



# CUSTOMS CLEARANCE

The road to seamless trade for small businesses

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Federation of  
Small Businesses

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# WHO WE ARE

The Federation of Small Businesses (FSB) is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.

We provide our members with a wide range of vital business services, helping them to start, run, and grow successful businesses through high-quality protection and support. This includes 24/7 legal support, legal and tax insurance, financial expertise, training and events, debt recovery, health and safety, payroll and pensions, help with care, and employment/HR advice – alongside a powerful voice in Government. FSB is the UK's largest business group and leading business campaigner, focused on achieving change which supports smaller businesses to grow and succeed.

Our policy and advocacy work starts with our expert team in Westminster, which focuses on UK and England policy issues, the UK Government, Parliament and the media. Further to this, our teams in Glasgow, Cardiff and Belfast work with Governments, elected representatives and media in Scotland, Wales and Northern Ireland.

# CUSTOMS CLEARANCE

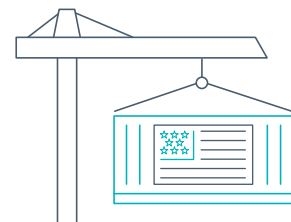
The road to seamless trade for small businesses

## MARKETS AND PRODUCTS



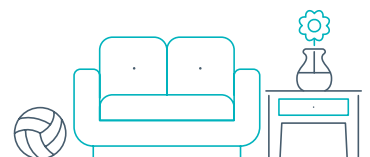
### 93%

of small exporters **move goods from the UK to EU**



### 59%

of small exporters say the **US is their top non-European market**



### 28%

of exported goods are **manufactured products** such as **sporting equipment, furniture, and decorative objects**

## CHALLENGES



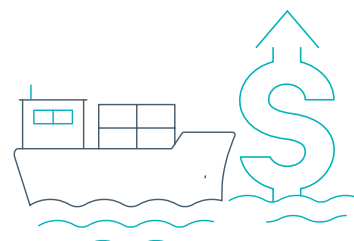
### 81%

of small firms have experienced **cost increases for overseas goods**



### 56%

of businesses that no longer trade overseas say **excessive paperwork contributed to their decision to stop**



### 61%

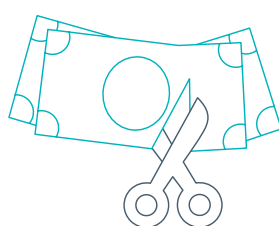
of small international traders face **high shipping costs**

## RESOURCES AND SUPPORT



### Just 9%

of small firms have a **dedicated staff member or team to handle trade and customs**



### 51%

of small firms say **Government's top priority** should be to **lower the overall costs of trade**



### 39%

of small firms want more **user-friendly customs declarations** to be a priority for Government

# CONTENTS

Foreword ..... 5

Key Findings ..... 7

Recommendations ..... 9

How small businesses trade ..... 11

    SME imports and exports in 2022 ..... 11

    The 2020s: A complex economic climate ..... 19

    Barriers to trade ..... 22

Tackling losses and delays in transit ..... 25

Providing clear guidance ..... 30

Digitisation of trade ..... 35

Small businesses and intermediaries ..... 40

Looking forward: What small businesses need ..... 43

Conclusion ..... 48

Methodology ..... 49



# FOREWORD

International trade allows businesses to reach a wide range of customers and markets, boosting sales and growth. Many of the UK's vibrant small business community have already embraced the opportunities of overseas trade, but we know that SMEs have a lot more to offer the world, from high quality food and drink to world-class manufacturing.

While small firms are extremely agile, innovative and resilient, there are undeniable barriers that make trade more difficult. Throughout my time as FSB's policy champion for foreign affairs I have seen first-hand how small businesses have grappled with the seismic events that have rocked the global economy in the last few years. The Covid-19 pandemic and the Russian invasion of Ukraine have severely affected the ability of supply to meet demand worldwide while many UK SMEs that trade with the EU are continuing to adapt to new customs processes.

Current and potential exporters report being deterred by burdensome paperwork and high costs. At FSB we are concerned about the long-term consequences of this chilling effect on trade for the growth prospects of both the UK's small business community and the wider economy.

The majority of the challenges reported by members when gathering evidence for this report are financial or logistical in nature, from high shipping costs to filling out complex paperwork. By making it easier, cheaper and more attractive for SMEs to do business internationally, we have the opportunity to unlock the advantages of trade for small businesses and boost growth across the whole economy. In the North East of England alone, my home region, where export levels are below the national average, there are many more businesses that have the potential to export with the right support to get them started. Just one of these initiatives is the new national pilot for the digitalisation of paperwork for exporting, the ICC Centre for Digital Trade and Innovation (C4DTI) based at Teesside University, and FSB welcomes the launch of C4DTI as a first step to simplifying exporting procedures for our members.

FSB has consistently encouraged, and worked with, the Government to build robust and targeted trade support mechanisms that help the smallest businesses think more strategically about trade from day one. Trade support initiatives alone, however, are not enough. They must be complemented by an effective and user-friendly customs infrastructure that allows goods to move into and out of the UK seamlessly and works well for small firms.

As policymakers rethink the UK's trade infrastructure, it is essential that administrative processes, global supply chain disruption and the impact of changing trade relationships on the smallest businesses are factored in. FSB hopes that the data and recommendations set out in this report will provide useful insights into the needs of small businesses and help policymakers to shape UK trade processes.

FSB has long valued the opportunity to work closely and collaboratively with Government to support the UK's smallest traders, particularly HMRC and the Department for Business and Trade. FSB stands ready to work with Government to unlock the trade potential of the UK's small businesses and I look forward to seeing SMEs flourish in a thriving global trade ecosystem.



**Neil Warwick OBE**

FSB Policy Champion for International and Trade

# KEY FINDINGS

- **SME trade is often low volume/low value but relatively high frequency:**
  - 45 per cent of importers and exporters say the average value of the items they trade is below £2,000.
  - 93 per cent of businesses that send goods valued below the £135 customs threshold have fewer than 10 employees.
  - 39 per cent of traders that move goods do so at least once a week, of whom 27 per cent move goods more than once a week.
- **Small firms are struggling with the costs of trade:**
  - 9 per cent of respondents said they used to import or export but have stopped within the past five years.
  - The top reasons for stopping are the volume of paperwork (56%), overall costs (49%) and supply chain or logistical issues (29%).
  - The top challenges facing current traders are high shipping costs (61%), losses and delays in transit (54%) and lack of clear guidance (45%).
- **SMEs have limited resources to deal with trade in-house:**
  - 9 per cent of firms have a dedicated employee or team to handle customs.
  - 38 per cent of SMEs with over 50 employees have dedicated staff/teams for trade compared to 5 per cent of businesses with fewer than 10 employees.
  - 71 per cent of SME traders use an intermediary for at least some of the process of handling customs declarations.
  - 61 per cent of businesses use a large fast parcel operator.
- **Top trading partners:**
  - The top 5 markets for small business exports are Ireland, Germany, France, United States of America (USA) and the Netherlands.
  - The top 5 origin markets are Germany, USA, China, France and Italy.
  - Europe is still the top export and import market by global region: 93 per cent of FSB exporters and 87 per cent of importers move goods between the UK and other European countries.
  - The USA is the top non-European market for SME trade (59% of exporters and 32% of importers).

- **SMEs are adjusting to the new UK-EU relationship:**
  - According to FSB's quarterly Small Business Index, 13 per cent of SME EU traders say they have stopped trading temporarily or permanently with the EU since the UK's exit (Q4 2022).
  - 5 per cent of EU exporters have or are looking to warehouse goods in the EU.
  - Relatively few businesses have pivoted to new markets since the end of the transition period: 6 per cent of EU exporters and 5 per cent of EU importers.
- **Supply chain disruption is driving costs and reducing availability:**
  - Most small businesses have experienced cost increases (81%) and lower availability (60%) of goods that originate from outside the UK.
  - Many have been forced to absorb costs (40%) or increase prices (56%).
- **Tackling the costs of trade is critical:**
  - When asked for their top three priorities for the Government, the top answers chosen by SMEs are to: lower the overall costs of trade (51%), make customs declarations more user-friendly (39%), and deliver clear guidance (36%).



# RECOMMENDATIONS

## Improving trade infrastructure

- **The UK Government should deliver an effective and small-business friendly Single Trade Window (STW)** - an online portal that will bring in a ‘once and done’ approach to Government collection of the data traders need to provide to export or import. To achieve this:
  - **HMRC should carry out and publish a comparative analysis of countries that have already implemented a single window for customs** and report on best practices.
  - **HMRC should deliver the STW within a realistic timeframe that allows for robust testing.** The Financial Secretary to the Treasury should review progress on the STW and delay roll-out if the current timeline does not allow for a robust pilot. In parallel, the Trade Select Committee/Public Accounts Committee should undertake a short inquiry to assess progress on STW delivery.
  - **The Home Office should deliver consistent, high-quality customs training to Border Force staff.** Customs training must not be deprioritised in favour of immigration processes. Government should encourage close cooperation between customs authorities in the UK and its trading partners.

## Knowledge and guidance

- **The Department for Business and Trade should further develop and promote the Export Support Service (ESS).** We propose the creation of an ESS Advisory Group to promote awareness and shape future resources.
- **The Department for Business and Trade should target resources towards small businesses with high export potential.** More detailed resources should be developed for businesses in sectors that say they find a lack of guidance particularly difficult.
- **HMRC should develop new funding streams for small businesses to invest in private sector support.** Building on the SME Brexit Support Fund, Government should deliver vouchers which allow businesses to fund a wide range of trade-related activities.

## Trade digitisation

- **The UK Government should commit to passing and implementing the Electronic Trade Documents Bill.** The Department for Business and Trade should raise awareness of and promote the advantages of digital trade documents via its new Help to Grow site.

- **The UK Government should champion digital trade through its diplomatic efforts around the world.** The UK Government should drive forward its support for digital trade via multilateral initiatives such as the WTO Joint Statement Initiative on e-Commerce, and its bilateral Free Trade Agreements.

### **Making trade easier, cheaper and more attractive**

- **The Competition and Markets Authority should provide a ‘year on’ update** from the Five Eyes working group on supply chain disruption and going forward should provide annual update reports.
- **The UK Government should continue to implement and promote trade facilitation measures.** The Government must complement delivery of the Single Trade Window with awareness raising initiatives, such as a dedicated roadshow or resources on the new Help to Grow site.
- **The UK Government should adopt a ‘think small first’ approach to customs policy development.** Policymakers must place small businesses at the heart of new trade and customs structures to avoid disproportionate cost or administrative burdens. This should include commitments to robust piloting and phased implementation timelines. Government should also commit to raising the de minimis customs duty threshold to £1,000.

