

READY TO LAUNCH:

HOW THE EXPORT STRATEGY CAN SUPERCHARGE SMALL BUSINESSES

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Experts in Business

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WHO WE ARE

The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established 45 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including legal advice, financial expertise, access to finance, support, and a powerful voice in Government. FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and England policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with Governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

HOW THE EXPORT STRATEGY CAN SUPERCHARGE SMALL BUSINESSES

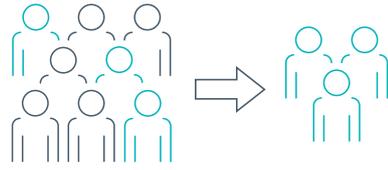
Small businesses are bouncing back from a difficult year



54%

of SME exporters saw a **decrease in the value or volume** of exports

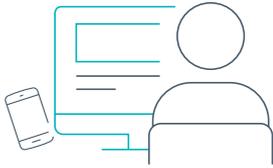
Covid recovery survey 2020



39%

of SME exporters saw a **decrease in the breadth of export markets and customer base**

Covid recovery survey 2020



16%

of small businesses developed a **new or increased online presence** during the first lockdown in 2020

Covid impact survey 2020

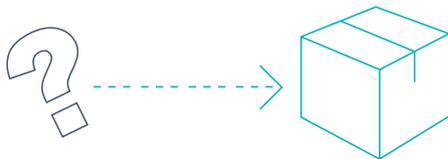


25%

of SME exporters saw an **increase in the proportion of their international trade activity via e-commerce**

Covid recovery survey 2020

Smaller firms are looking for support and advice



54%

of small businesses that trade in goods **did not have experience** of dealing with **rules of origin**

Transition readiness survey December 2020



18%

of small businesses exporting to the rest of the world (outside the EU) have made use of the **preferential terms of access** already available to them in FTAs

Customs survey 2018



35%

of SME exporters have **sought professional advice** to deal with **VAT and Rules of Origin**

Covid recovery survey March 2021



45%

of SME exporters have **sought professional advice** to deal with **customs-related issues**

Covid recovery survey March 2021

CONTENTS

Foreword	5
Introduction	6
The current exporting landscape.	7
Trends in small business participation in international trade	9
Developing an effective export ecosystem	11
Nurturing a small business-friendly environment.	13
Recommendations	16
Encourage.	16
1. Target ITA support at micro and small businesses	16
2. Improve the implementation and promotion of FTAs	17
Educate	18
3. Equip small firms with the knowledge they need.	18
4. Create a central digital hub for Government resources	22
Mobilise	24
5. Deliver expanded funding programmes	24
6. Reinforce the links between innovation and export support	25
7. Provide robust in-market support.	26
Maximise	30
8. Gather accurate data on exporting activity	30
9. Support paperless trading.	31
10. Promote global trade facilitation.	33

FOREWORD

Small businesses worldwide faced unprecedented challenges in 2020 and 2021. The global economic crisis caused by the coronavirus pandemic was the worst since the Great Depression, and small businesses have been disproportionately disadvantaged by successive lockdowns and disruption caused to global supply chains.

Many UK small businesses that trade with the EU, our largest and closest export market, have also had to become familiar with customs processes for the first time following the end of the transition period on 31 December 2020. Others have looked on as in-principle trade deals are signed with new markets further afield, wondering how to take advantage of this new global drive. Although SMEs are working hard to adjust to the UK's new trading relationship with the EU, many have experienced disruption and additional costs, with a significant number choosing to stop exporting permanently or temporarily.

As we look beyond post-pandemic recovery as an independent trading nation, the UK Government has a unique opportunity to help drive growth and economic recovery by unlocking the export potential of the UK's smallest businesses. The benefits to the wider economy of supporting small firms are clear – following the 2008 recession, nine in ten people who moved from unemployment back into the workforce did so by working in a small business or setting one up through becoming self-employed.

Small firms make up the vast majority of businesses in the UK but are under-represented in international trade. Previous FSB research has identified the barriers that deter small firms from exporting, from finding overseas customers to navigating foreign regulations. Small firms are less likely to have access to the resources required to meet the upfront costs and challenges of exporting, so Government support is often the first port of call for small businesses interested in internationalising. This is not to say that small firms are inadequate or helpless; by contrast they can be incredibly agile, innovative and disruptive compared to large incumbents. We know that small businesses that have secured smart, on-demand support have gone on to great things for society and the economy; that is the approach we are trying to evolve and improve so that more small businesses can follow. By using its forthcoming export strategy to commit to targeting its support towards small and micro enterprises, Government can add the much-needed economic fuel-injection – creating more first-time exporters and encouraging existing exporters to reach new markets.

For Government support to reach all businesses that would most benefit, it is important to build an accurate picture of the small business exporting landscape and the challenges they face. Government will be able to use the new Trade Act to gather accurate data to build a more detailed understanding of small business needs, which will help to target support initiatives towards the areas where they are most needed.

Small businesses are already embracing the opportunities of digital transition. The coronavirus pandemic accelerated this digitalisation shift and showed how innovative small businesses are. This trend will only continue, and the Government should build on its work to champion paperless trade under the UK presidency of the G7 by promoting the WTO Joint Statement Initiative on e-Commerce and the UNCITRAL Model Law on Electronic Transferable Records.

Increasing small business participation in international trade requires everyone to come behind a clear and focused agenda of reforms for the new world of global trade. For the first time after the pandemic, our report sets out recommendations for policymakers to adopt and see a step-change in exports, fostering a new culture of exporting among the UK's smallest businesses. From the creation of a new central digital hub for expertise, best practice and resources, to new flexible funding that small firms can use to access tailored support that suits their business and their prospective new market. We look forward to engaging with Government to unlock the export potential of the UK's SME community.



Mike Cherry OBE

Federation of Small Businesses National Chair

INTRODUCTION

The UK's new trading independence together with the global economic impact of the coronavirus pandemic mean that the UK has a unique opportunity to rethink and revitalise its approach to international trade and export support.

Importing and exporting are already critical to the UK economy – exports of goods and services reached an record breaking high of £689 billion in 2019¹ – and will be vital to driving economic recovery and building back better from the coronavirus pandemic. UK small businesses are eager to play their part and are actively seeking opportunities in new and developing markets, and the UK Government has an important role in supporting and encouraging them to do so.

Leaving the EU has required many small businesses that trade with the Single Market to become familiar with the paperwork and processes of international trade for the first time. While many businesses have experienced significant challenges and increased costs following the end of the transition period, small firms are working hard to adapt to the new trading relationship with the EU.

The increased focus on trade processes that has resulted from the UK's withdrawal from the EU should be a catalyst for renewed Government efforts to address the technical, administrative and monetary barriers facing exporting businesses. In particular the Government should target its support towards encouraging small firms in their trade ambitions whether to Europe or further afield. Targeting support towards micro and small businesses, which often do not have the resources or knowledge available to overcome the challenges of internationalisation, will help to unlock the export potential of the UK's small business community

Recognition of the importance of international trade is clear across the whole of the UK. The Northern Ireland Executive² and Scottish³ and Welsh⁴ Governments have recently published their own visions for international trade, and in March 2021 the UK Government committed to publishing a new export strategy⁵. Now is the time to invest in the UK's small business community to achieve the success of the Government's Global Britain ambitions to boost growth, develop world-leading technologies and level up the economy.

1 UK trade: December 2019; Office for National Statistics: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/december2019>

2 Trade and investment for a 10X economy: priorities for Northern Ireland's inward investment, trade and exports; Northern Ireland Department for the Economy; 2021: <https://www.economy-ni.gov.uk/sites/default/files/publications/economy/trade-investment-10x-economy.pdf>

3 A Trading Nation – a plan for growing Scotland's exports; Scottish Government; 2021: https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2019/05/scotland-a-trading-nation/documents/scotland-a-trading-nation/scotland-a-trading-nation/govscot%3Adocument/498601_SCT0720815048-001%25284%252920200703104759.pdf

4 Export Action Plan for Wales; Welsh Government; 2020: <https://gov.wales/sites/default/files/publications/2020-12/export-action-plan.pdf> and International Strategy; Welsh Government; 2020: <https://gov.wales/sites/default/files/publications/2020-10/international-strategy-for-wales-v1.pdf>

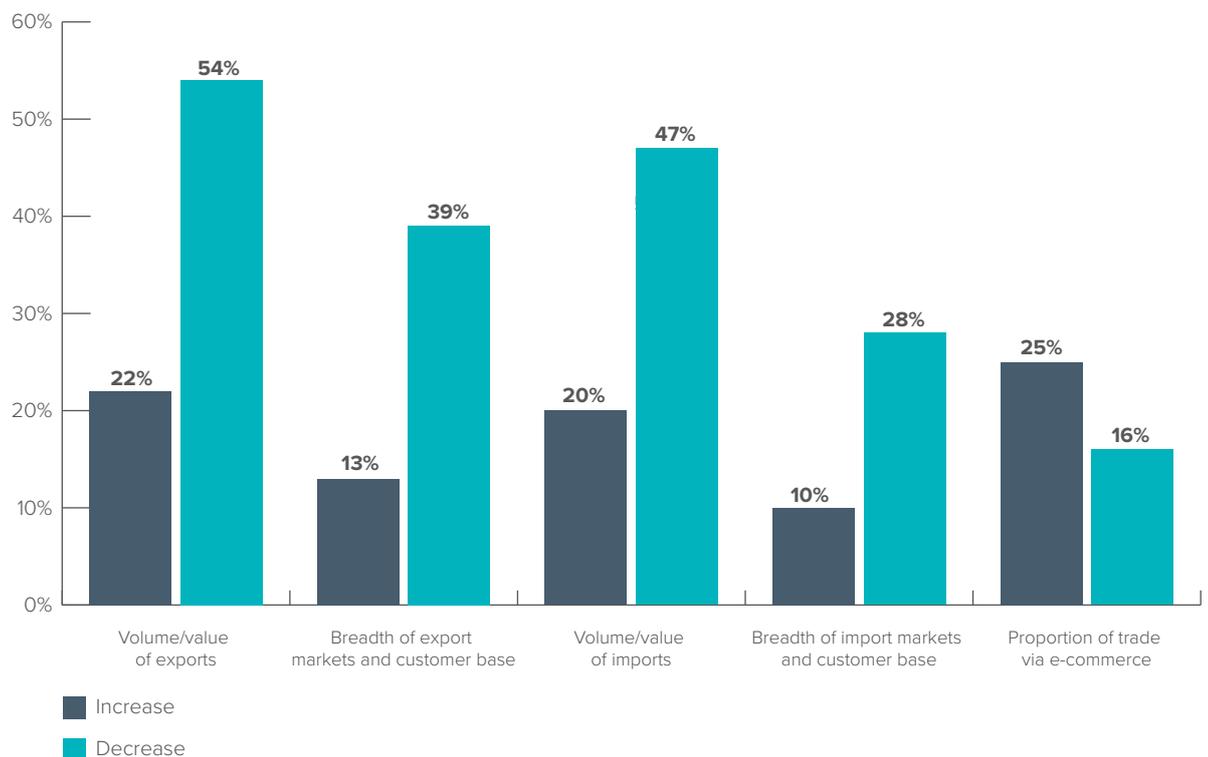
5 Build Back Better: Our plan for growth; HM Treasury; March 2021: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/969275/PIG_Final_print_Plan_for_Growth_Print.pdf

THE CURRENT EXPORTING LANDSCAPE

A quarter of FSB members sell their goods, products or services overseas⁶. Small businesses have been severely impacted by the coronavirus pandemic, with many taking on debt in order to survive, and almost two in five respondents to FSB's Small Business Index who have some form of debt view their level of debt as unmanageable⁷. International trade was also impacted, with FSB data showing that as a result of the coronavirus pandemic over half (54 per cent) of SME exporters saw a decrease in the value or volume of exports, while 39 per cent saw a decrease in the breadth of export markets and customer base in 2020⁸.

Figure 1: How has the coronavirus crisis impacted your international trading activity?

Source: FSB Covid recovery survey 2020



The growth of the digital economy has already transformed the way many small businesses operate, and the UK's micro and small firms are embracing the opportunities of digital trade to reach new markets. This trend accelerated during the coronavirus pandemic, as many small businesses developed a new or increased online presence in response to lockdown restrictions (see Figure 11). The digital transition will only continue and should therefore be a factor in the Government's approach to developing export support.

Small firms have experienced further disruption following the end of the transition period, with close to a quarter (23 per cent) of SME exporters permanently or temporarily stopping sales to the EU in the first two quarters of 2021⁹.

