



Trade Barometer

Spring 2021



Executive summary

Businesses across the UK are emerging from the dark shadow of the COVID-19 pandemic with renewed confidence about what lies ahead as the domestic and global economy recovers. While the pandemic has caused significant damage to many businesses, international trade and digital transformation offer exciting opportunities for UK economic recovery.

Santander's Spring 2021 Trade Barometer, the 11th iteration of this research, provides a compelling snapshot of businesses' views at this critical moment. While challenges remain, many businesses are hopeful that the success of the COVID-19 vaccine programme, both in the UK and overseas, offers a route back to growth.

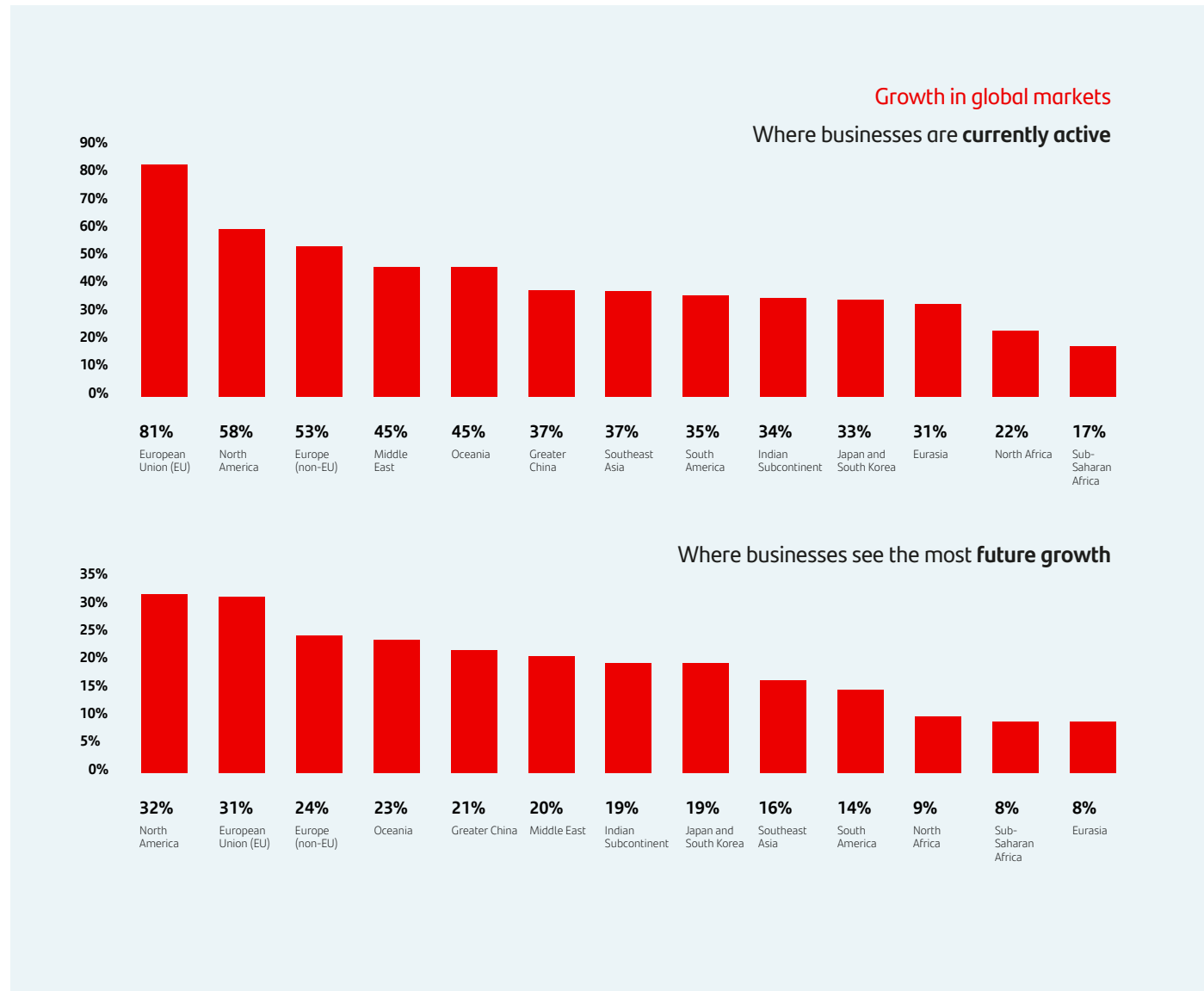
International trade will be a crucial element of that story. The Spring 2021 Trade Barometer suggests businesses trading internationally are now looking further afield for new opportunities, particularly given the need for adjustment to the new trading relationship between Britain and the European Union. It also reveals businesses that are currently active solely in their domestic market are more interested in taking their first steps towards international expansion than ever before.