# HOW SMALL BUSINESSES TRADE

## SME imports and exports in 2022

As the UK marks two years of its independent trading status, the Government is developing plans to restructure how traders move goods into and out of the UK via a new Target Operating Model, delivering on the ambitions set out in the 2025 Border Strategy.<sup>1</sup>

For trade infrastructure to truly deliver for SMEs we need a clear understanding of how small businesses import and export and the challenges they may experience. However, to date there has been a shortage of data on small firms' interactions with customs processes. This section explores data gathered from FSB members over the course of 2022, revealing a complex picture of often relatively low value yet high frequency trade that requires significant investment of entrepreneurs' time and resources.

A fifth (22%) of UK SMEs exported their goods, products or services overseas in 2022 while a third (30%) imported.<sup>2</sup> Broken down by business size, sole traders are less likely to participate in international trade than their larger counterparts (Figure 1). Small firms across all parts of the UK import or export, with variations across nations which reflects the concentration of businesses across the UK.<sup>3</sup>

**Figure 1:** SMEs that import or export by business size

**Source:** FSB Small Business Index 2022 (Q4)

SMEs that trade internationally	Number of employees			
	None	1 to 9	10 to 49	50 to 249
Export	19%	23%	27%	42%
Import	20%	34%	45%	50%

1 Cabinet Office, 2025 UK Border Strategy, December 2020, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/945380/2025\\_UK\\_Border\\_Strategy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945380/2025_UK_Border_Strategy.pdf)

2 Federation of Small Businesses Small Business Index, Q4 2022

3 FSB data is higher than average for UK small businesses: the most recent Government Small Business Survey states that 12% of businesses with no employees and 18% of SME employers exported goods or services in the previous year. Source: Department for Business, Energy & Industrial Strategy, Longitudinal Small Business Survey: businesses with no employees – UK, 2021, <https://www.gov.uk/government/statistics/small-business-survey-2021-businesses-with-no-employees>

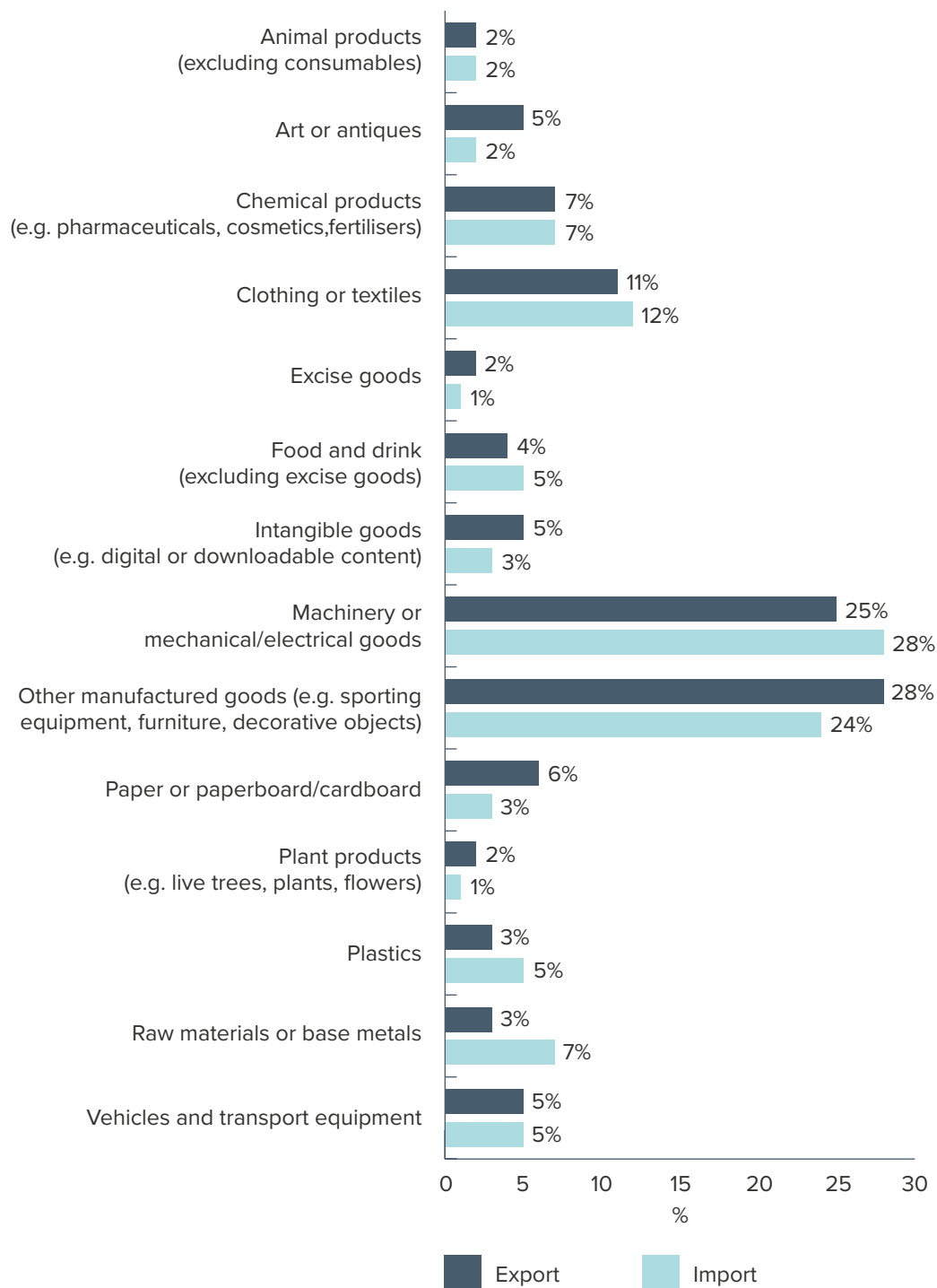
Small businesses are more likely to export when they have more than five years in business.<sup>4</sup> Feedback from FSB focus group interviews reflected this, with most businesses reporting that their first focus when establishing a business was to consolidate their domestic market before looking to export or import.

Of the goods that small businesses export or import, the most common types are machinery, electrical and other manufactured goods, followed by clothing/textiles (Figure 2). Businesses that responded 'other' were invited to provide further detail; a wide range of goods was reported although medical devices, seeds, and promotional materials were most common.<sup>5</sup>

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<sup>4</sup> FSB Trade and customs survey, 2022

<sup>5</sup> 27% of respondents to this question chose 'other'

**Figure 2:** Type of goods exported or imported**Source:** FSB Trade and customs survey 2022

Businesses that trade overseas are most likely to carry out B2B sales (53%) or imports (78%) (Figure 3). Larger SMEs are more likely than the smallest businesses to supply public bodies: 12 per cent of business with over 50 employees sell goods to public bodies outside the UK (examples provided by members include specialist PPE or educational products), compared to 5 per cent of those with fewer than 10 employees. A higher proportion of micro (44%) and small businesses (34%) engage in B2C sales – from books to racing car parts – than larger SMEs (20%).<sup>6</sup>

**Figure 3:** Purpose of international trade in goods

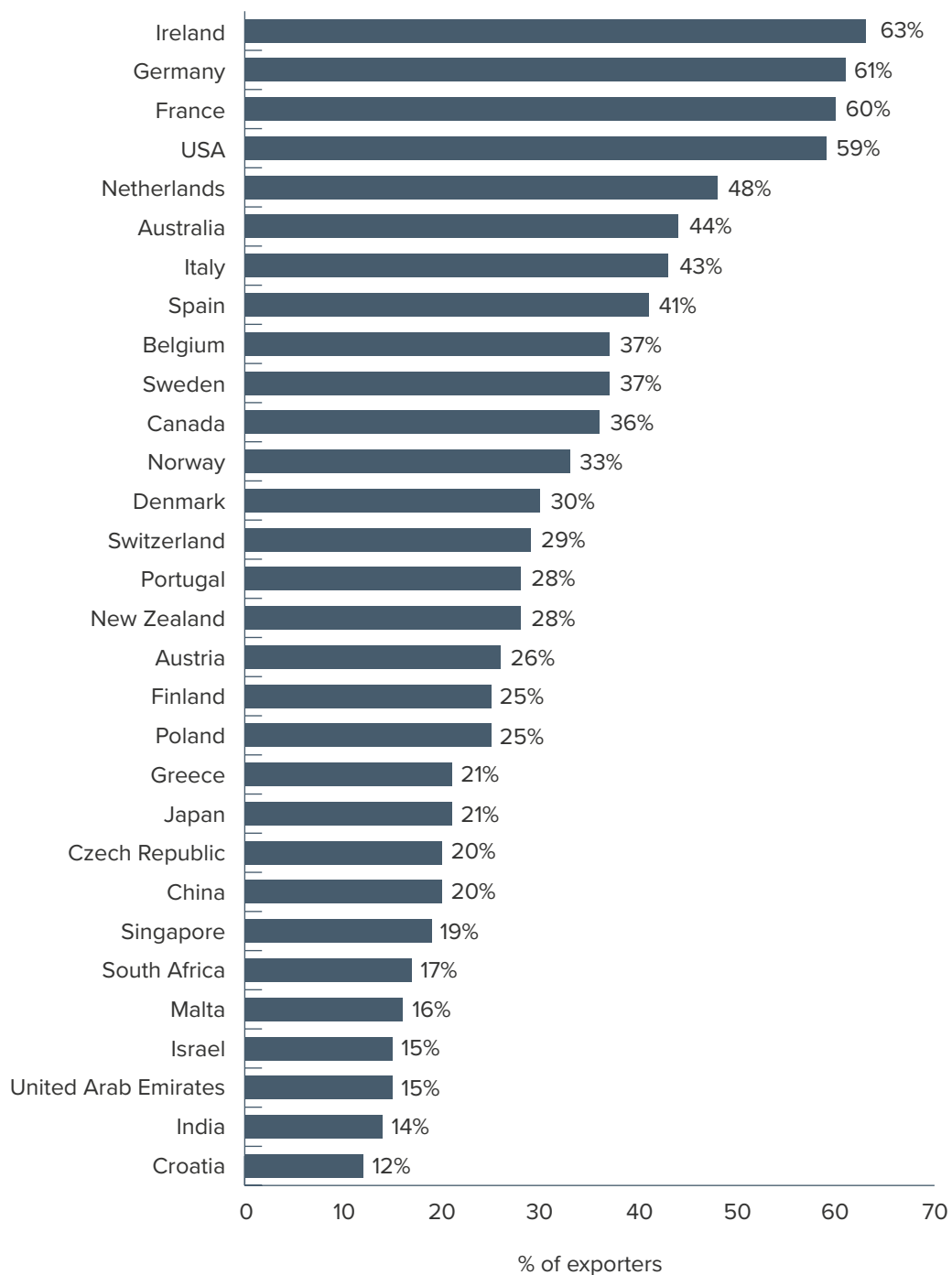
**Source:** FSB Trade and customs survey 2022

Reason for moving goods	Total
B2B sales (export)	53%
B2C sales (export)	41%
B2G sales (export)	7%
I export goods temporarily (e.g. for repair)	12%
I import goods temporarily	12%
B2B purchase (import)	78%

The top destination markets for small business exports are Ireland, Germany, France, United States of America (USA) and the Netherlands while the biggest origin markets are Germany, USA, China, France and Italy (Figures 4 and 5). Outside the European Union (EU), European Economic Area (EEA), and European Free Trade Association (EFTA), the top five export destinations are the USA, Australia, Canada, New Zealand and Japan and the top five origin markets are the USA, China, India, Australia and Canada. With the exception of China and Japan, these countries all form part of the Anglosphere, i.e. English speaking nations that share historic or cultural ties.