⁶ FSB Small Business Index; Q2 2021

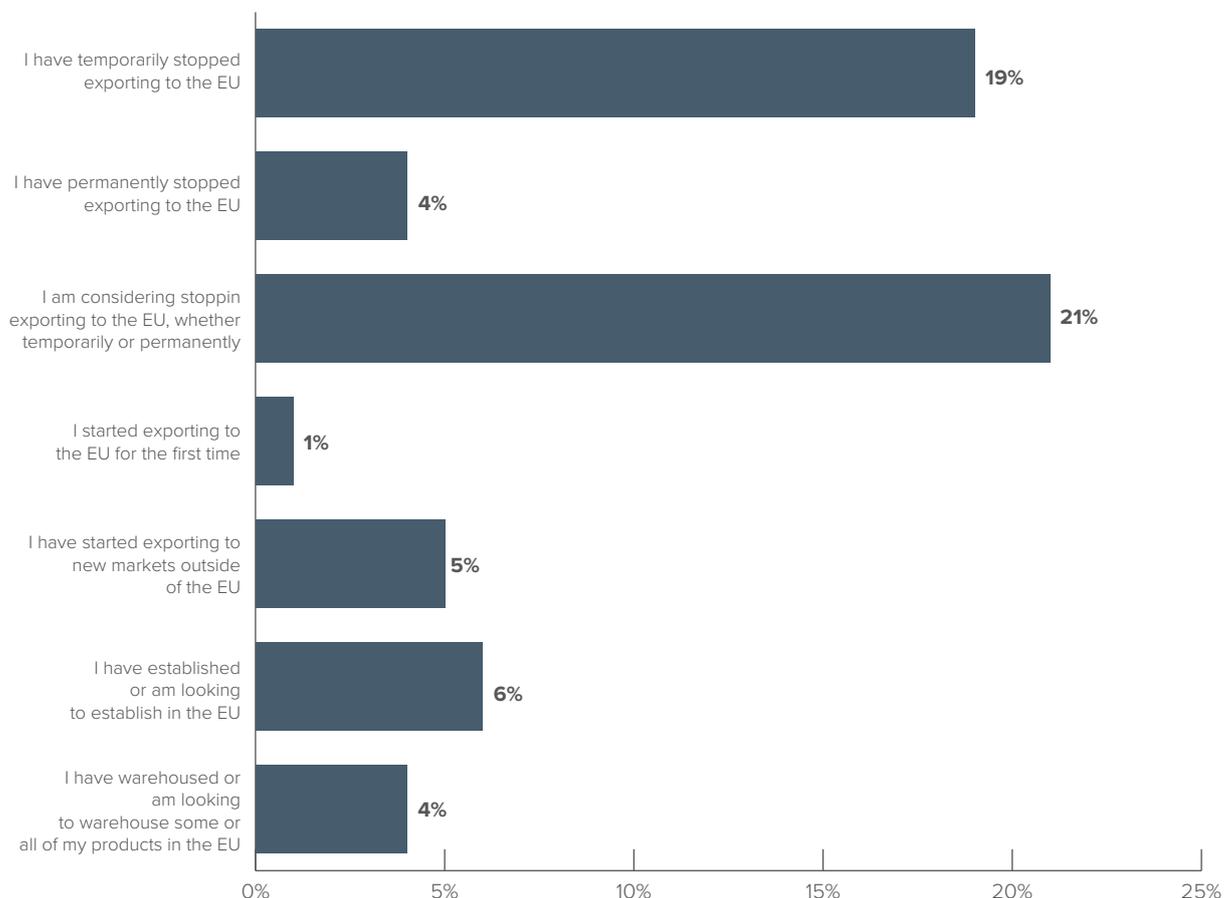
⁷ FSB Small Business Index; Q2 2021

⁸ FSB Covid recovery survey; 2020

⁹ FSB Small Business Index; Q2 2021

Figure 2: Since the end of the transition period, are any of the following true of your business with regards to exporting?

Source: FSB Small Business Index Q2 2021



Exporting and importing remain central to small businesses achieving their overall ambitions however and there are encouraging signs of returning business confidence. Overall UK exports of goods started to bounce back in Q2 2021 compared to Q1¹⁰, while FSB data shows that a quarter of small firms now expect to see further recovery with growth in export values in Q3 2021¹¹.

As governments and businesses across the globe look towards economic recovery, it is more important than ever to put the right conditions in place for SMEs to engage actively in international trade and to prevent any small business from being left behind.

¹⁰ UK trade: June 2021; Office of National Statistics: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/june2021>

¹¹ FSB Small Business Index; Q2 2021

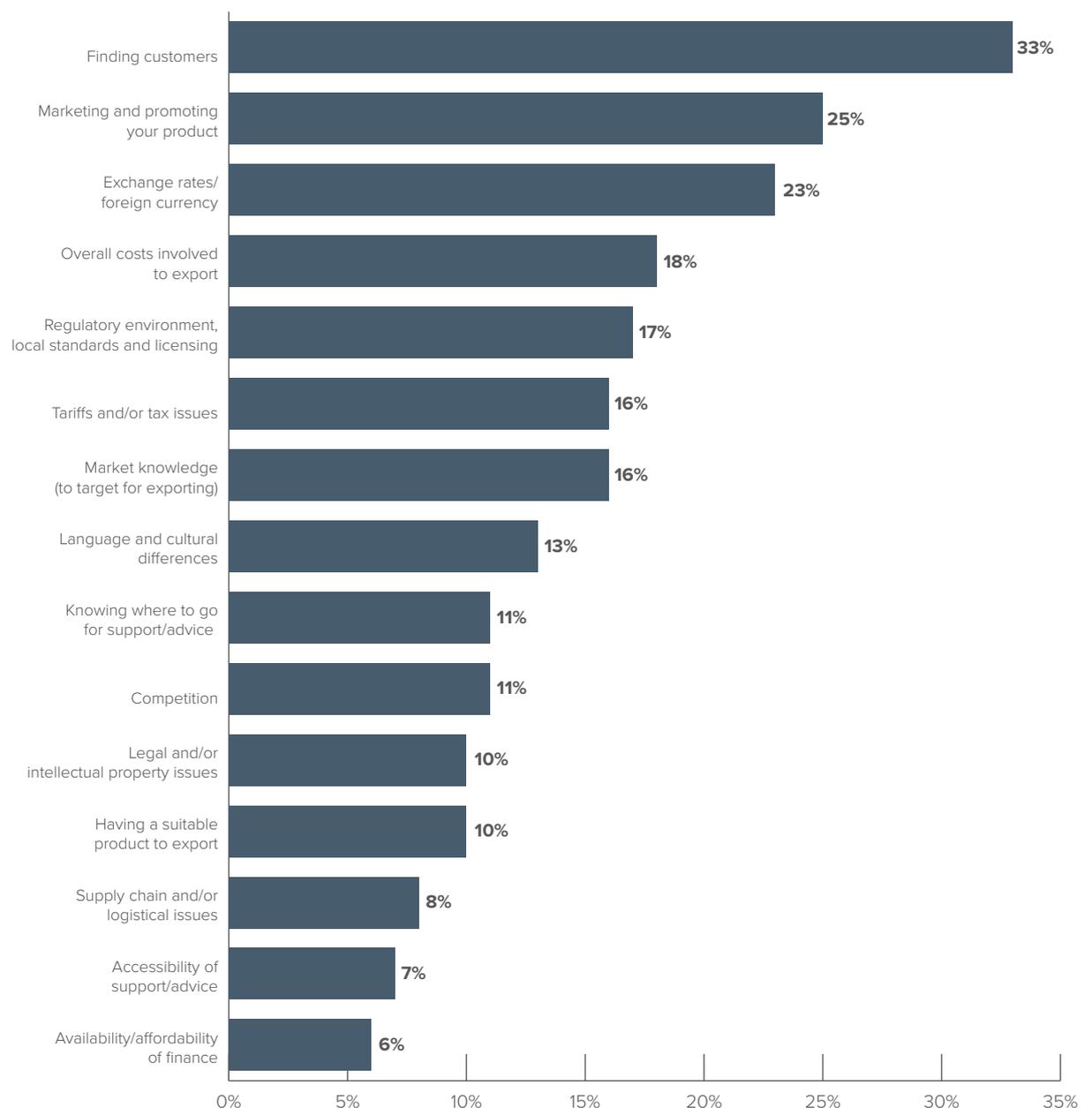
TRENDS IN SMALL BUSINESS PARTICIPATION IN INTERNATIONAL TRADE

Although SMEs make up 99 per cent of businesses in the UK, this does not reflect their participation in international trade. According to Office of National Statistics (ONS) data 38 per cent of the value of UK goods exports in 2016 were reported by the 50 largest exporting businesses¹².

Although there is a huge opportunity to get more of the UK's small businesses exporting, previous FSB research has also identified many barriers to exporting, from low levels of market knowledge and business confidence to prohibitively high overall costs and regulatory barriers (see Figure 3).

Figure 3: The main challenges to exporting reported by FSB members

Source: FSB Exports survey, March 2016

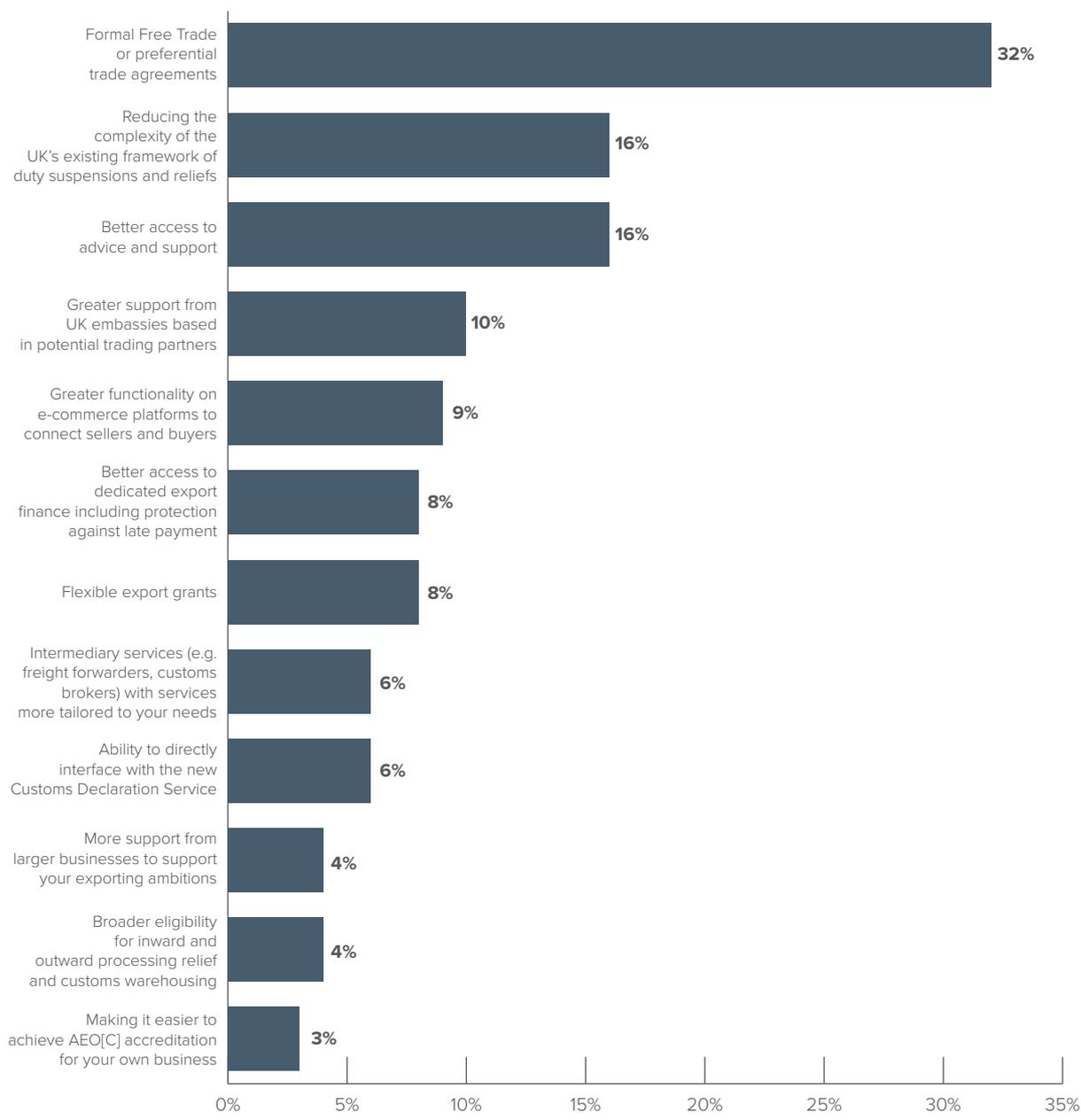


¹² UK trade in goods and productivity: new findings; Office for National Statistics; 2018: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/articles/uktradeingoodsandproductivitynewfindings/2018-07-06>

Small firms' relative vulnerability to the impact of economic disruption compared to larger businesses makes it more likely for them to adopt a more cautious and reactive approach to international trade. A significant proportion of small business exporting activity takes place on an ad hoc or reactive basis, with over three quarters of decisions on where to export made by small businesses resulting at least in part from a direct approach from local markets or customers in that market¹³.

There is however clear appetite among small businesses to start exporting or increase the value of their exports with the right support in place: a third of businesses (32 per cent) say that preferential trade agreements would be the most useful way to start or increase exports, while 16 per cent place better access to advice and support as their top priority and one in ten want to see greater in-market support from UK embassies¹⁴.