This report is comprised of three sections. In part one, we consider the impact of COVID-19 on businesses' performance and confidence, and discuss their views of the opportunities and challenges that now lie ahead. In part two, we look at businesses' views of the post-Brexit trade agreement between the UK and the EU, and how this is colouring their approach to overseas trade. Finally, in part three, we chart businesses' global trade aspirations and the obstacles they will need to overcome in order to achieve their ambitions.



Key findings

- Business' confidence has increased with 65% of companies confident of growth over the next three years (up from 59% in Autumn 2020). Companies consider the rollout of COVID-19 vaccines, the impact of the pandemic on customer demand and the UK's economic prospects as key growth drivers.
- Business performance has continued to deteriorate with only 30% of companies saying performance has improved over the past 12 months (32% in Autumn 2020). International businesses continue to show higher levels of both business confidence and performance.
- Businesses' early impressions of the UK-EU trade deal are mixed, with 38% of companies say the deal will make trading with the EU more time consuming. 35% saying they now have to pay higher charges, tariffs or local taxes as a result and 16% say their supply chain will no longer be profitable.
- COVID-19 remains the main potential source of negative impact over the next 12 months, although companies are less concerned overall.
- Businesses believe that growth in the domestic market, growth in existing international markets and growth as a result of diversification will be the main drivers of recovery.
- For international businesses, key challenges include bureaucracy, challenges related to COVID-19, regulatory changes post-Brexit and attitudes towards UK businesses.
- The proportion of current domestic-only businesses considering international expansion is 20%, the highest ever level recorded in the Trade Barometer for the second successive wave.





The impact
of COVID-19

The impact of COVID-19

The Spring 2021 Trade Barometer reveals that, after a year of unprecedented challenge in the face of the COVID-19 pandemic, businesses are now preparing for recovery. While 39% of businesses say their performance has deteriorated over the past 12 months, the worst figures on record in 11 editions of this research, almost two-thirds (65%) are confident of growth over the next three years. This is the most upbeat response since the summer of 2018.

Caution remains, to some extent. Investment intentions, for example, remain flat, though only 17% of businesses plan no investment at all, down from 27% in the Autumn 2020 Trade Barometer. Nevertheless, with the COVID-19 vaccine programme now enabling the UK to move away from lockdown restrictions, a sense of optimism is returning with 49% of businesses expecting their sales to rise over the course of 2021.

Inevitably, the COVID-19 pandemic has caused businesses a range of different problems and many companies are concerned these will continue over the year to come. Above all, while the UK is now moving out of lockdown, albeit cautiously, 35% of firms worry that domestic demand for their products and services will remain depressed over the next 12 months (27% also cite a lack of international demand).

Further COVID-19 setbacks, such as the emergence of vaccine-resistant new variants, would add to that risk.

Elsewhere, many businesses remain worried about the practical impacts of COVID-19 disruption. For example, 30% point to the problems with attending face-to-face events such as exhibitions and trade fairs. These have traditionally provided opportunities to build both domestic and international sales. Ongoing supply chain disruption is also a concern for 30% of businesses, while 26% point to challenges with the workforce, such as elevated absenteeism and problems with recruitment, retention and training.

COVID-19 related challenges over the next 12 months



The impact of COVID-19

Clearly, businesses cannot yet be sure that the COVID-19 pandemic is over and many of the challenges they face look set to persist for some time to come. Equally, growing numbers of companies are keen to move on to the front foot with a positive response to these challenges.

For example, more than one in four (26%) businesses in the Spring 2021 Trade Barometer say that international trade has become more important as a result of the COVID-19 pandemic. While the pandemic has been global, not all of the individual countries and regions have suffered in the same way or at the same time. Businesses with international sales have, therefore, been insulated to some extent from problems in one market by more resilient trade elsewhere.

Many businesses are also focusing on diversification that will provide protection from future crises. One emphasis is on sources of revenues where 26% are diversifying their ranges of products and services, 16% are moving into adjacent markets and 16% are trying to reduce their reliance on a single foreign market. However, operational diversification is also important with 17% of businesses diversifying their range of providers, suppliers and business partners with which they work.



Focused on opportunity

The Spring 2021 Trade Barometer also reveals that many businesses now see opportunities emerging from the aftermath of the pandemic. With economies and markets unlikely to simply revert to their pre-pandemic norms, businesses are focused on how to succeed in a new landscape.

Digital transformation is a prime example and the area where businesses now see the most potential. The pandemic has prompted a step-change in e-commerce, accelerating the growth of digital trade in industries such as retail. It has also forced businesses to rethink how they operate, with employees in many industries working more remotely and flexibly than ever before.