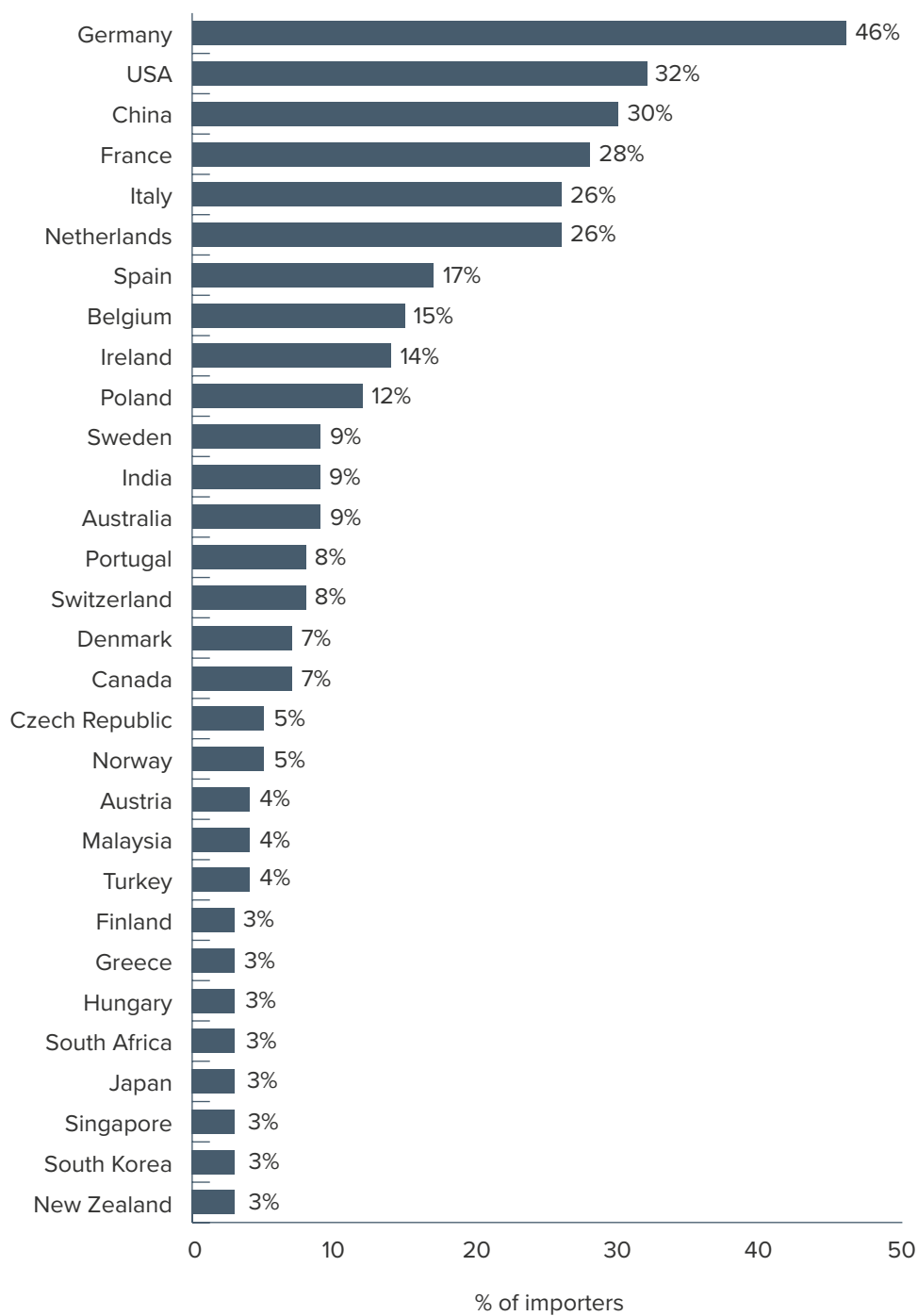
<sup>6</sup> Federation of Small Businesses Customs survey, 2022



**Figure 4: Top 30 export markets****Source:** FSB Trade and customs survey 2022

**Figure 5:** Top 30 origin markets

**Source:** FSB Trade and customs survey 2022



By global region, Europe is the top export and import partner for UK SMEs (Figure 6) although interview and focus group evidence gathered for this report indicates that some businesses view non-European markets as having greater growth potential since the UK formally left the European Union, in particular the United States and United Arab Emirates.<sup>7</sup> While the number of businesses pivoting to new markets is relatively low (6% of EU exporters and 5 per cent of EU importers in Q4 2022<sup>8</sup>) we should expect to see further growth into non-EU markets as the UK concludes new trade agreements with key partners such as the countries in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)<sup>9</sup> if implemented correctly.

**“When I think about growth now, I’m looking at markets outside Europe like South Africa, India, and China. We need so much paperwork to get goods to Europe it is easier to export to Dubai than to Paris.”**

FSB member, catering services, East midlands

Larger businesses are significantly more likely to export to African and Asian markets than their smaller counterparts. This reflects the greater capacity of larger small businesses to absorb higher shipping costs, navigate complex regulatory requirements or overcome greater cultural and linguistic barriers with more distant markets.

**Figure 6:** Import and export markets for SME traders by region

Source: FSB Trade and customs survey 2022

Region	% of exporters	% of importers
Europe	93%	87%
Africa	25%	4%
Americas	62%	34%
Asia	44%	37%
Australia and Oceania	45%	9%

7 This is not necessarily the case for small businesses in Northern Ireland who continue to have EU market access for goods due to the Northern Ireland Protocol/Windsor Framework.

8 Federation of Small Businesses Small Business Index, Q4 2022

9 The CPTPP is a free trade agreement between: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam. The CPTPP was signed in 2018

## Value and volume of SME trade

Although small businesses make up the vast majority of the UK's businesses they are under-represented in international trade.<sup>10</sup> In 2020 businesses with over 250 employees represented approximately 2.5 per cent of the number of UK exporters but over half of the value of goods exported.<sup>11</sup> For nearly three quarters of FSB traders the average value of the items they send and receive is below £10,000 (72%), and below £1,000 for a third (35%).

Two in five businesses engaged in moving goods in or out of the UK do so at least once a week (39%), of whom just over a quarter (27%) move goods more than once a week. Overall larger SMEs tend to be more frequent traders – seven in ten (71%) larger SMEs say they move goods into or out of the UK once a week or more, compared to three in ten (29%) businesses with no employees.<sup>12</sup> Animal products, food and drink, plant products and raw materials are among the goods exported or imported least frequently (once a month or less), while clothing/textiles, and machinery, mechanical or other manufactured goods are more likely to move into or out of the UK once a week or more. FSB data also shows that lower value goods tend to be exported or imported more frequently.

For the majority of SMEs, responsibility for import and export activity is held by the business owner or a staff member in addition to other duties. Very few small firms have a dedicated staff member (7%) or team (2%); those that do are more likely to have more employees (38% of SMEs with over 50 employees compared to 5 per cent of businesses with fewer than 10 employees). Similarly, those that move goods more than once a week are more likely to have dedicated staff dealing with trade (19% of businesses that move goods more than once a week compared to 6 per cent of those that move goods once a month).

**“We now use a customs agent for European imports because we didn’t have the resources in the team to handle them.”**

FSB member, catering services, East midlands

<sup>10</sup> Department for Business, Energy & Industrial Strategy, Business population estimates for the UK and regions 2022, October 2022, <https://www.gov.uk/government/statistics/business-population-estimates-2022/business-population-estimates-for-the-uk-and-regions-2022-statistical-release-html>

<sup>11</sup> HM Revenue & Custom, UK Trade In Goods by Business Characteristics, 2020, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1033099/IDBR\\_OTs\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033099/IDBR_OTs_2020.pdf)

<sup>12</sup> FSB Trade and customs survey, 2022

Close to half of businesses (46%) report that their monthly costs of trade reach up to £1,000. Even a small reduction in the costs of importing and exporting would have a significant impact on SMEs' costs. As FSB research shows later in this report, small firms' top priority for the Government to consider when designing new trade processes and infrastructure is to reduce the overall costs of trade.

Three quarters of small businesses say that they spend up to 10 hours per month dealing with exporting or importing processes. For businesses that have limited resources to dedicate to trade, this is a significant amount of time: as shown in the next section, small firms say that the time-consuming nature of dealing with trade and customs paperwork is the main challenge they experience when moving goods overseas.

While over half of businesses report spending an estimated five hours or less on exporting/importing processes per month, trading with some regions appears more time-consuming. For instance almost a quarter of small firms that send goods to or receive goods from Africa spend an estimated 21 hours or more on exporting and importing.

**“The reward to resource outcome for exports is now better further afield. We have had to stop B2C orders to Europe due to tax bills as we are unable to tell our customers exactly how much they are going to pay because there is inconsistency in what is charged. However there is a lot of opportunity elsewhere – it was seamless to get a container to the US and we have just signed an agreement to export to Israel, our 18th overseas market.”**

FSB member, food manufacturer, south east England

## **The 2020s: A complex economic climate**

No business, whatever their size, takes decisions regarding importing or exporting without considering a number of factors. Each choice, from placing a product on a new market to establishing an overseas subsidiary, is inextricably linked to and influenced by issues from staffing and skills levels to the availability of credit. The UK's micro, small and medium-sized businesses, which routinely operate with tighter margins and fewer resources than their larger peers, are the most vulnerable to economic disruption, which in turn impacts their trade decisions.