Figure 4: Support considered most useful to help businesses start to export or increase the value of exporting activity
Source: FSB Customs survey 2018



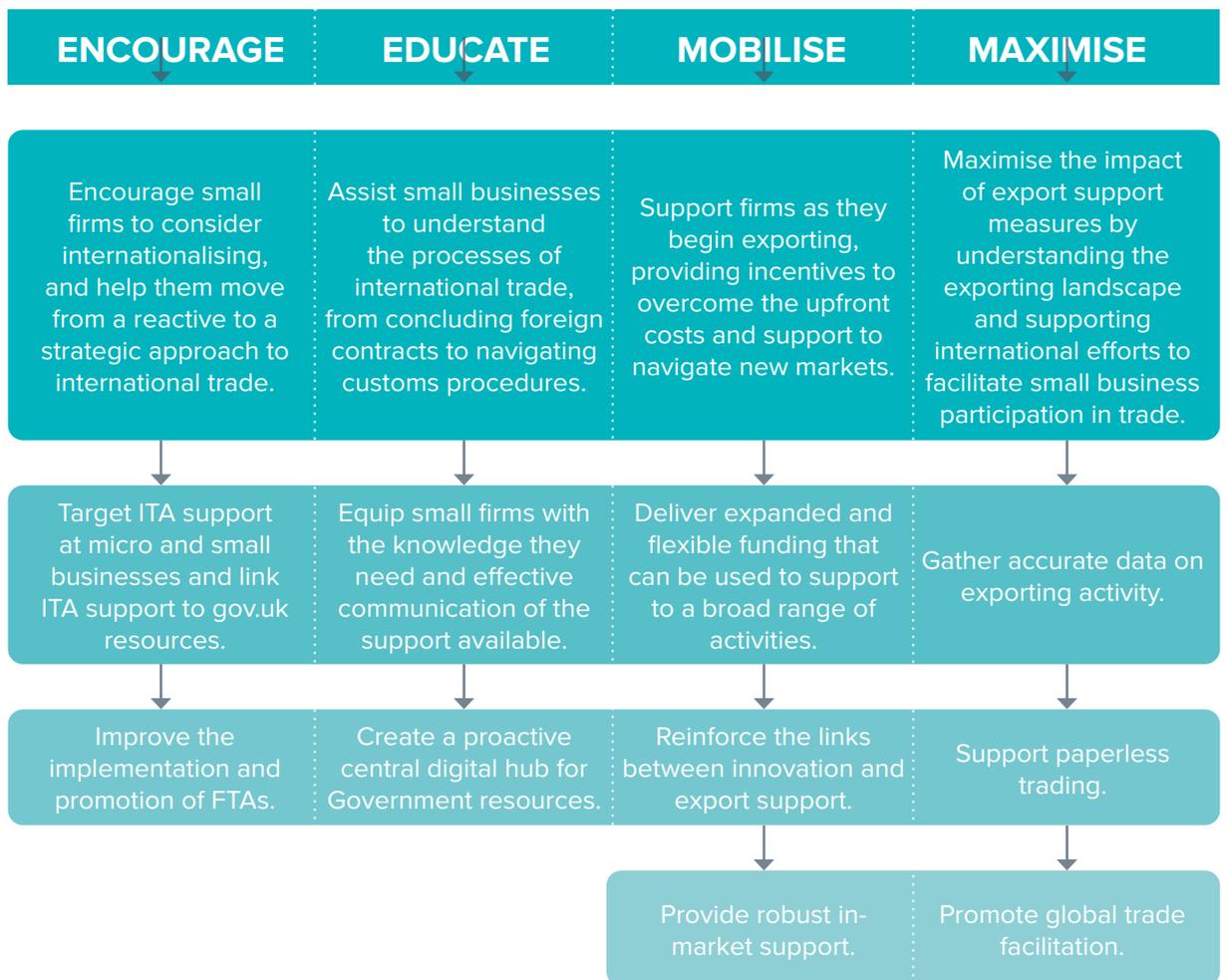
13 FSB exports survey; March 2016

14 FSB Customs survey; 2018

DEVELOPING AN EFFECTIVE EXPORT ECOSYSTEM

Encouraging small businesses to adopt a more proactive and strategic approach to international trade will play a key role in boosting exports, growth and economic recovery post pandemic. To help identify, encourage and unlock the exporting potential of small businesses and contribute to a flourishing export ecosystem for goods and services the forthcoming Government export strategy should take a long-term approach to developing the exporters of tomorrow. The Government should commit to targeted support measures, comprising financial, non-financial and policy initiatives to reduce barriers to and mitigate the risks of trade. These initiatives should target primarily micro and small businesses, which are the least likely to have the resources available to develop a strategic approach to international trade and will most benefit from new and expanded opportunities to access support. FSB past experience of SME support on trade is that it has been most useful for, and most used by, the ‘M’ of SME – i.e. medium-sized businesses. After large and medium-sized businesses are taken care of, support for the 99 per cent of smaller businesses has not been prioritised. The exports strategy should be the moment to make a fundamental change to that.

This report sets out ten recommendations that FSB believes will promote a supportive business culture that is conducive to increasing small firms’ export activities. These recommendations can be grouped into themes:



Government must also pay due regard to the diversity of the UK's nations and regions, acknowledging and supporting the international trade visions developed by the Northern Ireland Executive and Scottish and Welsh Governments. It is right for all four administrations to innovate and experiment on trade, and then to learn from each other. The ideal is for small businesses to receive the very highest quality, first-class export support services whichever public support agency they approach across all four nations of the UK. By improving synergies between advice and financial support services that exist in nations and regions, at UK level or overseas, each administration can help businesses build the resources and knowledge necessary to overcome the knowledge barriers that prevent small businesses from exporting.

The UK Government should set out clear targets and criteria in its new export strategy, to measure its success, particularly with regard to its impact on building the export capability of small businesses. Measures should include the number of UK small businesses that start exporting or increase exports as a result of accessing Government support, and the economic value of that activity.

NURTURING A SMALL BUSINESS-FRIENDLY ENVIRONMENT

The recommendations included in this report should be accompanied by broader commitments from the UK Government to create a domestic and international policy environment conducive to increasing small firms' participation in international trade. This should include:

Applying a “think small first” lens to all policy decisions

Designing policy by considering the needs of larger firms first may result in regulation that does not work for small businesses. Policymakers should apply a “think small first” approach to all policy decisions to enable proper scrutiny and mitigate the potential bureaucratic and fiscal impact on small businesses. Although a Small and Micro Business Assessment (SaMBA) is already mandatory in the UK for larger domestic proposals, Government should consider extending the requirement to a much broader range of proposals.

Establishing an environment that works for small firms

The UK Government should take steps to develop an environment that supports small business growth, including:

- **Regulation:** Following the British Columbia Model, Government should set a target of reducing regulatory requirements by one third in three years (See FSB report *Escaping the Maze: How small businesses can thrive under the British Columbia regulatory model*¹⁵).
- **Broadband:** Government should commit to the roll-out of full-fibre connectivity to all business premises, in addition to raising awareness and supporting the use of gigabit-capable broadband networks (See FSB report *Lost Connection: How Broadband and Mobile Connectivity Hinders Small Firms*¹⁶ and the final report from the Gigabit Take-up Advisory Group¹⁷ (GigaTAG) convened by Which?, FSB and the Confederation of British Industry).
- **Skills:** Government should commit to supporting small businesses to invest in their own and their employees' skills and to ensuring that the UK's new points-based immigration system allows small firms to recruit the talent they need (See FSB reports *Learning the Ropes: Skills and training in small businesses*¹⁸ and *A World of Talent: Building an immigration system that works for small businesses*¹⁹).
- **Structural challenges:** Government should take steps to tackle structural challenges that impact on small firms' ability to move goods across borders, such as supply chain disruption.

15 Escaping the Maze: How small businesses can thrive under the British Columbia regulatory model; Federation of Small Businesses; June 2021: <https://www.fsb.org.uk/static/5de520e3-bc3e-47f4-a98486ad96354a7f/Escaping-the-Maze.pdf>

16 Lost Connection: How poor broadband and mobile connectivity hinders small firms; Federation of Small Businesses ; October 2019; p36: <https://www.fsb.org.uk/static/6e9e77b5-88cf-4e74-a503b375b6080794/Lost-Connection.pdf>

17 Gigabit Take-up Advisory Group: Final report; Which?, Federation of Small Businesses and Confederation of British Industry; June 2021: <https://www.fsb.org.uk/static/c8f0b03b-603d-4a1a-b051df7782150f51/GigaTag-Final-Report.pdf>

18 Learning the Ropes: Skills and training in small businesses; Federation of Small Businesses; December 2017: <https://www.fsb.org.uk/static/f10e7a8d-a95f-47de-92d7154d5501ac63/skills-and-training-report.pdf>

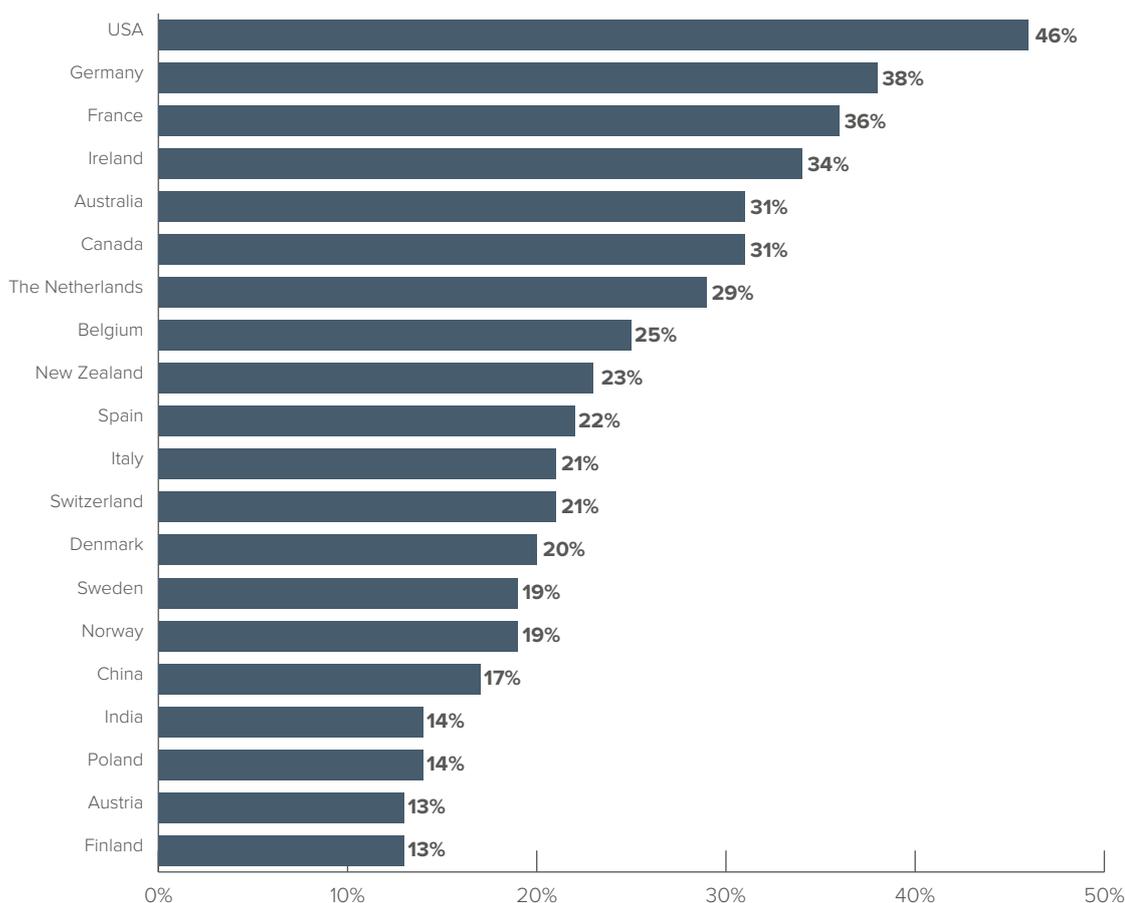
19 A World of Talent: Building an immigration system that works for small businesses; Federation of Small Businesses; 2020: <https://www.fsb.org.uk/static/b21f3889-24ba-4dee-93d9fa6136d31a14/A-World-of-Talent-Building-an-immigration-system-that-works-for-small-businesses.pdf>

Pursuing an ambitious programme of Free Trade Agreements

FSB welcomes the Government’s ambitious programme of Free Trade Agreement negotiations. Noting that the reduction of tariffs has a wider impact on the economy than international trade activity, FTAs are broadly seen by FSB members as a positive tool, with close to half (46 per cent) of FSB members that export goods to non-EU countries stating that FTAs would help increase the value of their exporting activity²⁰. The majority of the most important destination markets for FSB exporters are covered by FTAs for which negotiations have recently concluded (such as the UK-EU Trade and Cooperation Agreement and the UK-Japan FTA), are currently being negotiated or for which negotiations are expected to launch soon (including the United States, New Zealand, Canada, Mexico and India). FSB also fully supports the UK’s accession to the Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP). To maximise the benefits for all businesses and address the underutilisation of FTAs by smaller firms, Government should commit to including a small business chapter in each new trade agreement it negotiates and agrees.

Figure 5: Most commonly reported ‘important’ destination markets for SME exporters over the next three years

Source: FSB Digital trade survey 2019



20 FSB Customs survey; 2018

Taking leadership on reducing the barriers to digital trade

In April 2021 G7 Digital and Technology Ministers announced plans under the UK's presidency of the G7 for a *Framework for G7 Collaboration on Electronic Transferable Records*²¹ which will identify barriers to the adoption of electronic transferable records and work to support reform at domestic and international level, including through championing initiatives such as the United Nations Commission on International Trade Law (UNCITRAL). Sustained government commitment to digital trade will be critical to building global economic resilience, as well as making it easier for small firms to navigate trade processes.

The Government should deliver on the commitment set out in the National Data Strategy²² to maintain high data protection standards and facilitate data transfers by small businesses, and to champion the international flow of data through tackling unjustified data localisation measures in agreements with trade partners and to support global work on interoperability of data.

Online platforms offer a viable route to exporting for many small businesses – according to FSB data, one in five SME exporters use online platforms or marketplaces²³. Online platforms can facilitate cross-border trade for small businesses, providing comprehensive services and a wider audience, mitigating the costs of internationalising and reducing the risks associated with entering new markets. Small firms have also however reported issues with using online platforms, from fake and malicious reviews to changes to terms and conditions and intellectual property infringement. Government should monitor the policies and practices of online platforms and take action where required to address unfair trading practices. Government should also consider the potential impact on small businesses of legislation that focuses on online platforms.

Supporting small business interests at international level

There is increasing recognition of the importance of small businesses at the international level, which FSB is pleased to have motivated and driven, as we have created new relationships with global bodies.

In April 2021 the Organisation for Economic Co-operation and Development (OECD) elevated its working group on micro, small and medium enterprises (MSMEs) to a Committee on SMEs and Entrepreneurship (CSMEE), and in December 2020 the informal Working Group on Micro, Small and Medium-Sized Enterprises at the World Trade Organisation (WTO) adopted a package of recommendations to address the challenges faced by small businesses with a view to adopting a Ministerial declaration at the twelfth Ministerial Conference in November 2021 (MC12).

