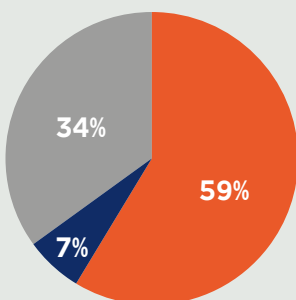
to boost exports, 58% of businesses surveyed agreed that the Government should introduce export tax credits while only 14% said they should not.

Better access to export financing for SMEs was also popular with our respondents, with 59% saying they wanted the Government to expand and improve SME access to export credit guarantees, while 7% disagreed (and 34% said they didn't know).

At HOWND we are just beginning our export journey. In order for us to build on our domestic success, it's important the Government supports, encourages, and takes steps to incentivise exporting through a mix of tax credits, corporation tax rebates, and the provision of export credit guarantees. The cost of seeking out new business abroad costs a lot of money – taking part in trade shows is expensive. The Government provides R&D credits to enable and incentivise – we need the same kind of thinking to boost exports.”

Mark Hirschel, Managing Director of dog grooming products manufacturer HOWND

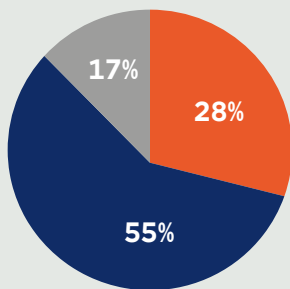
**Would you like to see the Government expand and improve SME access to export credit guarantees?**



● Yes  
● No  
● Don't know

<sup>59</sup> Daily Express, [Brexit trade to ROCKET as businesses given export tax break to STEAL foreign markets](#), 16th October 2016

**Do you want the Government to restrict the free movement of labour?**



● Yes  
● No  
● Don't know

## Free movement of labour

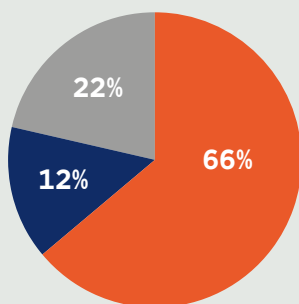
While the free movement of people proved politically unsustainable in the run-up to the referendum and is bound to be curbed in the course of Brexit, free movement of labour may not be dead. There is nothing to stop the Government offering businesses flexibility in attracting skilled labour, perhaps even giving preference to EU workers<sup>60</sup>.

When we asked business if they wanted the Government to restrict the free movement of labour, 28% said they did – while 55% said they did not.

Just 19% of super-exporters said they wanted the Government to restrict the free movement of labour.

British business is clear – the Government will need to move fast to ensure the UK is not starved of international talent. Industries such as healthcare, logistics, catering, warehousing, farming and the service industry are as nervous as more skilled sectors such as financial services. For instance, 54% of businesses in the agriculture, forestry & fishing industry said they did not want the Government to restrict free movement.

**Should the Government tackle domestic transport infrastructure as a matter of urgency?**



● Yes  
● No  
● Don't know

## Fix transport

Two-thirds (66%) of British businesses believe that, to help cross-border trade, the Government should tackle domestic transport infrastructure as a matter of urgency. Just 12% disagreed.

This may not be entirely unfair. The UK looks set to struggle to complete the planned 225km High Speed 2 rail line by its proposed opening date of 2026. To put our level of investment into perspective, in that time, China will have opened 30,000km of high speed rail<sup>61</sup>.

We also need to invest in our roads. The only new motorway constructions currently being planned in the UK are the M8 Baillieston to Newhouse project, the £380m A1(M) Leeming-Barton upgrade<sup>62</sup>, the Queensferry Crossing, and the M4 relief road<sup>63</sup>. Following the Government's Heathrow third runway decision last year, the Government needs to move much faster to ensure the project doesn't get "stuck in the hangar".