Overall, 27% of businesses now see digital transformation and the increased use of digital tools as a significant opportunity over the next 12 months. Many are now thinking hard about

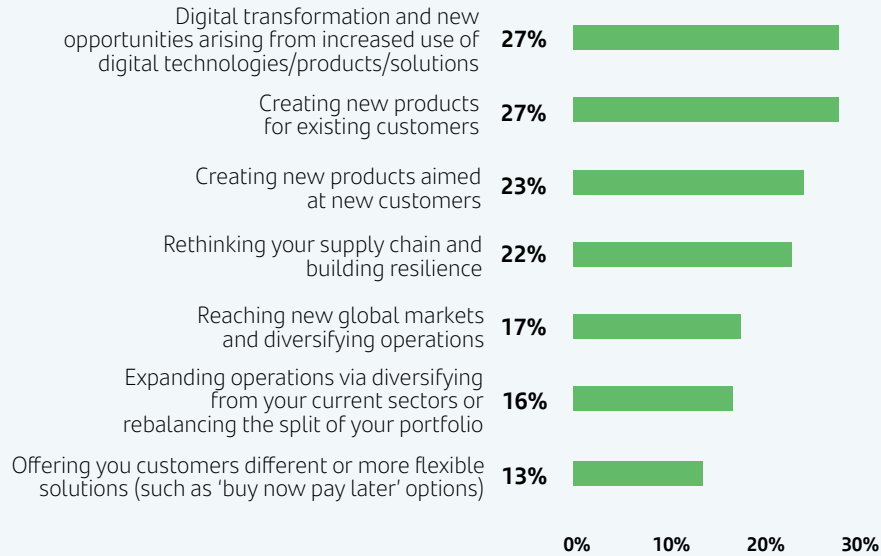
how to use this opportunity. For example, 51% of those firms focused on digital transformation are looking into how to use digital marketplaces such as e-commerce platforms.

Elsewhere, the COVID-19 pandemic has prompted many businesses to think about how to expand their range of products and services. More than one in four (27%) are focusing on developing new products for their existing customers, while 23% are investigating opportunities to serve new customers. Growth into new international markets is a focus for 17%.

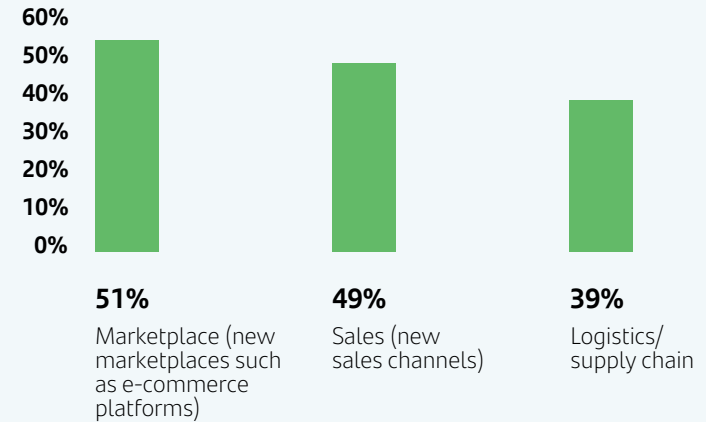
There will also be opportunities to improve business efficiency, effectiveness and resilience. More than one in five businesses (22%) are rethinking their supply chains, for example.

The impact of COVID-19

COVID-19 related opportunities in the next 12 months



For those who said digital transformation, the focus of their new strategy will be on:



In other words, businesses are now looking to the future. While the fall-out from the pandemic continues to pose real and present dangers, businesses are optimistic as the post pandemic recovery gains momentum.

This will be a multi-faceted endeavour. 37% of businesses in the Spring 2021 Trade Barometer cite domestic economic growth amongst the main drivers of their recovery from COVID-19, but other factors will be crucial too. For example, 26%

point to growth in existing international markets, 20% look forward to growth from diversification and 17% anticipate growth in new overseas markets.

Innovation will also be an important focus, as businesses embrace transformation. For example, 19% expect technology-driven efficiency and productivity gains to help drive their recovery, 16% cite digitalisation.

Life after Brexit



Life after Brexit

The growing confidence of businesses about their growth prospects reflects not only their hopes for a recovery from the COVID-19 pandemic but also their relief that the Brexit impasse has finally been broken. In the Autumn 2020 Trade Barometer, many businesses expressed alarm that the UK and the European Union would not reach a trade agreement by the end of the post-Brexit transitional period on 31 December. In the event, a deal was brokered, albeit with only days to spare.

However, while businesses are relieved that a no-deal crisis was averted, with a framework for trade between the UK and the EU now in place, it is clear that many have substantial reservations about the agreement. The fieldwork for the Spring 2021 Trade Barometer was conducted in late January and early February, as the sense of relief that a deal was done began to give way to concern about teething problems and long-term problems with the agreement.