Government should take a leading role in international discussions to promote the role of MSMEs in international trade, supporting the work of Foreign, Commonwealth and Development office (FCDO) staff to make small businesses a global policy priority. In particular Government should work within the WTO to build support for the package of recommendations for MSMEs ahead of the twelfth WTO Ministerial Conference (MC12) in November 2021, and should promote the UNCITRAL Model Law on Electronic Transferable Records (MLETR) and the WTO Joint Statement Initiative (JSI) on e-Commerce among WTO and G20 partners (See recommendations 9 and 10). FSB will work with the Government and its counterpart organisations worldwide to demonstrate to work towards the formalisation of the WTO informal Working Group.

21 Ministerial Declaration: G7 Digital and Technology Ministers' meeting; 28 April 2021; Annex 4: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/986162/Annex_4__Framework_for_G7_collaboration_on_Electronic_Transferable_Records.pdf

22 National Data Strategy; Department for Digital, Culture, Media & Sport; December 2020: <https://www.gov.uk/government/publications/uk-national-data-strategy/national-data-strategy>

23 Destination Digital: How small firms can unlock the benefits of global e-commerce; Federation of Small Businesses; 2019: <https://www.fsb.org.uk/static/67c91dcc-a988-47d7-9d4863ec69ff36bc/destination-digital-report.pdf>

RECOMMENDATIONS

Encourage

The majority of small firms' decisions on where to export result at least partially from a direct approach from overseas markets²⁴. The following recommendations set out ways the Government could help businesses move from a reactive to a strategic approach to international trade.

1. Target ITA support at micro and small businesses

Government support is often the first port of call for small businesses looking for export advice, and one of the most frequently used forms of support used by small firms is the Department for International Trade (DIT) network of international trade advisers (ITAs).

Micro and small businesses are often eager to internationalise but lack the resources and time to dedicate to developing a strategic approach to exporting. To unlock the potential of the UK's smallest businesses ITAs should therefore target their services towards micro and small businesses, identifying viable potential exporters of both goods and services and supporting them to develop plans to internationalise. Anecdotal evidence from small and micro businesses that have struggled to access support suggests that while priority has been extended from large companies to medium-sized, it needs to extend specifically for the needs of those that are small and micro. While each small and micro business is by definition smaller, to provide this service at scale to the huge number that exist would see a far more rapid expansion of economic activity, at scale.

ITAs must be well connected to all relevant Government resources, including the GREAT.gov.uk export opportunities database, to identify and direct businesses towards potential opportunities. ITAs must also be able to advise small businesses on funding or finance options and be able to connect SMEs to relevant resources, including Government agencies and private sector experts.

Small businesses considering exporting place a high value on advice from their peers who have had similar experiences. Government should commit to integrating into the ITA service further opportunities for businesses to exchange experiences and best practice with their own networks such as building in dedicated peer learning opportunities or mentoring programmes.

FSB members report that the opportunity to access bespoke local support is highly valuable. However, some FSB members have expressed concerns regarding the consistency of the support provided by the ITA network between regions. This will have unintended further consequences, with weaker support in some regions undermining the Government's 'levelling up' agenda. Government should commit to raising the standard of ITA support with no region left behind, and could explore the merits of introducing accreditation and quality assurance for ITAs.

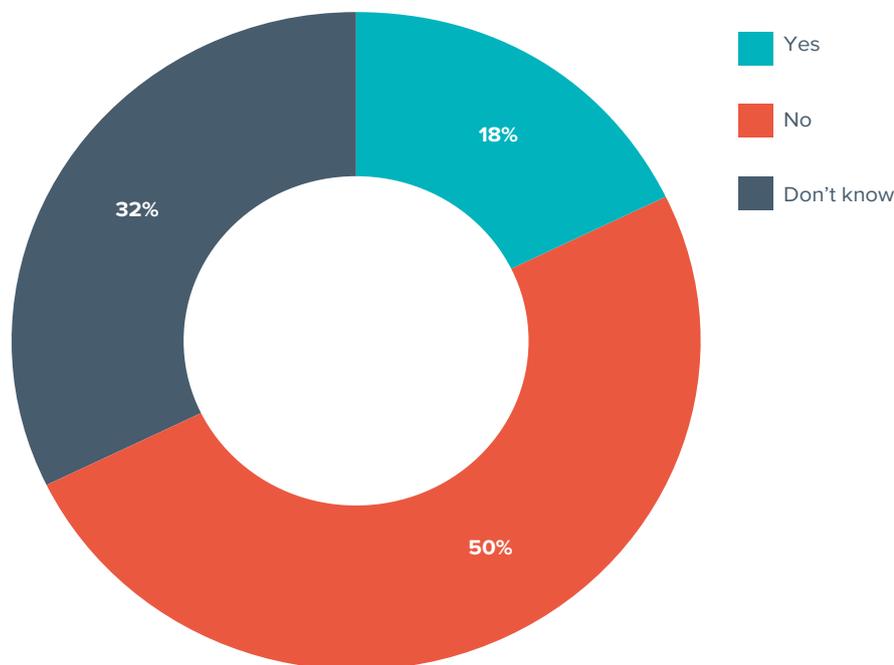
- Target ITA support at micro and small potential exporters.
- Provide ITAs with access to all relevant Government resources.
- Build further peer-to-peer learning opportunities into ITA services.
- Explore introducing accreditation and quality assurance for ITAs to deliver consistency of offer and support.

2. Improve the implementation and promotion of FTAs

Free Trade Agreements (FTAs) are one of the most powerful means of removing barriers to trade. They offer businesses preferential market access, lowering tariffs, and streamlining compliance requirements such as product standards. However although FSB research shows that preferential trade agreements would be the most useful factor in small firms increasing their export ambitions, just 18 per cent of small businesses exporting to the rest of the world (outside the EU) have made use of the preferential terms of access already available to them in FTAs²⁵. Administrative costs, a lack of resources and low levels of information about foreign markets, together with a lack of communication around the practical benefits of FTAs for small firms can contribute to the low take-up of preferential terms.

Figure 6: Take-up of preferential terms of trade under FTAs among small businesses exporting to markets outside the EU

Source: FSB Customs survey 2018



The inclusion of small business chapters in FTAs is an important tool in tackling their underutilisation by smaller firms. Small business chapters usually include commitments to create a committee dedicated to helping SMEs take advantage of the opportunities created by an FTA, as well as to establish a designated help desk or portal that can help small businesses access comprehensive information. FSB has long proposed the inclusion of small business chapters in Free Trade Agreements (see FSB's 2020 report written in conjunction with the University of Sussex's UK Trade Policy Observatory (UKTPO) *The representation of SME interests in free trade Agreements: Recommendations for best practice*²⁶).

The UK Government has demonstrated its commitment to embedding the interests of small business in trade policy by including small business chapters in FTA negotiations with priority markets such as Australia, Japan, New Zealand and the United States. This has also led to inclusion within the EU/UK Trade and Co-operation Agreement. Government should commit the delivery of the commitments set out in the small business chapters of each new FTA via a dedicated DIT team and regularly updated web portal through which small businesses can find out about: customs regulations and procedures; intellectual property regulations; technical regulations and standards, sanitary and phytosanitary measures; foreign investment regulations; business registration procedures; employment regulations; and taxation information²⁷.

²⁵ FSB Customs survey; 2018

²⁶ The Representation of SME Interests in Free Trade Agreements: Recommendations for best practice; UK Trade Policy Observatory (UKTPO) and Federation of Small Businesses; January 2020: <https://blogs.sussex.ac.uk/uktpo/files/2020/01/FSB-Trade-TPO-Report.pdf>

²⁷ The Representation of SME Interests in Free Trade Agreements: Recommendations for best practice; UK Trade Policy Observatory (UKTPO) and Federation of Small Businesses; January 2020: <https://blogs.sussex.ac.uk/uktpo/files/2020/01/FSB-Trade-TPO-Report.pdf>

Government could look to other countries for examples of best practice around the promotion of FTAs. Following the adoption of the EU-Canada Comprehensive Economic and Trade Agreement (CETA), the Canadian Government adopted a dedicated promotion strategy to raise awareness of the agreement to stakeholders. This included a promotional roadshow over three months across the regions of Canada and training workshops, and the majority of participants reported increased knowledge as a direct result²⁸.

Government should support business support agencies in the UK's nations and regions to deliver information relevant to local businesses. In designing outreach programmes Government should also consult with business organisations such as FSB to develop a clear understanding of the information that would be most beneficial to small and micro businesses.

- Include Small Business Chapters in all ongoing and future bilateral FTA negotiations.
- Establish a dedicated team and online information portal for each FTA negotiated.
- Improve promotion of FTAs following examples of international best practice.

Educate

The following recommendations are intended to help small businesses to understand the processes of international trade, from concluding foreign contracts to navigating customs procedures.

3. Equip small firms with the knowledge they need

Beginning their export journey can be daunting for small businesses. They need to consider many potential challenges including: building a robust business proposition and export strategy; understanding their finance options including export finance; negotiating international contracts and payment terms; and navigating customs procedures. Equipping small firms at all stages of the export journey with the tools they need will help to take away the 'fear factor' of small business participation in international trade.

A number of national and regional initiatives exist to help businesses overcome knowledge gaps, such as the recently launched pilot programme from the Welsh Government to support businesses to develop their exporting capacity and capability²⁹ and the Northern Ireland Customs and Trade Academy³⁰ which helps businesses understand the new processes for trade between Northern Ireland and Great Britain. In England, FSB members have responded positively to the Export Academy³¹, a DIT programme for businesses looking to grow internationally which launched in 2020 in the Midlands, North, South West and East of England.

The Government could explore expanding the roll-out of the Export Academy to all English regions, targeting all firms with export potential that would benefit from its support, focusing on micro and small businesses. Government should also seek to improve synergies between initiatives delivered at UK level and by the devolved administrations, working with the relevant organisations to support the delivery of content tailored to local audiences.

Compliance with international tax obligations and completing customs procedures, such as classifying goods for import and export, complying with rules of origin and filing customs declarations can create administrative burdens for small businesses and may deter firms unfamiliar with these processes from participating in international trade. This can be illustrated by the considerable impact on small businesses of the UK's withdrawal from the European Union. FSB research carried out prior to the end of the transition period found that more than half (54 per cent) of small businesses that trade in goods did not have experience of dealing with rules of origin, while a third (31 per cent) were not aware of the process.

28 Audit of trade commissioner service advice and guidance on optimizing free trade agreements; Global Affairs Canada and Office of the Chief Audit Executive; December 2018: <https://www.international.gc.ca/gac-amc/publications/audits-verification/2018/audit-tcs-sdc.aspx?lang=eng>

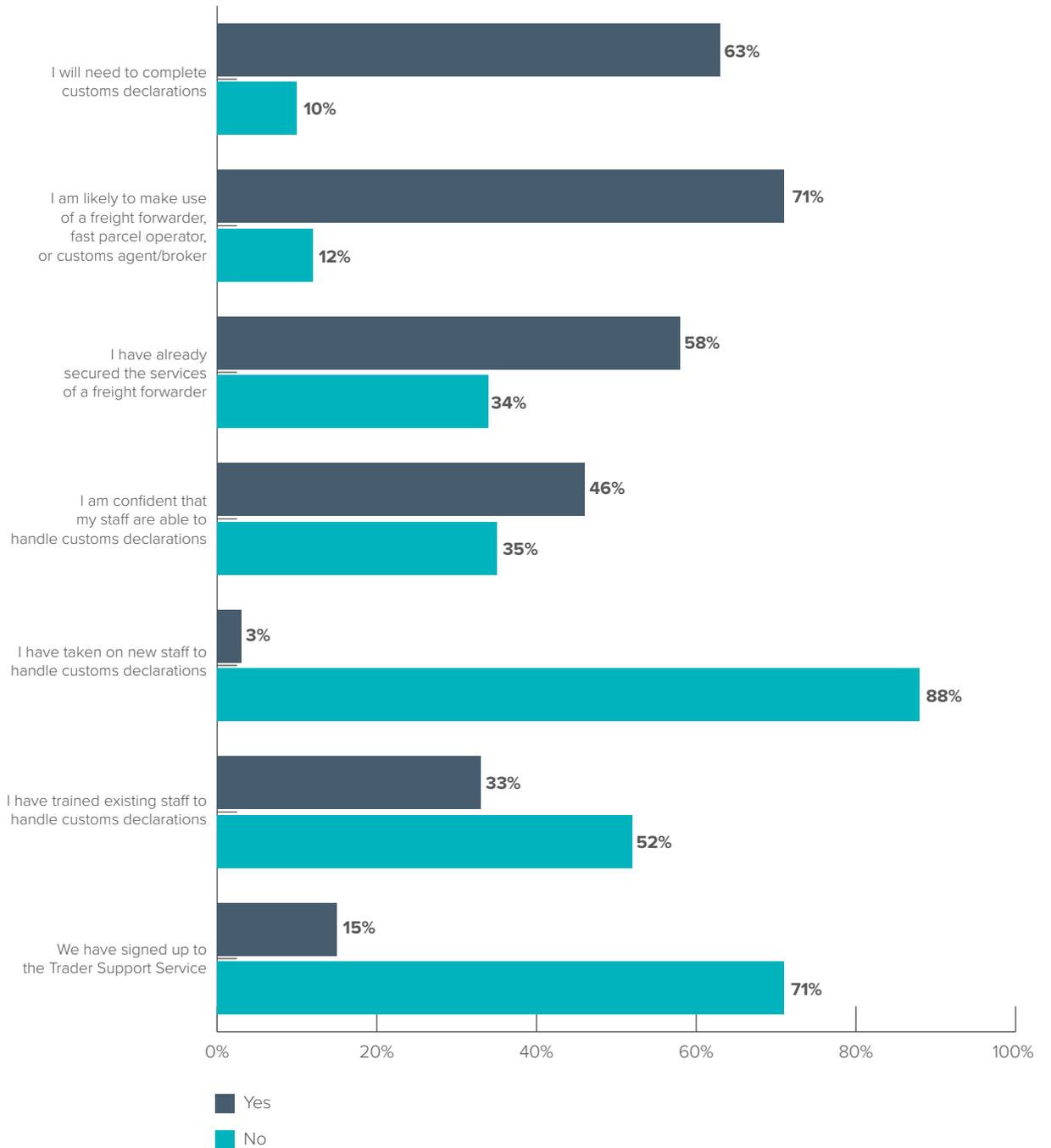
29 The New Exporters Programme will work with ten Welsh companies that have never exported before or have exported intermittently. It will focus on supporting the participating businesses to export to Ireland and will include a market visit to meet potential contacts. More information can be found here: <https://gov.wales/new-programme-help-more-welsh-firms-export-globally>

30 The Northern Ireland Customs and Trade Academy is an online learning platform that delivers training, accredited by the Institute of Export and International Trade, for businesses that trade between Northern Ireland and Great Britain. More information can be found here: <https://www.nicustomstradeacademy.co.uk/>

31 The Export Academy delivers workshops covering issues from understanding export barriers to navigating customs processes and managing overseas payments. Participating businesses also benefit from networking opportunities and referrals to other Government export support, and can use the programme to develop their own export action plan. More information can be found here: <https://www.great.gov.uk/campaigns/export-academy/>

Fewer than half of FSB members that were expecting to need to complete customs declarations following the end of the transition period were confident that they or their staff would be able to handle them³².