### **Global events, local impacts**

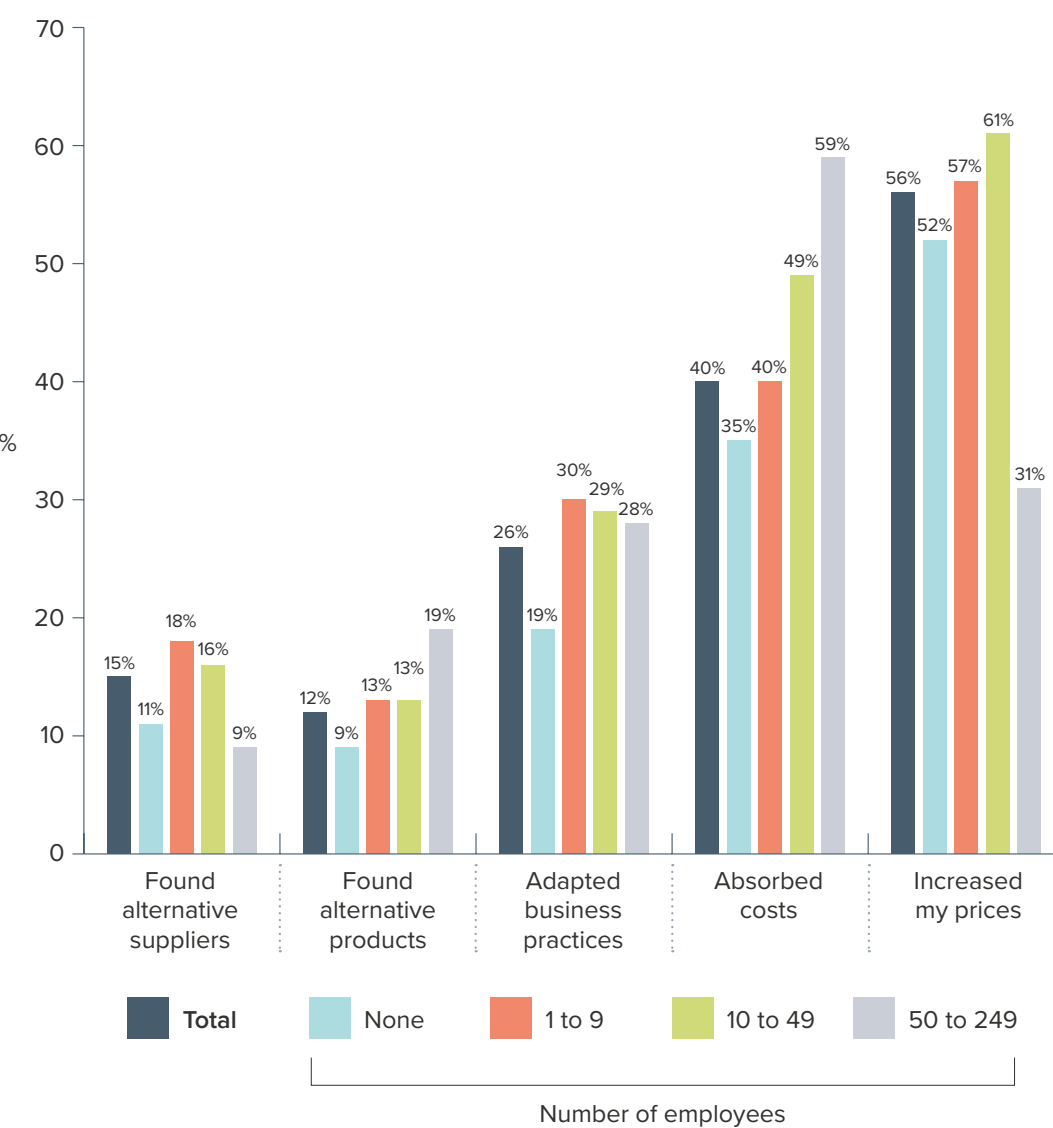
The Russian invasion of Ukraine led to worldwide shortages of commodities such as cereals and vegetable oil, neon and palladium, and caused shockwaves in the global energy markets. Small businesses have borne the brunt of the subsequent inflationary pressures. Over the past year most small

businesses have experienced cost increases (81%) and lower availability (60%) of goods that originate from outside the UK.<sup>13</sup> Many small firms have been forced to absorb these costs (40%) or increase their prices (56%) (Figure 7) although larger SMEs are more likely to have found alternative products and less likely to have passed costs on to their customers.

The availability of, or ability to find, alternatives is higher for businesses in sectors such as accommodation/food, manufacturing, construction and wholesale while in seasonally-reliant sectors such as agriculture, companies have been less able to adapt their business practices.<sup>14</sup>

**Figure 7: SME response to supply chain disruption**

**Source:** FSB Small Business Index 2022 (Q3)



13 FSB Small Business Index, Q3 2022

14 FSB Small Business Index, Q3 2022



## The new UK-EU relationship

Since the UK's formal exit from the EU, FSB has regularly surveyed members on the impact of the Trade and Cooperation Agreement (TCA). The number of small firms that have stopped trading temporarily with the EU fell from two in ten (19%) in early 2021 to one in ten (9%) in Q4 2022 while the number that have stopped permanently has remained fairly steady around 4-5 per cent.

There has however been an overall reduction in trade with the EU and feedback gathered through interviews and focus groups shows that many small firms still find navigating UK-EU trading rules extremely burdensome. The most commonly reported issues relate to the loss of or delays in goods, difficulties completing customs paperwork and navigating VAT processes.

**“Pre-Brexit, exports accounted for approximately 10% of our turnover with our main markets being Germany and Poland. We could ship repaired items to either of these countries for an average of £20 with a 48-hour delivery time. Immediately post Brexit these costs increased to over £200 with a 2 week delivery time, if we were lucky. The paperwork systems were not in place and even though we were supposed dealing with the Single European market each country appeared to operate their own rules and interpretations, which appeared to change weekly. Things have improved but the ongoing paperwork requirements are much more detailed and to process one transaction now takes 1 man hour compared to 5 minutes previously whilst costs have now settled at approximately £150 with a 5-day delivery time. Overseas sales have now dropped by over 50%.”**

FSB member, industrial repair services, Wales

There are options available to businesses to facilitate EU trade, such as warehousing in an EU Member State. These arrangements are often expensive and burdensome and relatively few have opted to do so: in Q4 2022 just 5 per cent of exporters said they had or were looking to warehouse in the EU.<sup>15</sup>

**“My customers now have to pay charges on deliveries and sort out the customs duty before they get their goods. None of this makes it appealing for a European customer to order from the UK rather than the EU. My fear is that small companies like mine will stop exporting altogether as they gradually lose business and are worn down.”**

FSB member, manufacturer, south west England

<sup>15</sup> FSB Small Business Index, Q4 2022

## Barriers to trade

The number of small businesses that consider themselves as exporters fell for the four consecutive quarters prior to Q4 2022, reaching a low of 21 per cent in Q3 2022. The national trade deficit reached £25.2 billion in Q1 2022, the largest since records began in 1997.<sup>16</sup>

Small businesses that have stopped international trade in the past five years were asked to identify why they had stopped. The top reasons provided were the overall costs and administrative burdens, followed by supply chain issues and regulatory barriers. The dominant themes from the ‘other’ category were the UK’s withdrawal from the EU, business owners approaching retirement age, and the financial impact of insurance and taxes.

**Figure 8:** Reasons for stopping overseas trade

**Source:** FSB Trade and customs survey 2022

Reason for stopping overseas trade	%
Too much paperwork / too time-consuming	56%
The overall costs were too high	49%
Supply chain or logistical issues	29%
Regulatory environment (e.g. local standards or licensing requirements)	26%
Other	25%
Lack of required skills and / or resources	14%
Not knowing where to go for support and advice	13%
I don’t see benefits to my business	13%
Difficulties finding customers	7%
Availability / affordability of trade finance	5%

The most common barriers reported by FSB members currently importing or exporting goods can be grouped into three broad categories: financial barriers, administrative burdens, and knowledge gaps.

- **Financial:** For almost half of small business traders the average monthly cost of importing and exporting reaches up to £1,000. A proportion of this can be attributed to duties and taxes and extensive evidence provided by FSB members shows that these costs have become more of a burden

<sup>16</sup> Office of National Statistics, UK Trade Statistics, March 2022, <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/march2022>

for EU trade since the end of the transition period on 31 December 2020. The most commonly reported challenge is high shipping costs (61%); high intermediary fees are also an issue (30%).

- **Administrative:** Businesses experience difficulties completing customs paperwork from classifying goods with the right commodity code (30%) to correcting errors (25%), providing multiple copies of paperwork (24%) or reclaiming duties (15%). While none of these is individually reported by a majority of traders, the cumulative impact is significant.
- **Knowledge:** A lack of clear guidance is reported by close to half (45%) of small firms. This is an issue particularly for businesses that do not have a dedicated team to handle importing and exporting.

**Figure 9:** Challenges experienced by importers/exporters

**Source:** FSB Trade and customs survey 2022

Challenges	%
High shipping costs	61%
Goods delayed/lost in transit	54%
Lack of clear guidance	45%
Understanding why goods have been delayed or rejected by customs	40%
Understanding which tariffs and duties apply	32%
High intermediary fees	30%
Difficulties classifying goods with the right commodity code	30%
Difficulties completing customs paperwork	30%
Understanding who is responsible for tariffs and duties	29%
Difficulties correcting errors in customs declarations	25%
Requirement to provide multiple hard copies of paperwork	24%
Delays or difficulties in reclaiming duties	15%
Availability of intermediary services	10%
Other	13%
None of the above / Don't know	5%

There are clear overlaps between the barriers experienced by current traders and those who have stopped importing or exporting, particularly around the overall costs and administrative burdens of international trade.

The following sections explore some of the challenges reported by current traders and sets out recommendations to Government that FSB believes will encourage more small firms to begin or increase overseas trade.

The first section explores the financial and administrative costs to small businesses of delays and losses of goods in transit and looks at potential actions to increase supply chain resilience. Chapter two addresses the knowledge gaps around international trade among small firms and identifies areas where guidance and support should be targeted to unlock SMEs' trade potential, and chapter three turns to the long-term time and cost efficiencies of trade digitisation for businesses all over the world. The final two chapters examine two aspects of SME interaction with trade infrastructure and logistics, before turning to what small firms want the Government to prioritise when developing the Target Operating Model.

**“There has been a lot of focus on the problems and disruption. While trade with the EU is harder than it was before, there is a lot that does work the way it should. Education is important to help businesses understand who is responsible for each part of the process.”**

FSB member, freight forwarder, north west England

# TACKLING LOSSES AND DELAYS IN TRANSIT

Over half (54%) of current traders say they have experienced losses or delays of goods in transit. Businesses that move goods temporarily report that they are particularly impacted, with seven in ten businesses (71%) saying this has been an issue for them.

Respondents with fewer years in business are less likely to identify losses and delays as a challenge than those in business for more than five years (Figure 10). Figure 10 also suggests that less experienced entrepreneurs see other aspects of overseas trade – such as the lack of clear guidance – as more challenging, demonstrating the importance of targeted and specific support to help businesses begin their trade journeys (see next section).

**Figure 10:** Top 3 challenges experienced by traders

Source: FSB Trade and customs survey 2022

Challenges	Years in business					
	1–2	3–4	5–9	10–19	20–49	50+
High shipping costs	75%	58%	65%	63%	57%	74%
Goods delayed / lost in transit	25%	42%	54%	53%	56%	55%
Lack of clear guidance	75%	51%	44%	53%	37%	49%

Delays and losses are not a unique feature of trade with one country or region, but our focus group evidence indicates that they are particularly common for SMEs that trade with the EU Single Market. This is due to the fact that the new UK-EU trading relationship has required traders, customs authorities and consumers in the UK and the EU Single Market to adjust to the new trading relationship governed by the Trade and Cooperation Agreement (TCA). Around six in ten exporters (61%) and importers (57%) have experienced losses or delays when moving goods between the UK and Europe.