As a result, while 39% of businesses are confident that the trade deal is sufficient for them to trade with the EU, a worrying 30% disagree with this idea. The fractious nature of the negotiations also appears to have undermined many businesses' desire to build their trade with the EU. Some 35% say the time it took to reach a deal has reduced their

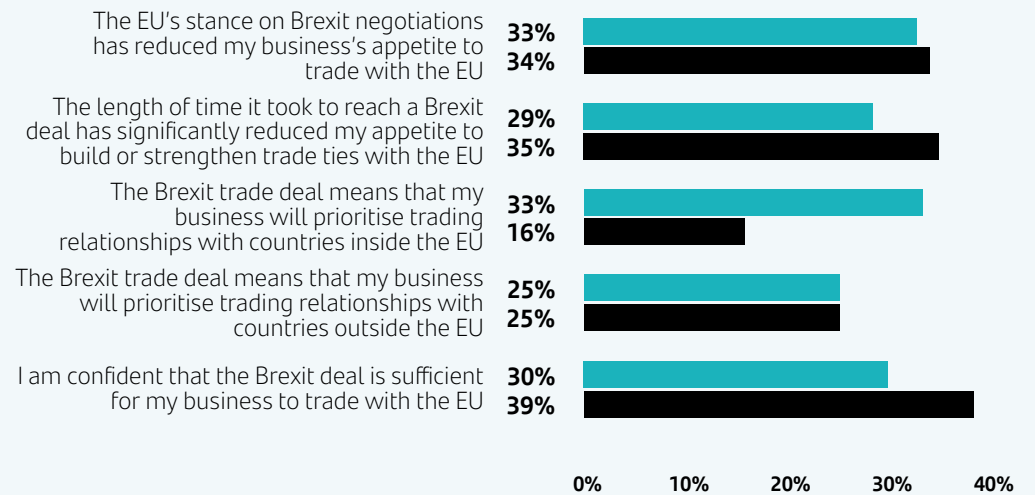
appetite to strengthen trade ties with the EU and 34% say the stance taken by the EU during the negotiations has had the same effect.

One result is an increased determination amongst businesses to look beyond the EU as they survey international growth opportunities. While only 16% agree with the suggestion that the trade deal will prompt them to prioritise trading relationships with countries inside the EU, 25% say the agreement will see them favour the rest of the world.

Brexit

Business sentiment on the new UK-EU trade agreement

■ = Net disagree
■ = Net agree



Life after Brexit

Brexit – negative impacts of the new UK-EU trade agreement



Businesses' verdict on the specifics of the trade agreement is decidedly mixed, with early reports of additional costs and bureaucracy already having a significant impact. More than a third of businesses (38%) say the deal will make it more consuming for them to trade in markets where they already have a presence while 35% warn of extra costs.

Most worryingly of all, almost one in four businesses (23%) say that as a result of these cost and time pressures, they will now struggle

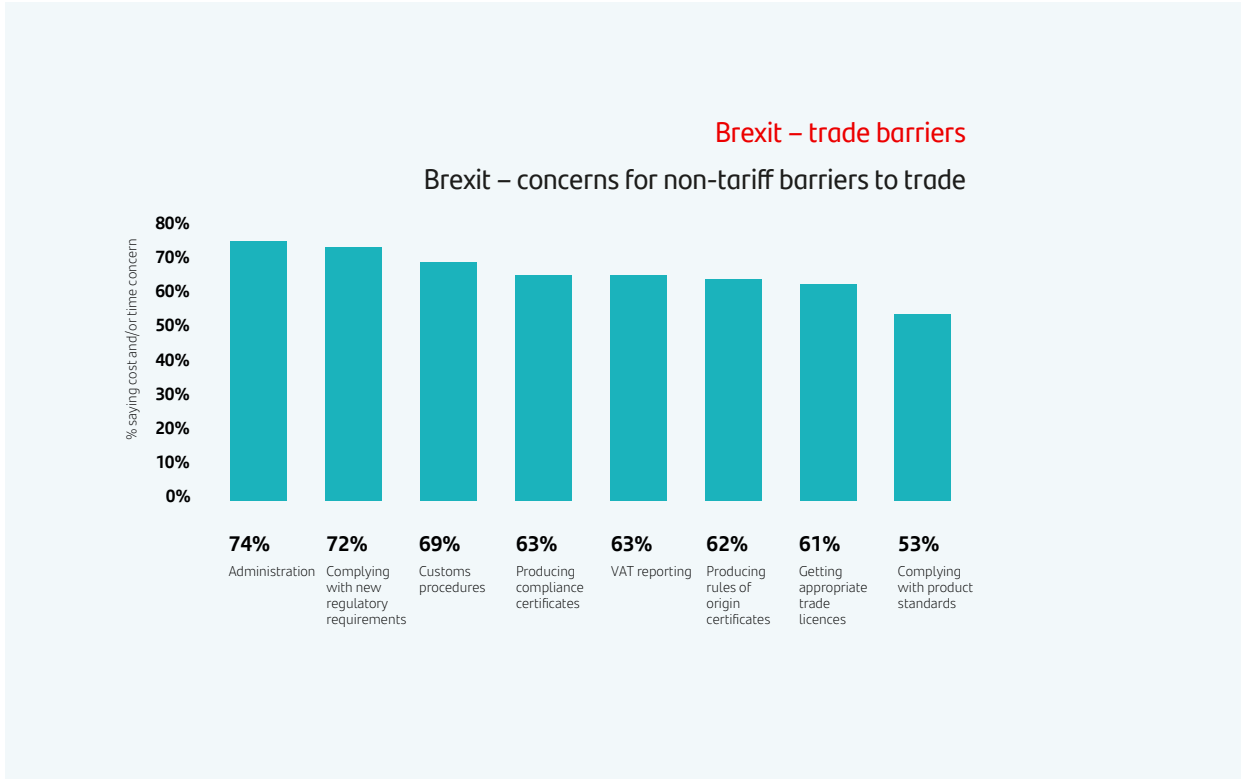
to continue trading in existing markets. It is also significant that 16% of businesses say the trade deal has rendered their supply chain unprofitable.