<sup>60</sup> Evening Standard, [How the capital can get the best out of Brexit](#), 18th January 2017

<sup>61</sup> Newsweek, [Theresa May's Industrial Strategy Is a Step in the Right Direction, But It Doesn't Go Far Enough](#), 23rd January 2017

<sup>62</sup> Highways England, [A1 Leeming to Barton improvement](#)

<sup>63</sup> BBC News, [New £1bn motorway to ease south Wales congestion](#), 16th July 2014

## Continue to make financial contributions to the EU

There is clearly a formidable challenge ahead to ensure London in general (and the City, in particular) gets support to make the best of life outside the EU. In her Lancaster House speech, Theresa May said that while Britain will be outside the single market, it may be possible to preserve some of our access to it, such as the export of financial services.

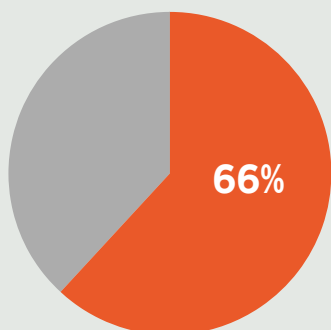
If that means Britain continuing to make financial contributions to the EU

(even at a much-reduced rate from the present £9 billion net annually) that may be a price worth paying for access. Brexit Secretary David Davis hinted as much<sup>64</sup>.

When we polled super-exporters, 49% said they would prefer the UK to continue making financial contributions to the EU to preserve access for trade and just a third (33%) said they would prefer the money was spent on cutting taxes here in the UK.

“Music has always been one of the UK’s great exports. As a young man in France, I relished buying British pressings of new albums. This hasn’t changed. British music is still very much sought after in Europe. If the Government could get us access to the single market that would be a winner for everyone. While all the policies GS1 UK has put forward would help increase exports, I feel that making financial contributions to the EU in exchange for access to the single market is by far the most important. Europe is as big a market – bigger than the USA – and while our government is making plans to trade with the USA, why should we not have access to an equally important market on our doorstep?”

Frenchy Gloder, Founder of independent record label Flickknife Records



When we polled British business and asked them which trade barriers the Government should target via trade deals to help facilitate cross-border trade, the elimination of customs duties came out as the top target with two-thirds of business (66%) wanting to see them eradicated.

## Eliminating barriers to trade

Just over a third of businesses want to see the Government target exchange controls (35%).

Import licenses revealed big differences between businesses transacting a good deal of their trade cross-border and the pocket-exporters – with 41% of super-exporters looking to have these eliminated compared to 21% of the pocket-exporters.

Just over a fifth (22%) of businesses want to see domestic subsidies in their target market reduced while 15% want the Government to help ensure it is easier for British workers to get visas – although this is more of a concern for

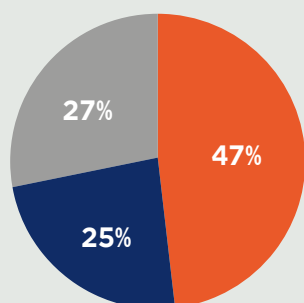
pocket-exporters (16%) than the super-exporters (12%).

Tackling digital protectionism was not a priority for our respondents. As the internet has become the world’s infrastructure, governments have responded by imposing a slew of conflicting national rules on the digital realm. As The Economist has warned, if left unchecked, this “splinternet” will cause economic damage, hamper digital innovation and restrict free speech<sup>65</sup>. But just 13% of the businesses we polled thought the Government should look for ways for countries to co-ordinate internet policies.

<sup>64</sup> Evening Standard, [How the capital can get the best out of Brexit](#), 18th January 2017  
<sup>65</sup> Economist Espresso; Splinternet? Policing the digital world; 14th November 2016



**Does the UK government, as Boris Johnson puts it, need to take the “machete of freedom to the brambles of regulation”?**



● Yes  
● No  
● Don't know

## Slash red tape

In the run up to the referendum, Vote Leave said EU regulation costs UK small businesses over £600m every week<sup>66</sup>. Open Europe found the cost of EU red tape to the UK economy stands at £33.3bn<sup>67</sup>. Whatever the precise figure, the Government is now presented with a prime opportunity to cut red tape.

When we asked businesses if the British government, as Boris Johnson puts it, needs to take the “machete of freedom to the brambles of EU regulation” only a quarter (25%) said that was unnecessary – that no changes to the regulatory framework were needed. While just over a quarter (27%) said they weren't sure, almost half (47%) of them agreed with Boris that the Government needs to tackle red tape.