These problems were particularly pronounced during the first weeks following the UK's formal exit from the EU Single Market during which 70 per cent of importers and/or exporters suffered shipment delays when moving goods around the EU while a third (32%) lost goods in transit, and a further third (34%) had goods held indefinitely at EU border crossings.<sup>17</sup>

Goods going missing or being significantly delayed results in revenue

<sup>17</sup> FSB, One in four small exporters halt EU sales, three months on from transition end, new study finds, March 2021, <https://www.fsb.org.uk/resources-page/one-in-four-small-exporters-halt-eu-sales-three-months-on-from-transition-end-new-study-finds.html>

losses as well as the cost of replacing or refunding missing items. Small businesses reliant on receiving components or parts in good time may need to delay or halt work, resulting in lower productivity, and firms can also suffer reputational damage and loss of customers. Some larger companies are moving away from ‘just-in-time’ trade models as a way to mitigate the disruption caused by delays.<sup>18</sup> Adapting business practices by finding alternative suppliers, stockpiling, and obtaining extra storage or warehousing space in the UK or overseas are all however likely to be prohibitively expensive for the smallest firms.

Losses and delays also generate further time-consuming challenges including locating goods, understanding the reasons for delays and resolving issues. Four in ten businesses (40%) see the work required to understand the reasons for which goods may have been delayed, held up or rejected by customs authorities as a challenge (Figure 9). Businesses that lack dedicated resources to handle trade and customs are most likely to be affected: understanding why goods have been delayed or rejected is a challenge for a quarter of businesses (24%) with an export/import team or department compared to the almost four in ten (39%) business owners who deal with customs as an additional task.

**“What I have found post Brexit is that a lot of items go missing, because shippers or the transport companies are far more likely to consolidate shipments and so things can sit around in the warehouse for a week or two until they get a truck going to the right place. I would say that apart from delays, probably, one consignment in ten has got lost for at least a week and in one case for six months.”**

FSB member, manufacturing, north west England

**“Our EU orders are reduced due to the expense and difficulty of sending items abroad. Sometimes parcels of books come back never having been delivered or having been turned down due to high charges at the EU customer end. We sent a parcel to a customer that was returned to us months later, and when we got in touch to ask why he said he never even got offered the parcel.”**

FSB member, retail, Scotland

To increase transparency and help businesses better understand why their goods may be delayed in transit Government should deliver on the commitment set out in the 2025 Border Strategy to build a Single Trade Window (STW). It is critical that HMRC places small businesses at the heart

<sup>18</sup> Economist Intelligence Unit, The Business Costs of Supply Chain Disruption, 2021, p10, [https://impact.economist.com/perspectives/sites/default/files/the\\_business\\_costs\\_of\\_supply\\_chain\\_disruption\\_gep\\_1.pdf](https://impact.economist.com/perspectives/sites/default/files/the_business_costs_of_supply_chain_disruption_gep_1.pdf)



of the design and delivery of the Target Operating Model and Single Trade Window. The Government should build on the infrastructure and lessons learned from businesses in implementing the Trader Support Service (TSS), which has been used to help facilitate implementation of the Northern Ireland Protocol.

### Single Trade Window

A 'single window' for trade is a single electronic entry point for all import, export and transit data to Government. A single window allows traders and intermediaries to submit all relevant data in a standardised format via a single online tool and reduces the need for traders to provide data to multiple authorities or agencies via different portals.

Single Trade Windows already exist in New Zealand, Singapore, Sweden and the USA, with others in development. Research suggests that trade between two countries with functioning single windows increases by a third.<sup>19</sup>

To support the successful introduction of new trade infrastructure via the forthcoming Target Operating Model, customs authorities and officials on the ground at all points of entry for goods into the UK must be sufficiently trained in any new rules and processes that come into effect in a timely manner. This is critical to avoid repeating the significant delays and losses which followed the UK's exit from the EU.

The Government has already taken steps in this area, for example through increased investment in recruitment and training of Border Force officials to prepare for the UK's withdrawal from the EU. However, the National Audit Office (NAO) has found that customs training "beyond the foundation programme is inconsistent and staff are not required to be trained to the same standards".<sup>20</sup> The NAO highlights that due to operational pressures, new staff frequently undertake the immigration aspects of the training but are deployed to passenger controls before they are able to complete customs training.

**"We are asking a lot of European customs officials, too, and they don't always have the right knowledge – for example we have been asked for health certificates for products that don't require them."**

**FSB member, food and drink sector, East midlands**

19 Immaculada Martínez-Zarzoso (University of Göttingen) and Santiago Chelala (University of Buenos Aires), The Impact of Single Windows on Trade, *World Economy Journal* 43(10), February 2020, p20, [https://www.researchgate.net/profile/Inmaculada-Martinez-Zarzoso/publication/339204490\\_The\\_Impact\\_of\\_Single\\_Windows\\_on\\_Trade/links/5e5530124585152ce8ede168/The-Impact-of-Single-Windows-on-Trade.pdf](https://www.researchgate.net/profile/Inmaculada-Martinez-Zarzoso/publication/339204490_The_Impact_of_Single_Windows_on_Trade/links/5e5530124585152ce8ede168/The-Impact-of-Single-Windows-on-Trade.pdf)

20 National Audit Office, An independent review of Border Force, July 2022, <https://www.gov.uk/government/publications/independent-review-of-border-force/an-independent-review-of-border-force-accessible-version>

“The only problems for us came from Germany for road freight, their customs initially kept changing the document requirements. Once we established what documentation is required we have had no problems, and now France has the same rules for road freight, air freight is simple.”

FSB member, exporter/importer, south east England

## Recommendations

- **Government should deliver an effective and small-business friendly Single Trade Window (STW).** It is critical that HMRC places small businesses at the heart of the design and delivery of the Target Operating Model and Single Trade Window. The STW should be a user-friendly tool that allows SMEs full visibility of the status of current trades, such as if goods are being held for an inspection or testing.

In building the STW, the Government should learn from best practice and experiences of other countries that have already implemented a single window for customs. Crucial to the success of the proposed STW will be interoperability with other single windows implemented by other countries – frictionless trade cannot be one-way only. HMRC should carry out and publish a comparative analysis of countries that have already implemented a single window for customs and report on best practices.

- **HMRC should deliver the STW within a realistic timeframe that allows for robust testing.** The call for tender for a technical delivery partner to build the Single Trade Window platform closed in January 2023 yet the first iteration of the Single Trade Window has an ambitious target date of November 2023. We urge the minister responsible for HMRC, the Financial Secretary to the Treasury, to commission a review to assess whether the STW team is sufficiently meeting its goals around interoperability, departmental readiness and stakeholder consultation for the November 2023 launch. If the review concludes that there is not sufficient time for a robust pilot to take place before the planned launch date, the roll-out of the STW should be delayed. HMRC should also report progress and timelines to the new Secretary of State for Business and Trade.

In parallel, the Trade Select Committee/Public Accounts Committee should undertake a short inquiry to assess progress on the delivery of the Single Trade Window, taking evidence from HMRC, the Cabinet Office, as well as business group representatives and officials from other countries who have successfully implemented a single trade window.

- **The Home Office should deliver consistent, high-quality customs training to Border Force staff.** The Home Office should fulfil the NAO recommendation to create a Border Force training academy that delivers consistent training standards across the organisation, including full customs training for officials ahead of deployment and ongoing training to upskill officials in good time ahead of customs policy changes, including the forthcoming Target Operating Model. The customs process must not be deprioritised in favour of immigration processes; doing so will prevent the UK from maximising its post-Brexit economic potential.

While FSB recognises that it is not the responsibility of the UK Government to impose high standards of training delivered to customs agents in other countries, we also recommend that Government encourages close cooperation between customs authorities in the UK and its trading partners to improve the sharing of information and best practice.

# PROVIDING CLEAR GUIDANCE

Understanding, and confidence in navigating, customs processes are important contributing factors to whether a firm or entrepreneur engages in international trade. Small businesses, which generally do not have in-house dedicated resources need to be supported throughout all stages of their trade journey to help them tackle the unknowns of importing and exporting, from understanding the opportunities contained in Free Trade Agreements to knowing how to get started.<sup>21</sup> Government guidance is often the first port of call for small businesses seeking this information.

Lack of clear guidance is experienced by close to half (45%) of respondents to FSB's trade and customs survey, particularly affecting those with fewest years in business and those that spend the longest dealing with exporting and importing.<sup>22</sup> Evidence gathered for this report showed that some small businesses feel that trade, particularly with the EU, requires a disproportionate allocation of their limited resources.

Our survey data reveals the groups of businesses that report the lack of guidance as a particular challenge and may therefore benefit from more targeted and specific guidance. For instance, businesses that import or export plant and animal products, excise goods, and clothing or textiles (Figure 11) are most likely to say they have struggled to find the right guidance.

A greater proportion of businesses that export goods temporarily (68%) struggle with a lack of guidance than those selling goods directly to other businesses (46%), suggesting that some types of goods movement are also more complex.<sup>23</sup>