In other words, significant numbers of businesses now find themselves forced to rethink their trade with the EU, both the markets into which they are selling goods and those from where they are sourcing.

Life after Brexit

Indeed, despite the trade agreement, barriers to trade with the EU now appear to be significant. While the deal largely averted the prospect of tariffs attaching to cross-border trade between the UK and the EU, the terms of the agreement effectively introduce a range of non-tariff barriers.

Almost three-quarters (74%) of businesses say administration now poses them cost and/or time concerns, while 72% point to the need to comply with new regulatory requirements. Customs procedures are a concern for 69%, 63% cite compliance certificates and 63% are worried about VAT reporting. Across a wide range of issues, the trade agreement appears to be posing significant cost and/or time difficulties.





**Embracing
global trade**

Embracing global trade

The evidence of the Spring 2021 Trade Barometer is that many businesses see international trade as key to recovery from the COVID-19 pandemic. Among businesses aspiring to trade internationally, for example, almost half (46%) say overseas markets have become more important as a result of the pandemic.

It is also clear that businesses are becoming more global in their search for opportunities for expansion, particularly in the aftermath of Brexit and the new trade agreement between the UK and the EU. It is notable that North America has now moved ahead of the EU as the region where businesses are most likely to expect future growth opportunities. Looking at specific countries, the three most favoured markets are the US, China and Australia, with Germany and France lagging behind.

Encouragingly, domestic businesses that currently have no exposure to international trade are now more likely than ever before to be looking at opportunities overseas. Some 20% of these firms now say they are considering international expansion in the next three years. This is the highest figure ever recorded in the Trade Barometer and compares to just 9% only two years ago.

Nevertheless, many businesses are concerned about the obstacles standing in the way of international growth.

Firms already trading overseas point to both longstanding issues and fresh challenges. Among the former, the bureaucracy of overseas trade, cited by 44% of businesses, is an ongoing concern, while the difficulty of finding trustworthy partners, connections and customers (26%) and accessing new markets (24%) also loom large. As for new anxieties, COVID-19 challenges are the biggest problem (40%), but 39% point to post-Brexit regulatory challenges. It is also worrying that 30% of businesses believe attitudes towards UK businesses are an operational challenge and this may be one legacy of the long and often fractious Brexit process. This figure has risen sharply since the Autumn 2020 Trade Barometer, when only 23% of businesses felt this way.

International businesses – operational challenges



Naturally, these headline concerns break down into more granular issues. Among businesses concerned about bureaucracy, for example, almost two-thirds (65%) cite problems with export documentation, while 43% are concerned about legislation on issues such as tax or recruitment in local markets. For those worried by post-Brexit regulation, 73% point to the cost and delays of the new system.

These issues are often highly connected. The biggest problem for those worried about skills gaps, for instance, is the shortage of people with expertise in dealing with bureaucracy in target markets. For those anxious about finding the right partners, one problem is how to identify partners who can simplify the trade process.