Figure 7: As the transition period ends, which of the following applies to your business?
Source: FSB Transition readiness survey December 2020



32 FSB Transition readiness survey; December 2020: <https://www.fsb.org.uk/resources-page/fewer-than-one-in-five-small-firms-fearing-end-of-transition-have-prepared-new-study-finds.html>

Figure 8: Small business experience of completing certificates of origin

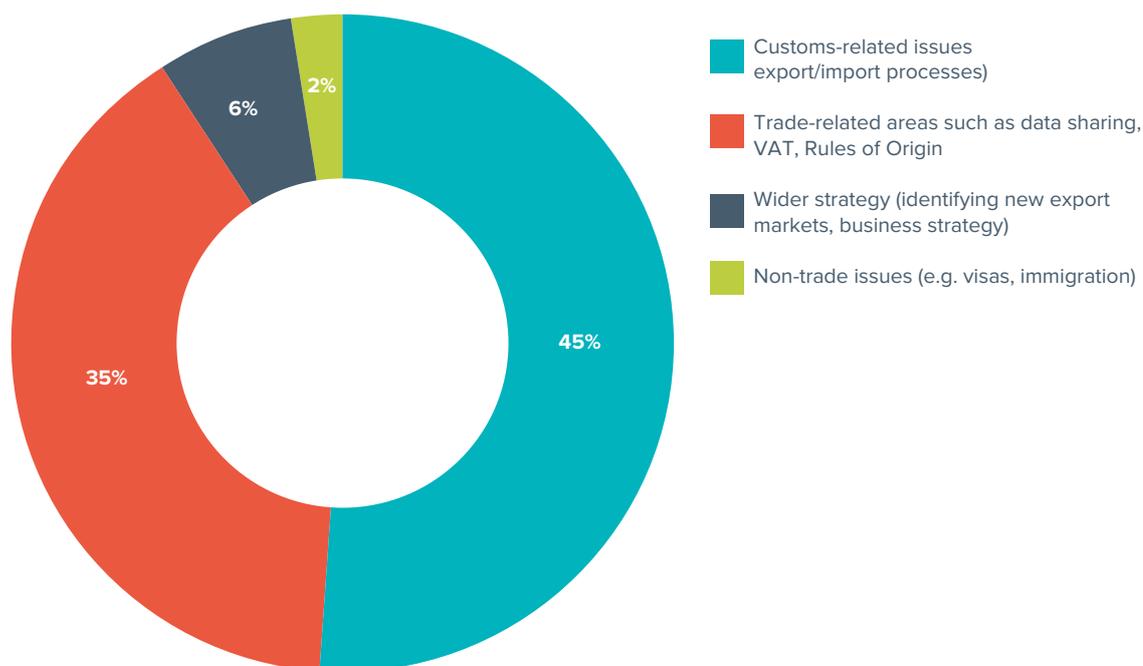
Source: FSB Transition readiness survey December 2020

Yes, my business does this regularly	7%
Yes, my business does this occasionally	15%
Yes, my business has done this in the past	16%
No, but I am aware of the process	23%
No, and I am not aware of the process	31%

According to FSB research, almost half (45 per cent) of small businesses engaged in international trade have sought professional advice on customs-related issues³³ and close to a quarter (23 per cent) of exporters have stopped selling into the EU either temporarily or permanently³⁴. In February 2021, in response to proposals from FSB and the Institute of Directors, the Government launched the SME Brexit Support Fund which provided small grants of up to £2,000 to small businesses to contribute to buying technology, training and expert advice to help them adjust to the new UK-EU trading relationship. The programme was impressive, however take-up was limited due to process issues – not least it being added onto an HMRC custom advisors scheme, and the HMRC website, which meant many thought it was just for customs. As businesses continue to adapt, the Government should consider a second, global round of the support fund, and developing further funding programmes to help SMEs access private sector expertise and training (see Recommendation 5) and should improve ITA engagement with private sector experts to deliver specialised support where needed. Throughout, small-business facing initiatives must be small-business-friendly; to ensure they are developed with small firms in mind, FSB is happy to provide advice and expertise from our members.

Figure 9: Since the end of the transition period, have you sought professional advice to deal with EU exit related issues in any of the following areas?

Source: FSB Covid recovery survey March 2021



33 FSB Covid recovery survey; March 2021

34 FSB Small Business Index Q2 2021

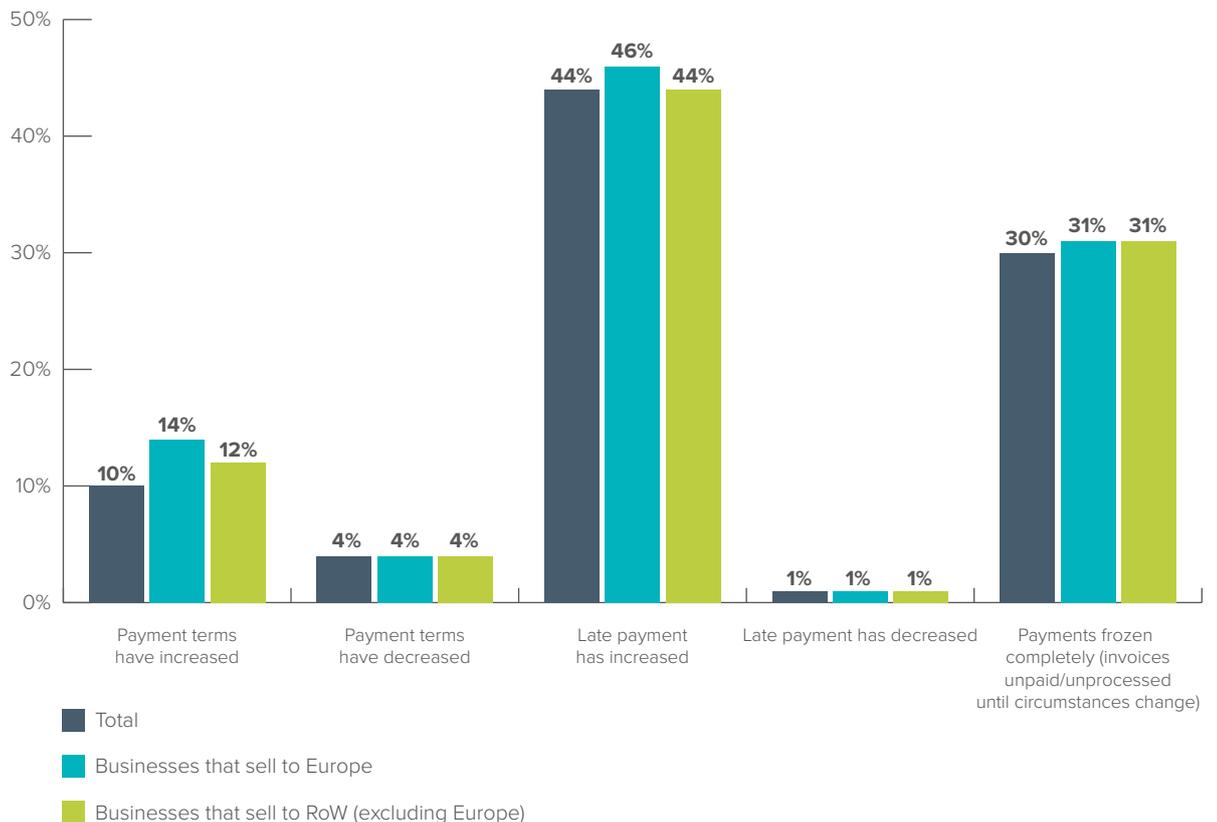
The picture from Northern Ireland

Under the terms of the Northern Ireland Protocol, exporters based in Northern Ireland have a different relationship with the EU Single Market than their counterparts in England, Scotland and Wales. This means businesses based in Northern Ireland avoid some of the new non-tariff barriers, such as customs declarations and rules of origin certificates, which GB-based businesses face when they export to the EU. UK Government should highlight the opportunity that establishing in Northern Ireland can provide to GB businesses, benefiting from seamless access to the Single Market, without having to locate outside of the United Kingdom. This opportunity is a particular benefit to highly regulated industries such as life sciences and agri-food, where only one set of regulatory standards need to be met in order to service both the UK and EU markets. Businesses located in Northern Ireland also have access to Free Trade Agreements signed by the UK like any other part of the United Kingdom.

Late payments from overseas partners can create challenges for small businesses. Late payments generate cash flow difficulties and administrative burdens and affect business performance. Businesses engaging in international trade face a particularly high risk of late payments: research carried out by MarketFinance suggests that four in ten (43 per cent) of invoices of UK companies to businesses in the UK’s top ten trading partners were paid late in 2019³⁵.

The coronavirus pandemic has created an increase in poor payment practice with four in ten small businesses experiencing an increase in late payments from customers (44 per cent) and three in ten having their payments frozen completely (30 per cent)³⁶. This is slightly higher for businesses that export their goods and/or services.

Figure 10: Impact of the coronavirus emergency on payment from customers
Source: FSB Covid impact survey, 2020



35 Late payments: the silent global trade barrier for UK businesses; MarketFinance; February 2020: <https://marketfinance.com/blog/marketfinance-news/2020/02/12/late-payments-the-silent-global-trade-barrier-for-uk-businesses>

36 Late Again: How the coronavirus pandemic is impacting payment terms for small firms; Federation of Small Businesses; June 2020: <https://www.fsb.org.uk/static/84f47dd3-0cbe-4339-afd147be808b02f5/Late-Again-How-the-coronavirus-pandemic-is-impacting-payment-terms-for-small-firms.pdf>

Understanding how to mitigate the risk of late payments and navigate international payment methods is critical to small businesses seeking to develop a viable exporting proposition. The effective use of payment terms such as pro forma invoicing or Incoterms can be a useful means of managing payments; small businesses unfamiliar with the processes of exporting would benefit from dedicated guidance and training to understand how to best use payment terms to mitigate the risk of late payments.

FSB research shows that better access to export finance is seen by small businesses as one of the most useful ways to incentivise exporting³⁷, but small firms are often unable to access traditional forms of export finance and many FSB members have reported that they have been unable to use UK Export Finance (UKEF) products. It is therefore essential that ITAs are able to help the small businesses in their networks to understand alternative methods of mitigating the risks of exporting, such as through payment terms.

The Government has committed to expanding UKEF support with £8 billion overall capacity and new products as part of its plan to build an export-led recovery from the coronavirus pandemic.³⁸ So that this expanded support reaches the smallest businesses, any new UKEF products and services must be carefully designed with SMEs in mind, from developing eligibility criteria to delivering shorter and simpler application processes.

- Explore expanding the roll-out of the Export Academy across the English regions.
- Further funding to access private sector expertise around customs processes.
- Highlight the opportunity that establishing in Northern Ireland can provide to GB businesses.
- Provide guidance on how to mitigate the risks of international trade, including late payments.
- Improve UKEF's offering to small businesses.

4. Create a central digital hub for Government resources

Satisfaction with DIT digital services is low: according to a report from the National Audit Office under half of DIT's clients reported that services to identify export opportunities were good at meeting their needs³⁹. Despite the large amount of information held on Government department websites, including HMRC, DIT and the GREAT.gov.uk platform, small businesses report that navigating these resources is difficult and time-consuming. The lack of a single central repository for export advice affects users' experience and information overload may deter them from pursuing their export ambitions.

The UK Government should improve the customer journey for businesses seeking export support via DIT, HMRC or GREAT campaign webpages. Businesses would benefit from the creation of a central export-focused online hub for resources and advice. This should include: links to Government resources such as funding opportunities; information on overseas markets and links to overseas DIT offices; resources on classifying goods and navigating customs requirements; and referrals to services such as UKEF or ITAs. The hub should also signpost complementary initiatives and services, such as Innovate UK. UK Government should use the hub to signpost to regionally or locally delivered support, such as the business support services provided by the Northern Ireland Executive and Scottish and Welsh Governments and support agencies. An online or telephone inquiry service should be integrated into this hub, giving businesses a single point of contact for queries.

The coronavirus pandemic has accelerated the digital transition. FSB research shows that 16 per cent of small businesses developed a new or increased online presence during the first lockdown in 2020, while a quarter (24 per cent) adopted or increased their use of digital technology to facilitate working from home⁴⁰.