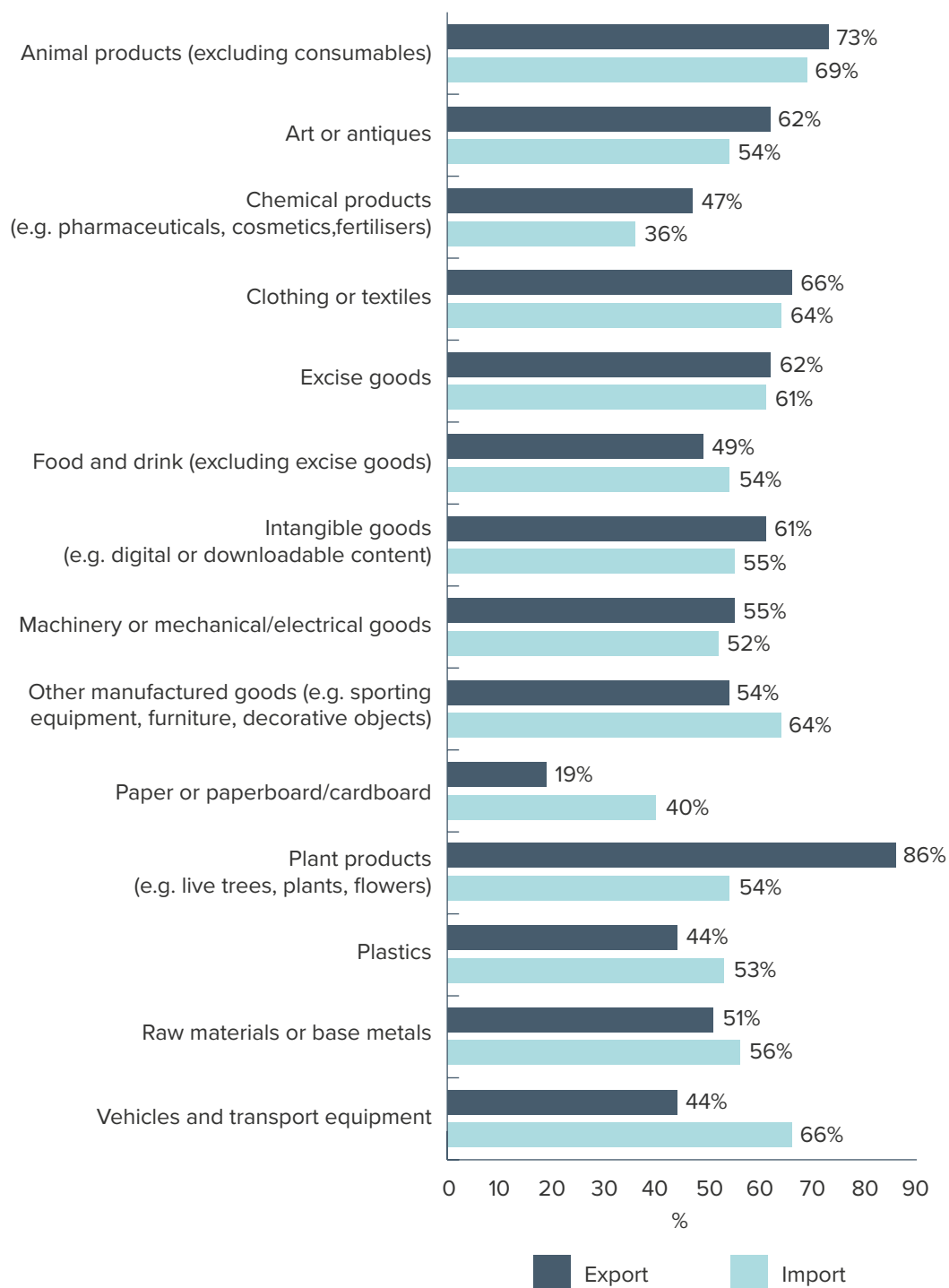
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21 Although FSB members identify preferential trade agreements as the most useful factor in helping encourage their export ambitions, just 18% of exporters to non-EU markets had made use of the preferential terms available to them in FTAs.

Source: FSB Customs survey, 2018

22 42% of those who spend under ten hours compared to 58% of those who spend over 21 hours per month.

23 FSB Trade and customs survey, 2022

**Figure 11:** Lack of guidance by type of goods**Source:** FSB Trade and customs survey 2022

**“There is a lot of support and training available, but it is important that Government departments are able to provide businesses with the right information. We need clear information on who businesses can go to for support.”**

FSB member, marketing agency, London

**“We only found out about new German packaging rules via our online platform. Small businesses need help to find the information we need about these kinds of requirement in other markets, and to find the resources to deal with them.”**

FSB member, B2B and B2C retail, south east England

FSB helped establish the Export Support Service (ESS) in 2021 with the Department for Business and Trade, to help small firms navigate requirements under the UK-EU TCA. The ESS has undergone positive operational changes since launch, piloting the expansion to rest of the world and offering a dedicated call-back service. FSB encourages the Department for Business Trade to continue to support and develop the ESS as a flagship resource for small businesses eager to begin or expand their trade activity.

### **Supplementing Government guidance with private sector expertise**

Small firms are often eager to invest in training or to buy in private sector expertise to help them navigate trade processes but lack the resources to do so. A year after the UK left the EU Single Market, almost half (45%) of small traders had sought professional advice on customs-related issues and a third (35%) of exporters sought professional advice to deal with VAT and Rules of Origin.<sup>24</sup>

FSB welcomed the launch in February 2021 of the SME Brexit Support Fund in response to proposals from FSB and the Institute of Directors, which provided small businesses with grants up to £2,000 towards the cost of technology, training and expert advice. While the programme was impressive, take-up was limited due to process issues and narrow application criteria. Further funding could help businesses with export potential access the support they need to overcome the initial barriers to trade.

**“We need Government help to build partnerships, such as trade missions that help businesses find the right people to talk to. We couldn’t have built our business in the same way without them. Funding needs to be diverted to where it can be the most helpful – especially towards micro and small businesses.”**

FSB member, food manufacturer, south east England

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24 FSB Covid recovery survey, March 2021



## Recommendations

- **The Department for Business and Trade should further develop and promote the Export Support Service.** ESS has the chance to become a flagship resource but awareness of its new services and the importance given to it within DBT is still relatively low. We propose that an ESS Advisory Group is set up, comprising relevant business organisations and intermediaries such as FSB that can help promote ESS resources to their members and inform ESS development via feedback from businesses.
- **The Department for Business and Trade should target resources towards small businesses with high export potential.** Export support still leans towards prioritising ‘high export potential, high turnover’ businesses. ESS must lower the threshold at which business owners require more than in-house, base level support, and get to an end point where a small business looking to export to a new market can get value-added expertise from the destination country about its specific customs arrangements. The Department for Business and Trade should also develop detailed resources for businesses in the sectors and groups identified that are most likely to report experiencing a lack of clear guidance, including excise goods, plant or animal products, and clothing or textiles.
- **HMRC should develop new funding streams for small businesses to invest in private sector support.** Government should consider creating new, dedicated funding streams that could be used by SMEs to support investment in private sector advice or training for trade-related activities. HMRC could look to examples of best practice from other countries for inspiration, such as the Canadian CanExport SMEs programme. This initiative provides up to \$50,000 to SMEs, covering up to 50% of costs for export marketing of a firm’s products and services in international markets where they have little or no sales. The funding can be used for activities including market research, applying for intellectual property protection, translating marketing materials, attending trade shows in person or online, and seeking expert legal advice.<sup>25</sup> The programme was launched in 2016 and by November 2019, had provided support resulting in over \$600 CAD million in new exports.<sup>26</sup>

25 Government of Canada Trade Commissioner Service, Funding that helps your company grow into global markets, <https://www.tradecommissioner.gc.ca/funding-financement/canexport/sme-pme/index.aspx?lang=eng>

26 Global Affairs Canada, Minister Ng announces new measures to help Canadian small businesses access global markets amid COVID-19, November 2020, <https://www.canada.ca/en/global-affairs/news/2020/11/minister-ng-announces-new-measures-to-help-canadian-small-businesses-access-global-markets-amid-covid-19.html>

In delivering new funding for UK SMEs, HMRC should follow the example of previous initiatives such as the SME Brexit Support Fund by allowing businesses to apply for a 'voucher' that could be used for activities to help boost their trade activity. Small firms should be able to use the funding for a wide range of activities, from buying time with a customs consultant to buying the software needed to complete import declarations. Broadening the range of eligible activities will allow businesses to access the most appropriate support for their needs.

There must be inclusive criteria for any such funding to maximise its impact among small businesses. Both occasional and frequent, new and established, exporters should be allowed to apply, as should businesses that have experience trading in another region. HMRC could track the number of small businesses that begin or increase exporting as a result of funding and, working with the Department for Business and Trade, use this data to shape future resources.

# DIGITISATION OF TRADE

Many small businesses report experiencing documentation overload when trading internationally due to the reliance on paper documents and wet ink signatures. A quarter (24%) of respondents reported requirements to provide hard copies of customs documents as a challenge when trading internationally.

Compiling and processing the documents required for a single shipment, from invoices to certificates of origin, can take a long time and generate supply chain disruption: ships may, for instance, arrive to a port before documents have been received and be unable to unload. This is especially problematic for businesses dealing with products such as trees or plants (89%), excise goods (37%), clothing and textiles (37%) and raw materials (37%).<sup>27</sup>

Our data shows that larger SMEs and those moving higher value goods are more likely to say they are affected, as are those moving goods temporarily for repair or other services.<sup>28</sup> Nonetheless FSB believes digitising the customs declarations process will deliver time- and cost-efficiencies to all small businesses regardless of size or sector.

Previous FSB research shows that non-tariff barriers play just as important a role as tariff barriers in where – or whether – small businesses decide to trade. Digitising trade will release smaller firms from the administrative burdens of filling in paperwork, allowing them more time to spend on growing their business, servicing customers and give a significant boost to the volumes of goods that they trade.

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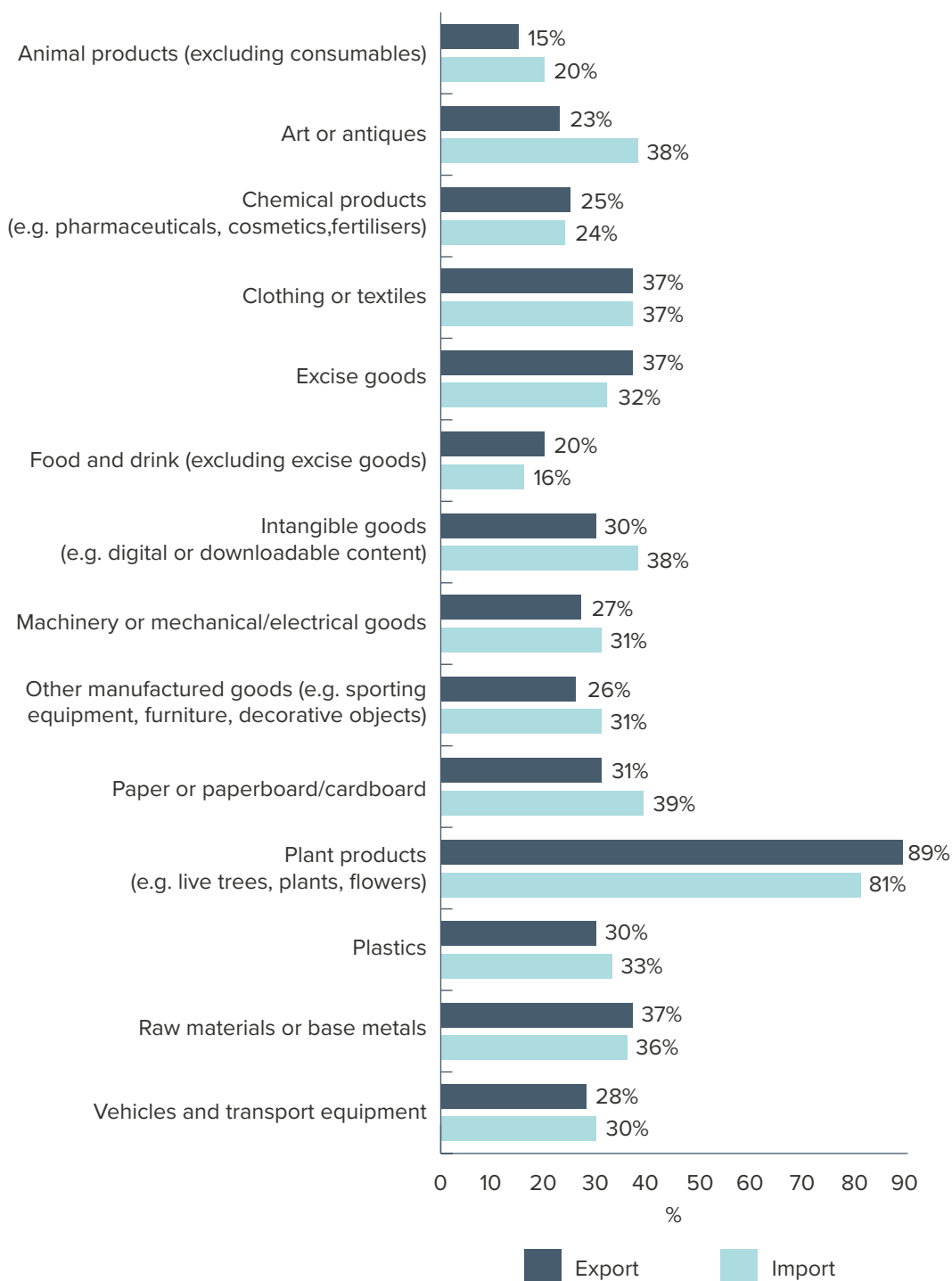
<sup>27</sup> FSB Trade and customs survey, 2022

<sup>28</sup> 41% of temporary exporters and 36% of temporary importers report over-reliance on paper documents compared to 26% of B2C exporters.