International businesses – operational challenges in detail

For those who said **bureaucracy is an operational challenge**

Difficulty with the completion of export documentation (customs clearance, sanitary documentation, certification)	65%
Difficulty in dealing with local tax or recruitment legislation	43%
Problems in complying with product regulations in target market	37%
Difficulty or delay in setting up an entity in target market	26%

For those who said **finding the right partners is an operational challenge**

Inability to contact potential partners due to COVID-19 pandemic related issues (e.g. travelling restrictions)	41%
Difficulties in finding suppliers and business partners	39%
Partners needed to simplify the international trade journey (bringing together trade documentation and logistics)	38%
Difficulties in finding logistics providers to support with navigating international regulation	30%
Difficulties in finding customers	23%

For those who said **recruitment or access to skills is an operational challenge**

Expertise in dealing with red tape in target market	60%
Sales and marketing in the target market	47%
Expertise in cross-border trade	33%
Expertise in financing export activity	27%

For those who said **regulatory changes post-Brexit is an operational challenge**

Cost/delays as a result of new regulation	73%
Logistics	60%
Tariffs	56%
Rules of origin	45%
Getting regulatory approvals for your products or intermediate production	44%


Businesses' concerns are also highly market specific. In European markets, for example, anxieties about bureaucracy and Brexit-related issues are more likely to be at the forefront. In destinations such as India and China, businesses also tend to be concerned about how to identify local partners. In Japan, it is language and cultural barriers that worry many businesses, while in the US, the strong competition in the marketplace is the number one concern.

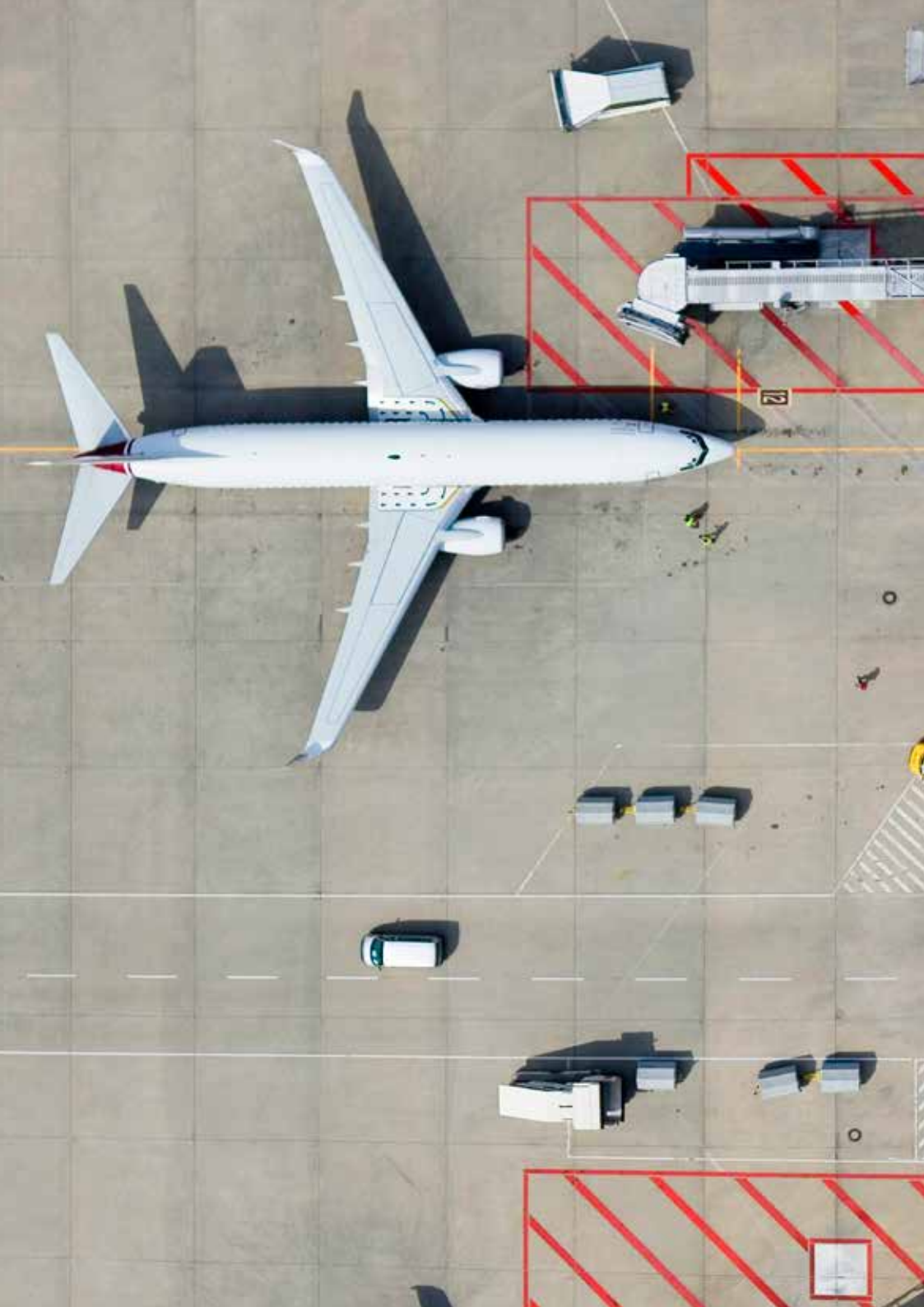
In some markets, businesses point to the relative ease of international trade. In Canada, for example, 56% of businesses say there are no major operational challenges standing in the way of trade, 54% and 50% respectively say the same of Poland and Germany.