37 FSB customs survey; 2018

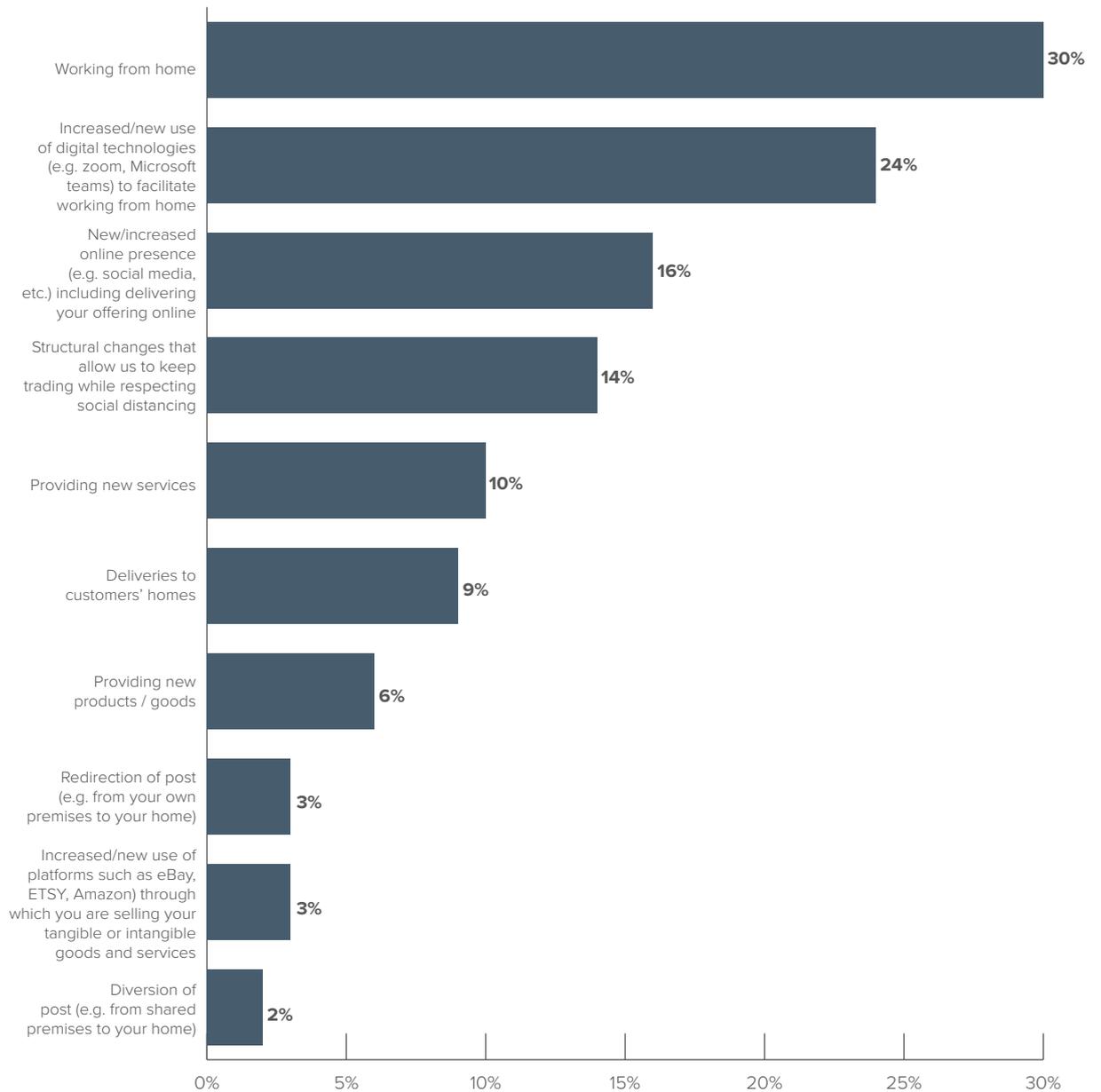
38 Build Back Better: Our plan for growth; HM Treasury; March 2021: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/969275/PIG_Final_print_Plan_for_Growth_Print.pdf

39 Department for International Trade and UK Export Finance: Support for exports; National Audit Office; July 2020; p9: <https://www.nao.org.uk/wp-content/uploads/2020/07/Department-for-International-Trade-and-UK-Export-Finance-Support-for-exports.pdf>

40 FSB Covid-19 impact survey; 2020

Figure 11: Ways in which businesses have altered their offering in response to the coronavirus emergency

Source: FSB Covid-19 impact survey 2020



Restrictions have likewise moved the provision of Government support and advice services online: for example, the Export Academy has been delivered virtually. Going forward Government should adopt a digital by default approach to the provision of export support to expand the reach of its resources. For example, Government should continue to deliver the majority of Export Academy resources virtually or adopt a hybrid approach, combining remote and in-person participation.

- Create a central online hub for export resources across all relevant Government departments and initiatives.
- A dedicated online or telephone inquiry service.
- A digital by default approach to the provision of Government support.

Mobilise

The costs of internationalising are often prohibitive for small businesses and navigating new markets can present cultural and regulatory barriers. Firms may need to dedicate considerable amounts of capital to investing in new resources, adapting their products or carrying out market research so that they have sound knowledge of potential new markets. The following recommendations encourage Government to help small businesses as they begin actively exporting through providing incentives to overcome the upfront costs and support to navigate new markets.

5. Deliver expanded funding programmes

Small businesses operate on tighter margins than their larger peers and are less able to take on the upfront costs associated with entering new markets. Financial support is therefore seen by FSB members as one of the most useful tools in helping small businesses to achieve their international ambitions⁴¹.

The use of grants to overcome export barriers in the form of ‘vouchers’ is well established in the UK. The Government has previously supported programmes aimed at helping businesses to pay for strategic advice, expertise or training, such as the Growth Vouchers Programme⁴², Innovation Vouchers⁴³ and the Passport to Export Scheme⁴⁴. Small businesses in some parts of the UK are able to access financial support to buy time with an expert to help them develop their exporting strategies. This includes the Elevate support programme delivered by InterTrade Ireland, which provides small businesses with grants of up to £5000 to pay for time with a consultant to identify cross-border opportunities and develop a sales plan⁴⁵, and the Welsh International Manager for Hire programme⁴⁶.

Although the SME Brexit Support Fund which ran from March to June 2021 was a critical piece of support in helping many small businesses continue to trade with the EU Single Market, overall take-up was lower than expected, and the process issues are mentioned above. In addition, restrictive eligibility criteria excluded businesses that had previously traded with countries outside the EU Single Market, even those that had exported on a very limited or ad hoc basis. Future grant programmes should be carefully designed to avoid excluding small businesses that would benefit from such support.

Tradeshows in potential markets are critical for helping small businesses to build partnerships and connect with potential new customers, but the high costs of attendance (including conference fees, developing promotional material, stand costs, transport, and staff costs) are often a barrier. The Government has recently closed the Tradeshow Access Programme (TAP) which provided support of £500 - £2,500 to contribute towards direct exhibiting costs, conference fees or creating promotional material⁴⁷. The maximum grant available of £2500 would not however normally cover the total costs incurred by attending a trade fair. Businesses were also restricted by a cap on the number of grants they could receive during the lifetime of their business.

The picture varies across the UK’s nations. In Wales the Overseas Business Development Visit Support programme⁴⁸ can contribute towards the cost of a visit to an overseas market. In Northern Ireland, eligible businesses that are clients of Invest Northern Ireland (Invest NI), the economic development agency for Northern Ireland, can apply for assistance towards exhibition participation including travel costs⁴⁹. To increase its reach, Invest NI should expand its export support to ensure access for all Northern Ireland SMEs that hold export potential, or can grow their current exports to new markets.

FSB has called on the UK Government to replace the TAP with a new and expanded funding programme designed to encourage first-time exporters and help existing exporters reach new markets⁵⁰. The Government should deliver funding programmes that can be applied to directly by small businesses and

41 FSB Customs survey; 2018

42 Growth Vouchers programme; former Department for Business, Innovation and Skills: <https://www.gov.uk/government/collections/growth-vouchers-programme>

43 Innovation vouchers programme; Innovate UK: <https://www.gov.uk/government/news/innovation-vouchers-for-all>

44 Roads to Success: SME Exports; House of Lords Select Committee on Small and Medium Sized Enterprises; 2013: <https://publications.parliament.uk/pa/ld201213/ldselect/ldsmall/131/131.pdf>

45 Elevate programme; InterTrade Ireland: <https://intertradeireland.com/sales-growth/elevate>

46 Export Action Plan for Wales; Welsh Government; 2020: <https://gov.wales/sites/default/files/publications/2020-12/export-action-plan.pdf>

47 Tradeshow Access Programme (TAP): <https://www.gov.uk/guidance/tradeshow-access-programme>

48 The Overseas Business Development Visit Support (OBDV) programme can support 50% of the visit cost to a maximum of £10,000: <https://businesswales.gov.wales/sites/business-wales/files/data%20sheets%20-%20obdev%20-%20english.pdf>

49 The InvestNI SOLEX grant is available to InvestNI clients that fulfil eligibility criteria including: turnover of £250,000 turnover; 25 per cent of sales should be exports.

50 FSB press release: 5 step plan to super-charge tradeshow access in post-pandemic world; <https://www.fsb.org.uk/resources-page/5-step-plan-to-super-charge-tradeshow-access-in-post-pandemic-world.html>

can be used to support to a broad range of activities. This would help small businesses to access the most appropriate form of support according to their needs, whether investing in market research, accessing the services of a customs expert or export manager or participating in trade missions and tradeshows. Businesses must be free to use funding to cover in-person events as well as to develop digital skills to use the online platforms used by many tradeshows.

The criteria for such funding should be carefully designed to maximise its impact and reach. For example, initiatives should not exclude ad hoc or occasional exporters and should be available to both new and established exporters. The impact of funding programmes could be measured by tracking the number of UK businesses that start exporting or increase exports as a result of accessing funding.

Broadening the eligible activities that funding can be used for will allow Government to monitor and analyse where support is most needed, providing valuable data that will help shape and improve the efficiency of future measures. Boosting small firms' capital to access support and training will also encourage growth in the provision of these services by the private sector, reducing business reliance on Government resources.

UK Government could look to international examples of best practice, such as the Canadian CanExport SMEs programme, which provides up to \$75,000 to SMEs, covering up to 75 per cent of costs for export marketing. The funding provided can be used towards activities including market research, buying expert advice, translation costs, attending trade shows virtually or in person, and applying for certification in overseas markets⁵¹. By November 2019, the CanExport SMEs programme had provided support resulting in over \$600 CAD million in new exports⁵². Delivering a more streamlined source of funding that can be used for a range of services will help Government to build a more accurate picture of the areas where small businesses need most support. Over time, this will help Government to shape and target future export support measures more effectively.

- Deliver funding that can be used for a range of support, looking to examples of best practice.
- Make funding accessible to all firms with export potential.

6. Reinforce the links between innovation and export support

Evidence shows that the more innovative a small firm is, the more likely it is to export successfully and to generate growth from its exports⁵³. FSB data from 2018 shows that small firms that are 'innovators' are more likely to export⁵⁴.

A coordinated policy approach to the provision of business support and funding for innovation and exports is therefore of clear value to businesses, particularly for high-innovation businesses, where timely export support is vital to maximising their commercial potential⁵⁵.

In the UK however, separate bodies – Innovate UK, the GREAT.gov.uk platform and UKEF – are responsible for support services and funding at a national level. Although Innovate UK offers some funding programmes to businesses that want to grow their business overseas, the bodies operate independently of one another. These siloes have a direct impact on small firms, for instance FSB members have reported being able to access innovation funding but struggling to access further funds to support commercialisation or internationalisation of their products or services.

51 CanExport SMEs programme; Trade Commissioner Service, Government of Canada: <https://www.tradecommissioner.gc.ca/funding-financement/canexport/sme-pme/index.aspx?lang=eng>

52 Minister Ng announces new measures to help Canadian small businesses access global markets amid COVID-19; Government of Canada press release 3 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>

53 Experience, age and exporting performance in UK SMEs; James H Love, Stephen Roper and Ying Zhou; Enterprise Research Centre; November 2014: https://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/03/ERC-ResPap28_Love_Roper_Zhou.pdf

54 FSB Innovation survey; 2018

55 Experience, age and exporting performance in UK SMEs; James H Love, Stephen Roper and Ying Zhou; Enterprise Research Centre; November 2014; p31: https://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/03/ERC-ResPap28_Love_Roper_Zhou.pdf

Across the UK's nations, business support agencies provide tailored support and advice for both innovation and exports, and each offers its own funding programmes. Invest NI offers a £5000 Innovation Voucher which firms can use to access expertise from a network of universities, colleges and research organisations⁵⁶, Expertise Wales offers an Innovation Voucher that can be used to access expertise or fund equipment⁵⁷ and Scottish Enterprise formerly offered a grant for businesses to design new products and services to meet new markets⁵⁸.

Both international trade and innovation are important growth drivers and by capitalising on the synergies between exports and innovation the Government can help boost small firms' productivity⁵⁹. Government should therefore consider how to foster closer links between innovation and export support programmes taking into account the structures in place across the UK's nations and regions. In the short term, equipping ITAs with the necessary resources to be able to provide small businesses with information on Innovation UK services and opportunities, and connect them with relevant guidance, would be an important first step.

Government should also take steps to raise awareness among SMEs of the opportunities available to them provided by different support agencies, at UK-wide and national level. A simple way to achieve this would be to include clear signposting on support agency webpages to highlight complementary initiatives.

In the longer term, the Government could take steps to create greater synergies between export finance and innovation funding. Government could consider following examples of best practice from other countries which have successfully merged their innovation and trade agencies, such as the Netherlands Enterprise Agency⁶⁰ and Business Finland⁶¹.