Source: FSB Trade and customs survey, 2022

**Figure 12:** Hard copies of paperwork (type of goods)

**Source:** FSB Trade and customs survey 2022



FSB welcomed the publication of the 2022 Electronic Trade Documents Bill,<sup>29</sup> following recommendations from the International Chamber of Commerce and the Law Commission.<sup>30</sup> In a vital step forward in creating the building blocks of a truly digital trading system in the UK, the Bill legally recognises digital documents as having equal legal status to their paper equivalents. Recognising the legal status of digital documents will significantly reduce processing times (one example of digitisation from Singapore reduced document processing time from between four hours and seven days to ten minutes<sup>31</sup>), increase efficiency and lower operating costs. Using electronic documents can also reduce cases of non-compliance caused by human error and provide more transparency throughout supply chains, increasing traceability of shipments and making trade more secure.

The International Chamber of Commerce estimates that moving to fully digitalised trade processes at global level could generate £25 billion in new economic growth and significantly increase business efficiency for small firms.<sup>32</sup>

Given the prevalence of English law as the basis for international trade transactions, even those not involving the UK, the Bill will also drive global progress towards greater adoption of electronic trade documents, continuing the Government's efforts to champion paperless trade at the international level. Although the majority of countries worldwide have adopted laws that recognise the legal equivalence between paper-based and electronic transactions,<sup>33</sup> the UN Global Survey on Digital and Sustainable Trade Facilitation finds that the global average implementation of cross-border paperless trade is low (at just 38%).<sup>34,35</sup>

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29 Department for Digital, Culture, Media & Sport, Paperless trade for UK businesses to boost growth, October 2022, <https://www.gov.uk/government/news/paperless-trade-for-uk-businesses-to-boost-growth>

30 Law Commission, Electronic Trade Documents Project, <https://www.lawcom.gov.uk/project/electronic-trade-documents/>

31 United Nations Economic and Social Commission for Asia and the Pacific, Estimating the benefits of cross-border paperless trade, 2014, p10, <https://www.unescap.org/sites/default/files/Benefits%20of%20Cross-Border%20Paperless%20Trade.pdf>

32 United Kingdom International Chamber of Commerce, Creating a Modern Digital Trade Ecosystem: The economic case to reform UK law and align to the UNCITRAL Model Law on Electronic Transferable Records, 2021, [https://www.dsi.iccwbo.org/\\_files/ugd/0b6be5\\_9a983b7c954d49389dd25a54033bcf78.pdf?index=true](https://www.dsi.iccwbo.org/_files/ugd/0b6be5_9a983b7c954d49389dd25a54033bcf78.pdf?index=true)

33 United Nations Conference on Trade and Development, E-transactions legislation worldwide, 2021, <https://unctad.org/page/e-transactions-legislation-worldwide>

34 United Nations Economic and Social Commission for Asia and the Pacific, Digital and Sustainable Trade Facilitation: Global Report 2021, p6, <https://repository.unescap.org/rest/bitstreams/25efc8bb-e317-4e8b-98ba-39f771f720e6/retrieve>

35 The report surveys 144 countries to assess their progress across six measures for cross-border paperless trade, such as allowing the electronic exchange of customs declarations.

The UK's Free Trade Agreements also play an important role in facilitating digital trade processes through eliminating customs duties on electronic transmissions, recognising electronic signatures and electronic authentication of documents. The Government has delivered dedicated chapters or provisions in the Free Trade Agreements it has negotiated so far, including Australia and New Zealand, as well as the separate digital partnership agreements with Japan and Singapore.

Small businesses themselves are also playing a key role in developing the technology needed to support the digitisation of trade and facilitate the movement of goods (see case study below).

#### **CASE STUDY: Trade tech innovation**

While trade and supply chain technology continues to advance rapidly, implementation of the Northern Ireland Protocol spurred a range of challenges and opportunities for small businesses to develop digital solutions. This includes FSB member Ubloquity, which has formed a consortium to develop and trial the 'Atamai Freight' platform with UK businesses between NI and GB, and on the straits of Dover. The Consortium will support organisations of all sizes to transport goods by road and across borders easily through digital innovation. Its overall ambition is to create a world with invisible borders, using technologies to facilitate visibility, collaboration, and security to reduce the ancillary costs of international trade.

## Recommendations

- **The UK Government should commit to passing and implementing the Electronic Trade Documents Bill.** Government should continue to support the Bill and commit to implementing it in a timely manner to allow businesses to take advantage of the opportunities of digitisation. Given the provisions of the Bill are permissive, not mandatory, the Department for Business and Trade should commit to raising awareness of and promoting the advantages of digital trade documents via its new Help to Grow site.
- **The UK Government should continue to champion digital trade through its diplomatic efforts around the world.** The Government should continue to promote the UNCITRAL Model Law on Electronic Transferable Records and the WTO Joint Statement Initiative on e-Commerce among its trade partners.

Government should also continue to include provisions to facilitate digital trade and e-commerce in the Free Trade Agreements it negotiates. To maximise the opportunities of digital trade for SMEs, FTAs should include a requirement – not just ‘best endeavour’ intentions – for any working groups or committees on digital trade established as part of the agreement to include small business representatives so that their needs are taken into consideration when any changes are discussed.

# SMALL BUSINESSES AND INTERMEDIARIES

## High shipping costs

High shipping costs are the top challenge for small business traders. A higher proportion of larger SMEs report high shipping costs than businesses with no employees (72% and 61% respectively). Businesses moving the lowest value goods, valued at £15 or less, are more likely than those moving goods valued above £500,000 to report high shipping costs as a challenge (78% and 55% respectively), illustrating the disproportionate impact of high costs on the smallest businesses.<sup>36</sup>

The increase in shipping costs of recent years has several causes, most significantly the distortion to global trade caused by the Covid-19 pandemic. The blocking of the Suez Canal by shipping vessel Ever Given in March 2021 also caused disruption, with an estimated \$9.6 billion of goods held up each day the container ship was stuck.<sup>37</sup> Economists estimate that the 2021 Covid-19 related surge in shipping costs added around two percentage points to global inflation.<sup>38</sup> While global freight rates are falling – the Drewry composite World Container Index suggests that as of March 2023, container costs are now 83 per cent below the peak of September 2021 – they remain higher than pre-pandemic rates and small businesses continue to feel the pain of high fees.<sup>39</sup>

## Trade intermediaries

Most small businesses engage the services of an intermediary to support their international trade activity.<sup>40</sup> According to FSB data, seven in ten SMEs (71%) use an intermediary for at least some of the process of handling customs declarations, while just a quarter (24%) say they handle the entire process in-house.

The most widely used type of intermediary is a fast parcel operator, used by six in ten (61%) of traders. Use of a customs agent or freight forwarder is more common among larger SMEs, and those that move higher value goods. As with shipping costs, intermediary fees have risen in response to global economic disruption.

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36 FSB Trade and customs survey, 2022

37 Lloyd's List, Suez Canal remains blocked despite efforts to refloat grounded Ever Given, March 2021, <https://lloydslist.maritimeintelligence.informa.com/LL1136229/Suez-Canal-remains-blocked-despite-efforts-to-refloat-grounded-Ever-Given>

38 Jonathan D. Ostry, Daniel Jiménez, Pragyan Deb, Davide Furceri, Yan Carriere-Swallow, Centre for Economic Policy Research, Shipping costs are an important, and understudied, driver of global inflation, November 2022, <https://cepr.org/voxeu/columns/shipping-costs-are-important-and-understudied-driver-global-inflation>

39 Drewry World Container Index, 17 March 2023, <https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry> Figures correct at time of publication

40 For the purposes of this survey and report, FSB used a broad definition of intermediary, including fast parcel operators, freight forwarders, customs agents and customs brokers.



**Figure 13:** Type of intermediary used by SME traders**Source:** FSB Trade and customs survey 2022

Type of intermediary	Total
Large fast parcel operator (e.g. DHL, Fedex)	61%
Freight forwarder	50%
Customs agent / broker	26%
Different fast parcel operator	5%
Other	8%

However, small businesses can experience difficulties in their relationships with intermediaries and members have provided substantial anecdotal evidence to this effect for this report. Smaller businesses, unable to commit to large volume shipments, are less able to reach fixed price agreements or to negotiate the terms and conditions of their contracts with couriers. Some businesses have experienced difficulties in contacting the fast parcel operators they use to correct errors in paperwork or to understand where their goods are.

Since the UK's withdrawal from the EU, members have also cited instances of being asked to pay unclear or unexplained fees which are attributed to the increased costs of handling paperwork since Brexit, but it is not always clear what they are for. Around a third (30%) of small businesses have experienced high intermediary fees overall.

A flourishing, competitive and user-friendly intermediary market is vital to small businesses, most of whom say they will continue to rely on intermediaries. Among the reasons for this, over half of respondents said that their time could be more valuably spent on other tasks (57%) while four in ten (39%) do not have the expertise required to handle customs declarations.

The announcement in the Spring Budget of a consultation on introducing voluntary standards for customs intermediaries in order to improve the quality of service provided is welcome, and FSB looks forward to engaging with the Government on this issue.

## Recommendations

- **The Competition and Markets Authority should monitor potential anti-competitive behaviour resulting from supply chain disruption.**

FSB welcomed the creation of a working group of the competition authorities from the ‘Five Eyes’ nations to share intelligence and investigate suspected anti-competitive behaviour and collusion under the cover of supply chain disruption.<sup>41,42</sup> Given that shipping is such an important driver of global inflation, the CMA should provide a ‘year on’ update from the working group on to the Secretary of State for Business and Trade and going forward should provide annual update reports on this topic. The CMA should meet regularly with stakeholders to gain insight into the impact of global economic developments on the relationships between shipping companies, intermediaries and traders.