International businesses – operational challenges by country

 Spain	%
Bureaucracy	22%
Finding trustworthy partners, connections and customers	16%
Understanding differing tax regimes in the region (i.e. different taxation policy depending on the autonomous region)	15%
Economic conditions in new markets	15%
Understanding new opportunities and overseas demand for your products	14%
Language/communication/other cultural barriers	12%
Recruitment and/or access to the right skills	8%

 China	%
Finding trustworthy partners, connections and customers	38%
Regulatory requirements (issues related to certification or inspection, etc.)	36%
Bureaucracy	33%
Language/communication/other cultural barriers	31%
Issues with Chinese regulation on capital controls	29%
Risk management: geopolitical risk, corruption, money laundering	24%
Economic conditions in new markets	18%
The impact of new trade deals (i.e. the Regional Comprehensive Economic Partnership agreement)	13%
Issues related to taxation	13%
Recruitment and/or access to the right skills	9%


 India	%
Bureaucracy, inconsistency in policy, tax regime and industry regulations	38%
Finding trustworthy partners, connections and customers	31%
Issues with Trade Documentation, Letter of Credit or Performance Guarantees	18%
Price sensitivity	18%
Corruption	17%
Language/communication/other cultural barriers	17%
Intense competition	15%
Increasing trade barriers (i.e. trade barriers based upon country of manufacture)	14%
Recruitment and/or access to the right skills	7%
Issues with opening a bank account in India or getting access to working capital from banks in India	5%



 Canada	%
Finding trustworthy partners, connections and customers	15%
Understanding local business management practices and choosing the best entry strategy (e.g. choosing the right markets within the region, finding suitable premises, managing the business from the UK etc.)	14%
Bureaucracy	13%
Challenging competitive environment	10%
Economic conditions in new markets	9%
Protectionism	7%
Building a sustainable business	6%
Recruitment and/or access to the right skills	5%
Labour issues related to immigration	5%

 Italy	%
Bureaucracy	33%
Economic conditions in new markets	16%
Finding trustworthy partners, connections and customers	13%
Corruption	12%
Language/communication/other cultural barriers	12%
Accessing new markets	7%
Recruitment and/or access to the right skills	6%


 France	%
Uncertainty of future relationship post-Brexit	37%
Increased delays and costs as a result of issues and/or new procedures at the border	29%
Excessive delays and costs	24%
Lack of information available on processes	12%
Language/communication/other cultural barriers	12%
Finding trustworthy partners, connections and customers	10%
Finding the right talent	9%
Lack of prior knowledge of the process	9%
Understanding employment laws	8%

 US	%
Challenging competitive environment	23%
Protectionism	21%
Bureaucracy	20%
Understanding local business management practices and choosing the best entry strategy (e.g. choosing the right markets within the region, finding suitable premises, managing the business from the UK etc.)	20%
Economic conditions in new markets	13%
Finding trustworthy partners, connections and customers	11%
Building a sustainable business	10%
Recruitment and/or access to the right skills	9%





 Poland	%
Bureaucracy (such as navigating bureaucracy for setting up in the market)	16%
Economic conditions in new markets	11%
Finding trustworthy partners, connections and customers	9%
Language/communication/other cultural barriers	9%
Accessing new markets	6%
Recruitment and/or access to the right skills	6%
Corruption	2%

 UAE	%
Finding trustworthy partners, connections and customers	23%
Bureaucracy	21%
Challenging business culture	20%
Language/communication/other cultural barriers (such as finding the best ways to communicate with businesses in the region)	18%
COVID-19 related challenges to building relationships in the region (such as building connections face-to-face or travel restrictions)	17%
Corruption	10%
Accessing new markets	7%
Economic conditions in new markets	7%
Recruitment and/or access to the right skills	4%

 Germany	%
Bureaucracy	26%
Challenging competitive environment	14%
Economic conditions in new markets	10%
Recruitment and/or access to the right skills	7%
Language/communication/other cultural barriers	7%
Accessing new markets (such as issues with finding the right market entry strategy, navigating competition etc.)	7%
Finding trustworthy partners, connections and customers	5%

 Japan	%
Language/communication/other cultural barriers	28%
Bureaucracy	18%
Building/maintaining brand recognition	13%
Adapting products to market in terms of regulatory requirements and product standards	12%
Adapting products to local consumer tastes	11%
Recruitment and/or access to the right skills	9%
Finding trustworthy partners, connections and customers	8%
Accessing new markets	7%
Issues with opening a bank account and/or accessing finance in country	5%