- Equip ITAs with information on relevant Innovate UK services.
- Clear signposting to opportunities provided by different support agencies across the UK.
- Consider merging Government innovation and export services.

7. Provide robust in-market support

Small firms have a smaller reach and more limited networks in comparison to larger businesses which affects their ability to establish relationships with potential international customers or collaborators. Making use of in-market support systems and networks from DIT staff and Trade Envoys to diaspora links can play an important role in overcoming these challenges.

DIT has an overseas network of more than 1,400 staff who promote the interests of British businesses in international markets⁶², helping businesses to grow their networks and capitalise on opportunities, facilitating attendance at tradeshows and working with overseas governments to address regulatory barriers that are experienced by UK firms. Overseas offices are uniquely placed to provide insights that help businesses understand the culture and regulatory frameworks of target markets. The UK Government should draw on the expertise of its overseas staff to build country profiles, aimed at equipping small exporters with market insights, similar to those produced by VisitBritain⁶³. Further, each overseas DIT office should be able to provide relevant high-quality local resources to prospective exporters, from a list of potential distributors to an overview of potential regulatory challenges, and should provide opportunities for potential exporters to provide feedback on the support they receive. The UK Government should also look to develop greater synergies with domestic and regional services to deliver a consistent and streamlined experience to small businesses.

⁵⁶ Innovation Vouchers; Invest Northern Ireland: <https://www.investni.com/support-for-business/funding-for-innovation-and-research-and-development>

⁵⁷ Innovation Vouchers; Business Wales: <https://businesswales.gov.wales/innovation/support-and-funding/funding>

⁵⁸ The Make it to Market grant provided funding to design and develop new products and services to meet the needs of new or existing international markets. Make it to Market; Scottish Enterprise: <https://www.scottish-enterprise.com/support-for-businesses/funding-and-grants/business-grants/make-it-to-market>

⁵⁹ Spotlight on Innovation: How government can unlock small business opportunity; Federation of Small Businesses; July 2018: <https://www.fsb.org.uk/static/f5e4ca71-5ad9-4556-80b5d820b49a84ec/innovation-report-final.pdf>

⁶⁰ Netherlands Enterprise Agency: <https://english.rvo.nl/>

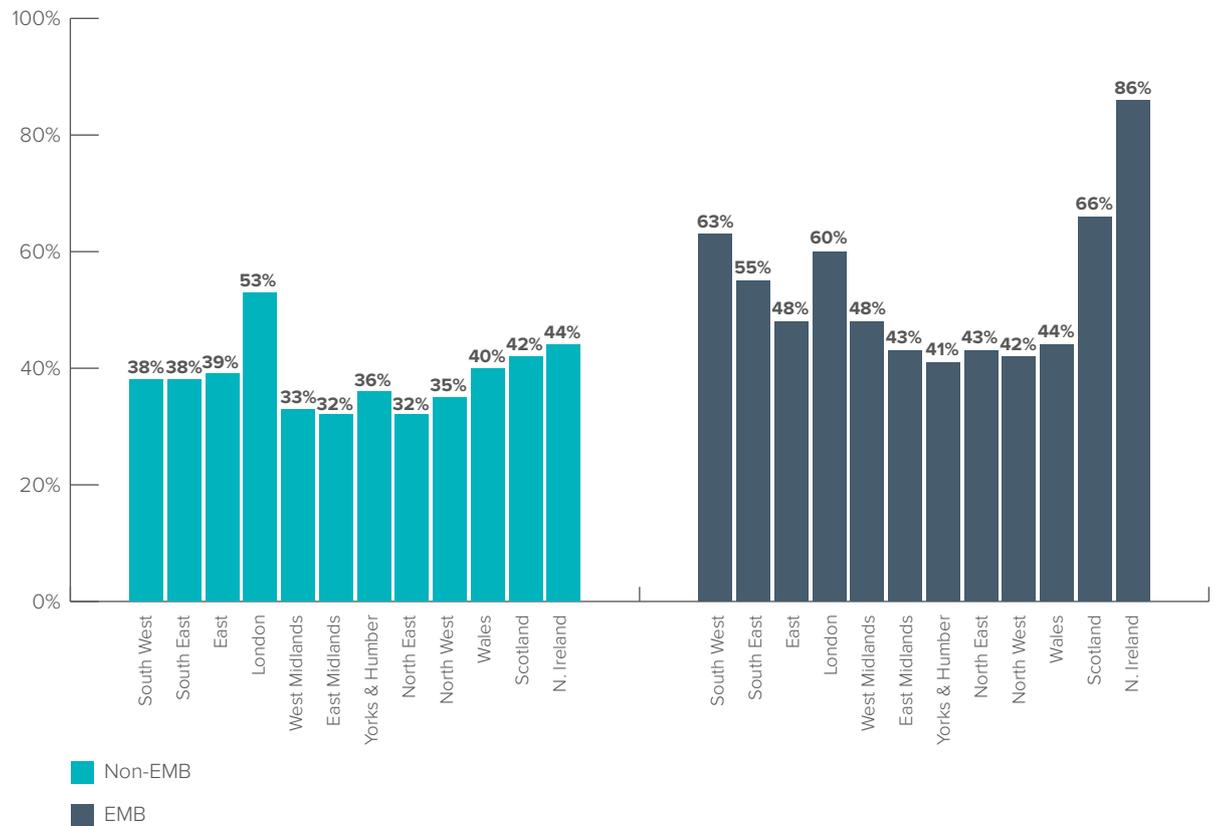
⁶¹ Business Finland: <https://www.businessfinland.fi/en/do-business-with-finland/home>

⁶² Statistics on DIT export support objectives (2019 to 2020); Department for International Trade; July 2020: <https://www.gov.uk/government/statistics/statistics-on-dit-export-support-objectives-2019-to-2020/statistics-on-dit-export-support-objectives-2019-to-2020>

⁶³ VisitBritain Market and Trade Profiles can be found here: <https://www.visitbritain.org/markets-segments>

Many UK businesses have strong diasporic ties to overseas markets, where cultural understanding can help to boost their trade activities. The 2020 FSB report *Unlocking Opportunity: the value of ethnic minority firms to UK economic activity and enterprise*, authored in conjunction with the Centre for Research in Ethnic Minority Entrepreneurship (CREME) and Enterprise Research Centre (ERC), found that ethnic minority led businesses (EMBs) are more likely to export than non-EMBs: between 2002 and 2018, EMBs had higher levels of exports than non-EMBs in every UK region⁶⁴.

Figure 12: Percentage of SMEs that export, split by non-EMB vs. EMB (by region)
Source: Global Entrepreneurship Monitor, compiled by Centre for Research in Ethnic Minority Entrepreneurship (CREME) and Enterprise Research Centre (ERC) for *Unlocking Opportunity*



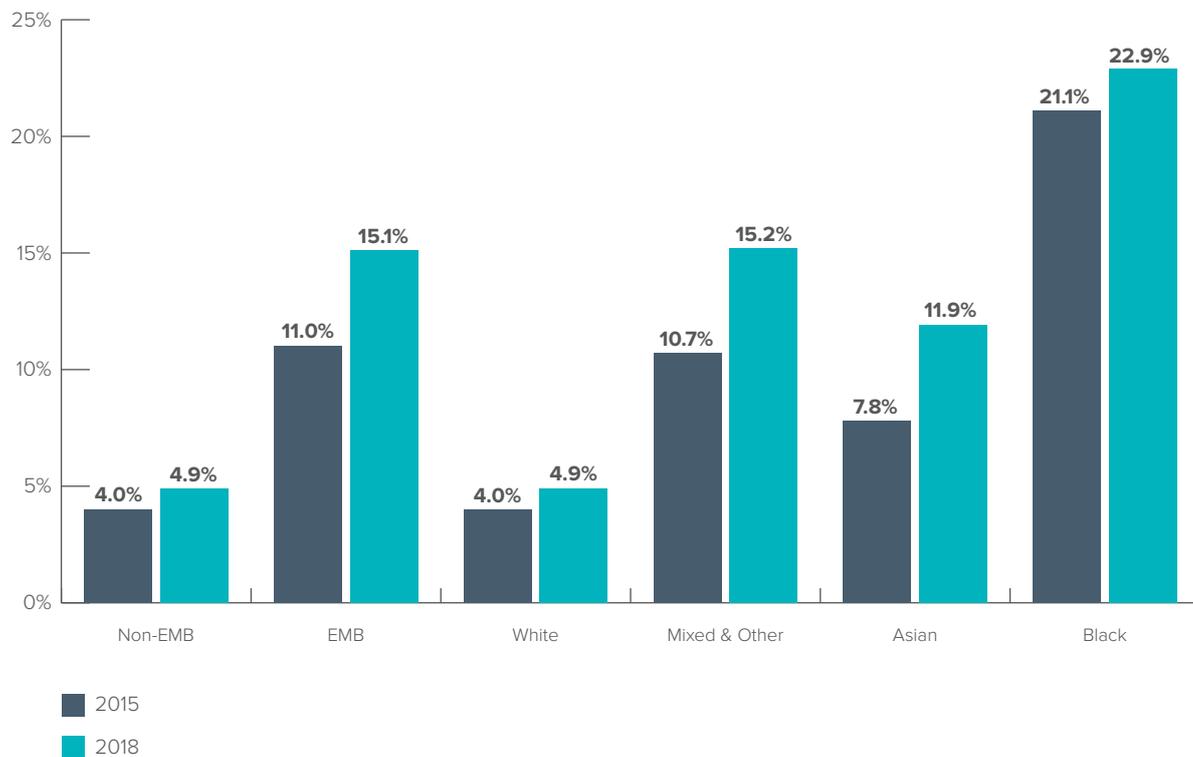
Of businesses that currently do not export, businesses led by ethnic minorities are also more likely than non-EMBs to report export ambitions. In 2018, the highest intention to export was shown by Black/Black British-led businesses, with close to one in four reporting their intention to export⁶⁵.

64 *Unlocking Opportunity: the value of ethnic minority firms to UK economic activity and enterprise*; Centre for Research in Ethnic Minority Entrepreneurship, Enterprise Research Centre and Federation of Small Businesses; July 2020; p34: <https://www.fsb.org.uk/static/0c9d63a4-a600-4ab4-8144c59716b61d07/unlocking-opportunity.pdf>

65 *Unlocking Opportunity: the value of ethnic minority firms to UK economic activity and enterprise*; Centre for Research in Ethnic Minority Entrepreneurship, Enterprise Research Centre and Federation of Small Businesses; July 2020; p36: <https://www.fsb.org.uk/static/0c9d63a4-a600-4ab4-8144c59716b61d07/unlocking-opportunity.pdf>

Figure 13: Proportion of SME non-exporter intention to export split by ethnic group

Source: Longitudinal Small Business Survey, compiled by Centre for Research in Ethnic Minority Entrepreneurship (CREME) and Enterprise Research Centre (ERC) for *Unlocking Opportunity*



The active role that EMBs play in UK international trade demonstrates a clear opportunity for Government to boost overall trading activity by deepening existing cultural and political links with overseas markets and supporting EMB exporting ambitions. Government should commit to increasing ethnic minority entrepreneurship, including by committing to making ethnic minorities a key part of dedicated campaigns to boost exporting.

The export strategies developed by the Northern Ireland Executive and Scottish and Welsh Governments place a high value on their diasporic ties. Invest NI has committed to building strong diaspora relationships, and the Scottish Government's export plan seeks to build on the strength of Scotland's alumni network and the wider Scottish diaspora to deliver growth. The Welsh Government has announced plans to develop a dedicated diaspora initiative of trade envoys and entrepreneurs in key markets who will support Welsh businesses by identifying in-market opportunities and promoting Welsh business interests overseas⁶⁶. The UK Government should support the diaspora engagement work undertaken by devolved administrations while complementing it with work on connecting and reinforcing links with the diaspora that considers itself linked to England, Britain or the UK.

Market research is a vital step in a small firm's export journey. Small businesses that lack the time or expertise to carry out market research themselves may look to outsource, but appointing a market research agency can be prohibitively expensive. DIT offers its own chargeable market research service, the Overseas Market Introduction Service (OMIS) through its staff networks in embassies and consulates. In addition to developing financial support programmes that small businesses can use to finance market research, Government should consider reducing or scrapping fees for the use of OMIS for the smallest businesses.

66 Export Action Plan for Wales; Welsh Government; 2020; p19: <https://gov.wales/sites/default/files/publications/2020-12/export-action-plan.pdf>

UK Government could also look to examples of innovative schemes at regional level. The Graduate to Export programme, run by Invest NI, provides companies with financial support to employ a graduate for 18 months who will undertake a market research project, spending time with the company locally before transferring to an international market to complete the project⁶⁷.

Taking a country-by-country approach to identifying market opportunities is time-consuming for small businesses, and FSB members have welcomed Government initiatives to facilitate market entry at the regional level such as the North America Export Portal and the Europe Trade Hub. These portals provide a single entry point for businesses looking to enter a particular region and have significantly improved the user experience for small businesses looking to start exporting. Government should commit to expanding the roll-out of these hubs to other global regions, such as South America and East Asia.

- Equip overseas DIT offices with necessary resources to provide high-quality support to potential exporters.
- Commit to supporting the export ambitions of ethnic minority led businesses.
- Support diaspora engagement work undertaken by devolved administrations and complement with work on connecting and reinforcing links with the diaspora that considers itself linked to England, Britain or the UK.
- Facilitate market research by considering reducing or scrapping fees for the use of the Overseas Market Introduction Service for the smallest businesses, looking to innovative programmes across the UK's nations.
- Commit to expanding the creation of DIT regional hubs, following the example of the North America Export Portal and the Europe Trade Hub.