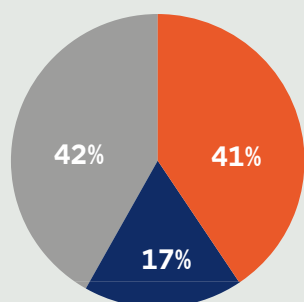
The Government should, for instance, hack away at regulations such as the cap on bankers' bonuses and scrap the Bank Corporation Tax surcharge

that banks currently have to pay. And it needs to get this message out soon, because banks are already considering whether to relocate parts of their operations. HSBC has confirmed it is moving 1,000 jobs from London to Paris<sup>68</sup> becoming the first big bank to unveil plans to relocate London-based employees after Britain leaves the EU. It said it will move staff responsible for a fifth of its trading revenue in London to Paris.

Wall Street banks with large British operations have also said they will relocate thousands of staff after the EU referendum result but this could be made far worse if a future UK-US trade deal were to restrict transatlantic flows of money.

Slashing regulation would, however, minimise this threat. Furthermore, it is what the French fear we will do, and will tend to make a UK-EU deal on financial services more likely<sup>69</sup>.

**To help the British business compete internationally, should the Government adopt a more non-interventionist model?**



● Yes  
● No  
● Don't know

## Embrace non-interventionism

The Government could go further still. Hong Kong has a non-interventionist model laid down by Sir John Cowperthwaite, the city's financial secretary, in the 1960s. Britain could follow a similar path, winning back ground lost to Singapore, Hong Kong and Shanghai as wealth and power shift to the east<sup>70</sup>.

Despite small exporters willingness to see Theresa May adopt a “proper industrial strategy”, when we asked respondents if, to help the UK compete

internationally, the Government should adopt a more non-interventionist model, just 17% said they opposed the adoption of a more non-interventionist model.

And when we asked significant exporters if the UK should adopt a more non-interventionist model, only 15% said they opposed the adoption of a more non-interventionist model while three times as many – around 45% – said the Government should do exactly that (40% answered “don't know”).

<sup>66</sup> Vote Leave, [Let's spend our money on our priorities](#), 2016  
<sup>67</sup> Open Europe, [What's the best way of cutting the £33.3bn burden of EU red tape?](#), 2015  
<sup>68</sup> Financial Times, [Is Theresa May's Brexit Plan B an elaborate bluff?](#), 19th January 2017  
<sup>69</sup> Spectator, [The economic consequences of Philip Hammond](#), 19th November 2016  
<sup>70</sup> Financial Times, [Hong Kong: a majority to accommodate](#), 23rd April 2012

# Conclusion



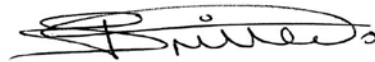
With our previous report, *Buying British in 2017*, we found that the future of British brands trading within the UK is bright. Readers of this report must conclude that the future of our exporters is equally optimistic. Our exporters are keen to put our faces into the wind of international competition and are confident of success – providing that the Government can make some of the changes we have outlined.

But they need help. There are bumps in the road ahead and if cross-border trade is to underpin our future prosperity, the Government needs to back our exporters.

With the re-emergence of protectionism across the Atlantic, there is a threat to the golden age of cross-border trade. Here in Britain, we must defend the millions of firms trading across borders as transmitters of ideas and capital.

As the Mayor of London, Sadiq Khan, often reminds us, London is open and the UK should be too, if we want our businesses to be free to trade as they want, without inhibitions.

As a conduit for more than 31,000 British businesses, GS1 UK will continue to highlight opportunities for trade with overseas retailers and global marketplaces. GS1 UK is passionate about supporting growth and will listen to our members' concerns and voice them where appropriate – particularly when it comes to defending cross-border trade.



James Spittle  
Chairman of GS1 UK



## Buying British in 2017

Read our report on how the British public are buying locally again – whether it's food, drink or clothes.

[www.gs1uk.org/trade](http://www.gs1uk.org/trade)

# Want to know more

You can read more about how GS1 standards enable trade at [www.gs1uk.org/trade](http://www.gs1uk.org/trade). And why not join the conversation on Twitter at [#GS1trade](https://twitter.com/GS1trade)

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