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41 Competition and Markets Authority, International agencies put supply chains on notice against collusion, February 2022, <https://www.gov.uk/government/news/international-agencies-put-supply-chains-on-notice-against-collusion>

42 The UK Competition and Markets Authority, the United States Department of Justice, the Australian Competition and Consumer Commission, the Canadian Competition Bureau and the New Zealand Commerce Commission

# LOOKING FORWARD: WHAT SMALL BUSINESSES NEED

Small firms' appetite to explore new markets and tackle trade barriers means there is reason to be optimistic about the future of SME international trade. To make the most of this opportunity, Government must adopt a holistic approach that creates an environment conducive to international trade, targeting support towards possible and current traders with the greatest export potential and designing the Target Operating Model so that it works for the smallest businesses.

Small firms say they want the Government to focus primarily on lowering the costs of trade, and improving the efficiency, user-friendliness and transparency of customs processes. The main concerns raised by those who responded 'other' are continuing friction in moving goods between the UK and EU, overall barriers to trade and the impact of new customs processes or rules on small businesses.

**Figure 14:** Priorities for the new Target Operating Model (ranked 1-3)

**Source:** FSB Trade and customs survey 2022

Ranked 1-3	Total
Lowering the overall costs of trade	51%
Increasing the user-friendliness of the customs declarations system	39%
Clear guidance for businesses	36%
Reducing customs delays	30%
Single Trade Window	21%
None of the above / I don't know	21%
Digitisation of trade processes	16%
Improving the reliability of the customs declarations system	10%
Making it easier to correct errors in declarations	8%
Allowing pre-population or multi-filing when completing forms	6%
Greater visibility of the status of your trades (i.e. where your goods are)	6%
Other	5%

The following section sets out further action the Government should take to address the costs of trade and improve small firms' experience of interacting with customs processes.

## **Tackling the costs of trade**

### **Trade facilitation**

The simplification and streamlining of trade and customs processes generates time and cost efficiencies. While UK legislative and policy changes such as those outlined in other sections are critical, multilateral initiatives are also essential to improving the global trade environment for small businesses.

The Government should continue to support international trade facilitation initiatives through engaging with the World Trade Organisation (WTO) Informal Working Group on MSMEs and committing to the full implementation of the WTO Trade Facilitation Agreement (TFA) which aims to expedite the movement of goods and increase cooperation between customs authorities. WTO research suggests that full implementation of the TFA could reduce trade costs by an average of 14.3%.<sup>43</sup>

The creation of a Single Trade Window is a core part of the TFA (Article 10.4). While a single window would make the submission of trade data simpler and easier, just one fifth (21%) of SMEs said this should be a top 3 priority for the Government when designing new customs processes. Some FSB members have indicated that a STW would not be an appropriate solution for their business; nonetheless FSB believes that minimising duplication of data submissions and streamlining processes will generate significant time and cost efficiencies for those businesses for whom it is relevant.

### **De minimis threshold**

The payment of customs duties on low value goods has a significant impact on the margins of the smallest businesses. Government should consider raising the customs de minimis threshold, below which consignments are exempt from customs duties, from £135 to £1,000. This would not only bring huge savings to many businesses, but incentivise thousands to get exporting for lower consignments, early on in a business's life.

Our data shows that small businesses often deal with low value consignments: 16 per cent of businesses say that the goods they import or export on average fall below the current customs threshold of £135. One in ten of the least frequent importers or exporters say their average goods value is below £135 while this is the case for two in ten businesses that move goods once a week or more.<sup>44</sup>

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<sup>43</sup> World Trade Organisation, Speeding up trade: benefits and challenges of implementing the WTO Trade Facilitation Agreement, 2015, [https://www.wto.org/english/res\\_e/publications\\_e/wtr15\\_e.htm](https://www.wto.org/english/res_e/publications_e/wtr15_e.htm)

<sup>44</sup> FSB Trade and customs survey, 2022

**Figure 15:** Average goods value**Source:** FSB Trade and customs survey 2022

Average goods value	Total
£135 or below	16%
£136 - £499	9%
£500 - £999	10%
£1,000 - £1,999	10%
£2,000 - £4,999	14%
£5,000 - £9,999	13%
£10,000 - £49,999	19%
£50,000 - £99,999	3%
£100,000 - £499,999	2%
Don't know / Not applicable	4%

By increasing the de minimis threshold to £1,000 a further 19 per cent of small firms that import or export could potentially be brought into scope of the exemption from customs duties. The vast majority of these are micro businesses, which have the smallest margins and are the least able to absorb the additional costs of trade. This would however be the upper limit of the number of current traders that could be brought into scope of an increased threshold: the £135 limit applies to the total value of a consignment and not the individual items, so only consignments that have a total value below £1,000 would be exempt.

Research applied to Asia Pacific region countries demonstrates that increasing customs de minimis thresholds will generate resource savings through reducing government administration and business compliance costs, and reducing the time goods spend in transit. The study also shows that there is a net economic benefit to increasing de minimis thresholds, with a relatively small impact on government revenue.<sup>45</sup>

### A user-friendly system

There are several mechanisms introduced by Government to make the process of international trade easier for businesses such as Simplified

<sup>45</sup> Stephen Holloway and Jeffrey Rae, World Customs Journal, 2012, p1, [https://worldcustomsjournal.org/Archives/Volume%206%2C%20Number%201%20\(Mar%202012\)/04%20Holloway\\_Rae.pdf](https://worldcustomsjournal.org/Archives/Volume%206%2C%20Number%201%20(Mar%202012)/04%20Holloway_Rae.pdf)

Customs Declarations, but they are not always appropriate for small businesses – over half of traders do not use any of these procedures (55%), with over a quarter (29%) saying that they are not aware of them, and a further quarter (26%) are aware but do not find them relevant (Figure 16).

The use of simplified procedures is higher among SMEs with a greater number of employees – 32 per cent of businesses with over 50 employees compared to 13 per cent of sole traders.<sup>46</sup>

FSB welcomed the package of measures announced in the Spring Budget to make the processes of importing and exporting easier including simplifying customs declarations requirements, giving traders more time to submit supplementary declarations, and introducing more digital processes. This is an important complement to the ongoing work around the Single Trade Window. FSB welcomes the Government's commitment to engage with stakeholders and stands ready to provide input and support.

**Figure 16:** Use of simplified procedures among SME traders

**Source:** FSB Trade and customs survey 2022

Awareness of simplified procedures	Total
NET: Yes	20%
NET: No	55%
No – I am not aware of these initiatives	29%
No – I am aware of them, but they are not relevant for my business	26%
Other	7%
I don't know / Not applicable	18%

<sup>46</sup> FSB Trade and customs survey, 2022

## Recommendations

- The UK Government should continue to implement and promote trade facilitation measures.** The Government should deliver on its obligation under the WTO Trade Facilitation Agreement to create a Single Trade Window. Because small business awareness of export opportunities, let alone the benefits of a UK single window could be much higher, this must be complemented by dedicated promotional initiatives to raise knowledge and use of the Single Trade Window among small businesses. The new Department of Business and Trade can use its new joint mission, as well as build on the successes of previous market campaigns such as GREAT, to deliver this. In spring 2023 the Department for Business and Trade launched a North America Roadshow, visiting 12 cities across the UK to promote business opportunities in the US and Canada.<sup>47</sup> A similar series of events, delivered virtually or in person, aimed explaining the opportunities and benefits of a STW would help raise awareness among the SME community.
- Government should adopt a ‘think small first’ approach to customs policy development.** Designing policy or facilitation measures that work for the largest businesses first can result in small firms being unable or unwilling to take advantage of them. Policymakers should apply a ‘think small first’ lens to new or existing policy so that the UK’s trade and customs structures do not create disproportionate cost or administrative burdens for the smallest businesses. This should for example include commitments around the delivery of new processes such as the STW to allow robust piloting by small businesses and staggered implementation timelines to allow SMEs more time to adapt to new requirements.

Government should also commit to raising the de minimis customs duty threshold to £1,000. The payment of customs duties on low value goods has a significant impact on the margins of the smallest businesses. Raising the threshold would not only bring huge savings to many businesses, but incentivise thousands to get exporting for lower consignments, early on in a business’s life.

<sup>47</sup> Department for Business and Trade, Trade-boosting North America Roadshow visits 12 UK cities in 12 days, February 2023, <https://www.gov.uk/government/news/trade-boosting-north-america-roadshow-visits-12-uk-cities-in-12-days>

# CONCLUSION

International trade boosts growth and helps small businesses become more resilient to economic disruption and unpredictability. The number of SMEs that trade internationally has fallen, however, as entrepreneurs have been forced over recent months to make difficult decisions about the future of their businesses in the face of rising inflation and higher overall costs.

The data gathered for this report shows that small firms find engaging with the UK's current customs processes difficult, time consuming and expensive and that many of the procedures currently in place designed to facilitate trade do not work for SMEs.

Much of the focus around trade in recent years has been on the UK's withdrawal from the EU Single Market. While our data shows that there has been an overall reduction in the number of businesses trading with the EU, the challenges faced by small businesses are not limited to particular sectors or markets.

The costs, time and administrative burdens of trade are consistently raised by FSB members as the most significant barriers to doing business overseas. There are clear overlaps between the challenges facing current traders, the reasons for giving up international trade, and the priorities small businesses want the Government to address in its future plans for trade infrastructure. FSB is concerned that without the right structures in place more businesses will be deterred from engaging in what may appear to be a daunting, difficult process.

The businesses we spoke to when gathering evidence for this report say that they are eager to keep doing business overseas, but that there are undeniable barriers that prevent them from reaching their full potential. This makes it all the more important to make international trade easier and more affordable to the smallest businesses.

Importing and exporting already make a vital contribution to the UK economy, with UK total trade in the twelve months to January 2023 reaching £1,724.6 billion.<sup>48</sup> The UK's new status as an independent trading nation is a unique opportunity to build an effective and streamlined trade infrastructure from the ground up, with the needs of the smallest businesses at front of mind. If we can create the right conditions, there is huge potential for SME international trade to flourish and thrive even more. Small businesses should be able to trade with confidence. It is more important now than ever to help them to do so.

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<sup>48</sup> Department for Business and Trade, UK trade in numbers, 17 March 2023, <https://www.gov.uk/government/statistics/uk-trade-in-numbers/uk-trade-in-numbers-web-version>



# METHODOLOGY

This report is based on FSB members' experiences of international trade and their concerns and responses to global supply chain disruption during 2022.

FSB undertook a mixed method approach for the research consisting of quantitative online survey as well as a number of UK wide semi-structured interviews and focus group discussion.

The survey was nationwide in reach and members were invited to participate in the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 18 August to 5 September 2022. The survey questionnaire was completed by a total of 807 small businesses.

The survey findings are weighted according to FSB membership, reflecting the demographic balance of FSB members throughout the UK. All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add to 100 per cent.

The interviews and focus group were conducted online and over the phone and purposefully drew from a variety of regions and sectors. These were carried out in October and November 2022.

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