⁶⁷ Graduate to Export programme; Invest Northern Ireland: <https://www.investni.com/support-for-business/graduate-to-export-programme>

Maximise

The preceding recommendations will not be enough alone to foster a culture of exporting among the small business community. To maximise the long-term impact of export support measures, it is critical that the Government has access to robust data to inform future policy. Support measures must also be accompanied by Government support for international efforts to establish quicker, less costly and less bureaucratic trade processes. The following recommendations suggest how this may be achieved.

8. Gather accurate data on exporting activity

An export-led recovery requires effective export support to boost small business participation in international trade, which in turn requires in-depth understanding of small business needs. Robust data-gathering is essential to build an accurate picture of the small business export landscape and to understand the trends and challenges of international trade for both goods and services. Much of the research around SME exporting focuses on current exporters, and although FSB's 2016 report *Destination Export: The small business export landscape*⁶⁸ explored trends among small firms based on export status (Exporters, Lapsers, Considerers and Non-considerers) further research is needed.

Government would benefit from more complete data on the UK exporter population. As noted in the Impact Assessment for the new Trade Act which became law in April 2021, Government data-gathering on exports does not currently include businesses that trade below the VAT registration threshold (£85,000)⁶⁹, nor the very smallest businesses that do not employ people - using PAYE. While this may encompass the majority of export value (as highlighted in the introduction, the bulk of international trade value is consolidated in large businesses), this means that there is a significant number of small and micro business exporters exporting in a lower volume that are not reflected in Government data. Their activity is not seen, or valued; however the scale of potential to help this group means they should be seen and valued. For example, FSB data shows that 20 per cent of exporting small businesses have a turnover of £75,000 or lower⁷⁰. FSB supports the Government's intention to use the new Trade Act to collect new and better data on exporters from the very smallest to the largest. Improving the accuracy of this data will help Government understand small business export activity and inform the development of future support measures or policy.

Identifying the challenges that complicate or prevent SME participation in international trade will help Government target support effectively. One means of doing this could be to analyse what small firms use financial support for. As noted in Recommendation 5, funding initiatives that can be used for a range of activities will allow Government to track over time which in areas small firms require the most support. This will enable the Government to address these challenges more effectively and channel future support and guidance where it is most needed.

- Include non-VAT registered and non-employing businesses in data gathering under the Trade Act to build an accurate picture of the small business export landscape.
- Monitor and analyse how small businesses use funding programmes to target Government support more effectively.

68 Destination Export: The small business export landscape; Federation of Small Businesses; 2016: <https://www.fsb.org.uk/static/e0e19b59-9d58-4a4f-bb59f080cbf2d05a/fsb-destination-export-report-2016.pdf>

69 Impact Assessment from the Department for International Trade on the Trade Act; January 2020: <https://publications.parliament.uk/pa/bills/cbill/58-01/0120/ImpactAssess.pdf>

70 Federation of Small Businesses Small Business Index Q1; 2021

9. Support paperless trading

Small businesses often report facing documentation overload when engaging in international trade. Requirements to provide multiple hard copies of trade documentation pose an important administrative burden and reliance on wet ink can lead to processing delays. Although laws recognising the equivalence between paper-based and electronic transactions in some circumstances have been adopted by 158 countries⁷¹, the acceptance of paperless trade is far from global. The UN Global Survey on Digital and Sustainable Trade Facilitation (2019) found that the global average implementation level for cross-border paperless trade is at 36 per cent⁷². The digitalisation of trade documents increases the efficiency and lowers the cost of cross-border transactions and, according to research from the International Chamber of Commerce (ICC), moving to a fully digital system at global level could generate £25 billion in new economic growth and significantly increase business efficiency for SMEs by 2024⁷³.

The significant disruption to trade transactions and global supply chains caused by the coronavirus pandemic has given greater impetus to the drive towards the digitalisation of trade documents. Many governments adopted some measures to facilitate digital trade as part of their policy responses to the pandemic, such as facilitating e-signatures⁷⁴. These measures increase the speed and efficiency of processing trade documentation, while reducing the need for physical interactions⁷⁵.

FSB research shows that measures to facilitate paperless trade and reduce reliance on wet ink have an important role to play in helping businesses to recover. When asked what temporary changes would help with importing or exporting activities as their business recovers from the coronavirus crisis, a third (30 per cent) of FSB members engaged in international trade indicated that they would support rule of origin certificates no longer requiring a wet signature, a quarter (26 per cent) would support the ability to digitally exchange transit and export documents, and just under one in five would welcome the acceptance of digital copies of end user and stocklist undertakings as part of the export license application process.

71 E-transactions Legislation Worldwide; UNCTAD Cyberlaw Tracker: <https://unctad.org/page/e-transactions-legislation-worldwide>

72 The report surveyed 128 economies across a range of measures related to paperless trade and calculated an average 'implementation score'. The survey found that the global average implementation level for cross-border paperless trade is at 36 per cent. Digital and Sustainable Trade Facilitation: Global Report 2019; UNESCAP; September 2019; p1: <https://www.unescap.org/sites/default/d8files/EXECUTIVE%20SUMMARY%20%28ENGLISH%29.pdf>

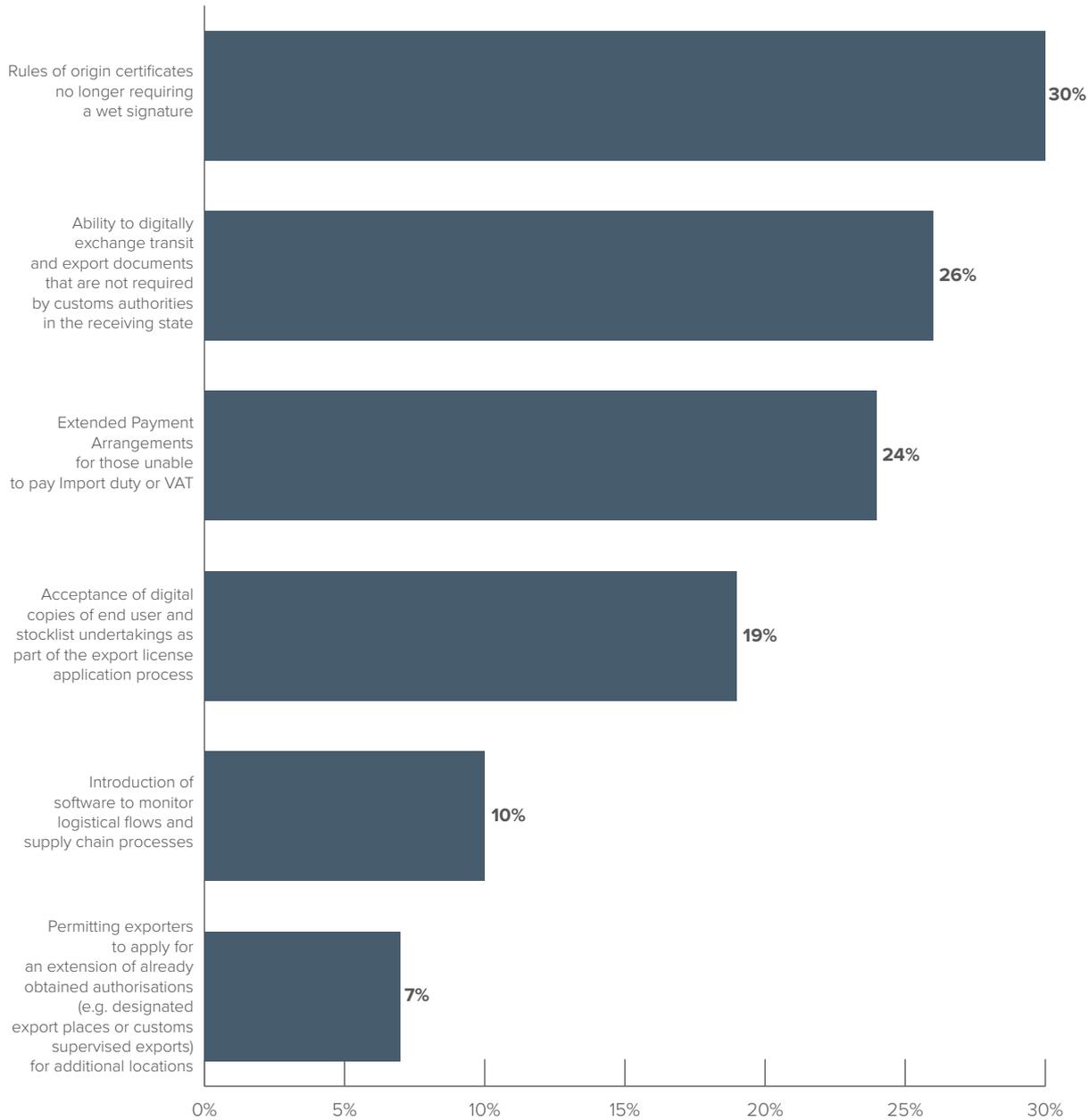
73 Creating a Modern Digital Trade Ecosystem: The economic case to reform UK law and align to the UNCITRAL Model Law on Electronic Transferable Records; United Kingdom International Chamber of Commerce; 2021

74 Leveraging digital trade to fight the consequences of COVID-19; OECD; July 2020: https://read.oecd-ilibrary.org/view/?ref=135_135517-02bikxyksj&title=Leveraging-Digital-Trade-to-Fight-the-Consequences-of-COVID-19

75 Trade Facilitation and the COVID-19 pandemic; OECD; April 2020; p2: https://read.oecd-ilibrary.org/view/?ref=130_130609-v8jn83j1j3&title=Trade-facilitation-and-the-covid-19-pandemic&_ga=2.149040821.2069752095.1624717707.1737883549.1612184369

Figure 14: Which of the following temporary changes would help with your exporting and importing activities as your business recovers from the COVID-19 crisis?

Source: FSB Covid recovery survey 2020



Building on its work to champion paperless trade under the UK presidency of the G7, the Government should continue to take a leading role in driving recognition of electronic contracts and signatures among WTO and G20 partners, in particular through promoting the UNCITRAL Model Law on Electronic Transferable Records (MLETR) and the WTO Joint Statement Initiative (JSI) on e-Commerce. Government should also monitor the implementation of digitalisation measures with a view to assessing whether the benefits associated with the facilitation of paperless trade, such as lower costs and fees, reach the smallest businesses.

- Continue to promote the UNCITRAL Model Law on Electronic Transferable Records and the WTO Joint Statement Initiative on e-Commerce.
- Monitor the implementation of digitalisation measures.

10. Promote global trade facilitation

While red tape and complex customs procedures affect businesses of all sizes, the simplification, harmonisation and modernisation of international trade processes are particularly beneficial for smaller firms⁷⁶. Government can contribute to a small business-friendly multilateral trading environment by taking a leading role in international discussions on trade facilitation.

Recognition of the need for trade facilitation measures within the multilateral trading system has grown in recent years. The WTO Trade Facilitation Agreement (TFA), which entered into force in 2017, represents an important step forward in expediting the movement of goods and increasing cooperation between customs authorities. WTO research suggests that full implementation of the TFA could reduce trade costs by an average of 14.3 per cent⁷⁷. Government should continue to support the full implementation of the TFA. Small businesses would benefit in particular from the establishment of a single window for customs (Article 10.4), which would enable traders to submit documents and data for the transit of goods to the relevant authorities through a single entry point.

The WTO's informal Working Group on MSMEs adopted in December 2020 a package of recommendations which highlight the importance of full implementation of the TFA to address burdensome customs procedures for MSMEs. The package also calls on WTO members to commit to the exchange of best practice on customs procedures and to consider adopting digital solutions to ease difficulties⁷⁸. Government should work within the WTO to promote the package in the lead up to the twelfth WTO Ministerial Conference (MC12) in November 2021.

Small businesses that export, particularly occasional exporters, often deal with low value consignments. For instance, FSB research shows that the average value of the majority (51 per cent) of exports to the EU is below £1,000.⁷⁹

Figure 15: Value of the average export consignment to the EU Customs Union

Source: FSB Customs survey 2018

Below or at £15	5%
£16 - £135	16%
£136 - £873	21%
£874 - £1000	9%
£1001 - £2000	12%
£2001 - £5000	10%
£5001 - £10,000	9%
£10,001 - £50,000	8%
£50,001 - £100,000	2%
£100,001 - £500,000	2%

76 Trade Facilitation and the COVID-19 pandemic; OECD; April 2020; p2: https://read.oecd-ilibrary.org/view/?ref=130_130609-v8jn83j1j3&title=Trade-facilitation-and-the-covid-19-pandemic&_ga=2.149040821.2069752095.1624717707-1737883549.1612184369

77 World Trade Report 2015: Speeding up trade: benefits and challenges of implementing the WTO Trade Facilitation Agreement; World Trade Organisation; 2015; p80: https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf

78 Package of declarations and recommendations adopted to help small businesses trade globally; World Trade Organisation; December 2020: https://www.wto.org/english/news_e/news20_e/msmes_11dec20_e.htm

79 FSB Customs survey; 2018

The majority of *de minimis* thresholds worldwide are significantly below \$1,000⁸⁰, meaning that a large proportion of small business export consignments are not exempt from customs duties, which are less easily absorbed by small businesses that often operate on tight margins. A universal *de minimis* threshold of \$1,000 (or equivalent) is therefore of vital importance to small firms trading goods internationally and Government should encourage its international partners to work towards a global agreement.

- Commit to fully implementing the provisions of the WTO Trade Facilitation Agreement.
- Work within the WTO to promote the December 2020 MSMEs package in the lead up to MC12.
- Commit to supporting a global *de minimis* threshold of \$1,000 for customs duties.

⁸⁰ Global Express Association: Overview of *de minimis* value regimes; 2019: <https://global-express.org/assets/files/Customs%20Committee/de-minimis/GEA%20De%20Minimis%20Country%20information%20as%20of%2015%20October%202019.pdf>

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