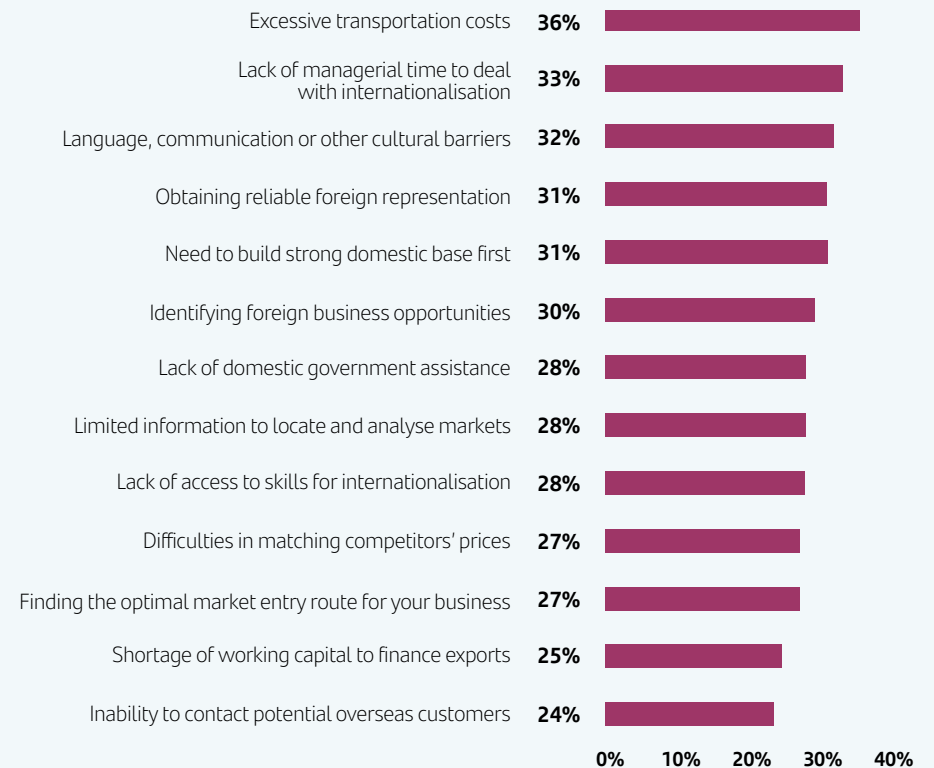




Turning to the concerns of domestic-only businesses, these are important given the growing numbers with international aspirations, practical concerns and bandwidth domination. Working with these businesses to confront such problems will be crucial in order to ensure they can deliver on their ambition, or to focus on export markets for the first time.

These firms worry about logistical concerns, such as transport costs (cited by 36% of domestic businesses), language and cultural barriers (32%) and how to obtain reliable foreign representation (31%). But a third (33%) say their management teams do not have the time to focus on internationalising the business. 31% cite the need to build a strong domestic base before looking overseas, an imperative that may have risen even higher up the agenda amid the COVID-19 pandemic.

Domestic businesses – barriers to trade



**Supporting the
growth agenda**



Supporting the growth agenda

The Spring 2021 Trade Barometer paints a picture of businesses that are focusing on opportunity as they emerge from the pandemic and, to a lesser extent, from Brexit uncertainty. After a torrid year, caution is understandably at the forefront, but many businesses expect to grow strongly as the world recovers from the pandemic and they regard a broad range of international markets as integral to those growth prospects.

Equally, however, many businesses see significant challenges ahead - they will need essential support in order to overcome these obstacles. Based on the Trade Barometer's findings, these areas include:

- o Advice and support with digital transformation (including new technologies, products and solutions) such as how to leverage online marketplaces, sales channels and logistics/supply chain solutions.
- o Support with market access as more businesses look to the UK's new relationship with the EU and to opportunities further afield, they will need partners able to help them move past the operational obstacles they have already identified.
- o Solutions to help businesses find new ways to connect with existing and potential trade partners around the world.
- o Support with identifying which opportunities to focus on, as businesses look at new markets and diversifying their sales channels.
- o Advice on how to navigate bureaucracy and regulatory change.
- o Practical assistance as organisations look to diversify their operations and rethink their business models.

Santander stands ready to support you on your international journey.

Support from third parties and the UK Government

Key areas where businesses are looking for support for international growth





Santander Corporate & Commercial is a brand name of Santander UK plc (which also uses the brand name Santander Corporate & Investment Banking). Registered Offices: 2 Triton Square, Regent's Place, London, NW1 3AN, United Kingdom. Registered Numbers 2294747 and 1533123 respectively. Registered in England and Wales. Santander UK plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our Financial Services Register number is 106054. You can check this on the Financial Services Register by visiting the FCA's website www.fca.org.uk/register. Santander and the flame logo are registered trademarks.