

PBSC Response to House of Commons International Trade Committee Inquiry on COVID-19 and Trade

PROFESSIONAL AND BUSINESS SERVICES COUNCIL

1. The Professional Business Services Council (PBSC) is a collaboration between the Professional & Business Services sector and government. It is industry-led and co-chaired by the Department of Business, Energy and Industrial Strategy; it brings together sectors including law, accountancy, consultancy, actuarial, architecture, surveying and advertising services, amongst others.
2. Services trade is an integral part of the UK economy. In 2017, the UK had a net trade deficit in goods of £131bn, but a trade surplus in services of £103bn. Services account for over 80% of the UK's economy and employs over 16 million people, representing in excess of 60% of the UK's private sector working population. The PBS sector alone employs 4.6m people and contributes £188bn in gross value to the UK's economy, making it the largest sector in the UK.
3. The PBSC has identified several priority areas and works in partnership with government to inform thinking on the future direction of the sector and its contribution to the UK economy. One of priorities identified is pursuing market access for trade of professional services.

What impact will the global COVID-19 pandemic have on UK businesses trading internationally, in the short-, medium- and long-term?

4. International trade has been, and will continue to be, severely impacted by the COVID-19 pandemic. According to [forecasts from the World Trade Organisation](#) (WTO), international trade is likely to fall between 13 and 32% this calendar year, depending on the severity and duration of the crisis. The WTO further estimates that services trade will likely be the component of world trade most directly affected by COVID-19 through the imposition of transport and travel restrictions and the closure of businesses operating in the services sector.
5. The reduction in world trade is driven by: supply shocks, falling demand and a huge increase in the cost of moving goods from a factory or farm to the other side of an international border – increased by an estimate of 25% according to WTO Deputy Director General Alan Wolff. Trade will likely fall more steeply in product sectors with complex value chains.
6. There is no global shortage of food. However, farm labour shortages due to restrictions on the movement of people are being experienced in a number of countries in Europe including in the UK, North America, Latin America and Asia. Movements in commodity markets as a result of government measures may increase prices. Recent statements from the G20 and at the WTO (which includes UK government support) to promote food supply chains are positive steps in preventing a worsening situation and should be encouraged. Further, logistical issues will be a major factor going forward, affecting both supply and demand.
7. The impact on developing countries is likely to be disproportionately bad. For example, export restrictions on medical devices and pharmaceuticals hit consumers and patients in Africa, Central Asia and Latin America the hardest. These nations are net importers of medical products and medicines and little or no domestic existing production facilities. They also typically have the least capacity and infrastructure to address these crises.

8. Estimates of the expected recovery are currently positive for 2021 but are uncertain, with outcomes depending largely on the duration of the outbreak and the effectiveness and extent of the policy responses.

How effectively has the Government responded, both in the UK and in overseas posts, to the short-term negative impact of the pandemic on UK businesses trading internationally? What further steps could be taken to mitigate this impact?

9. The PBSC welcomes the announcement from the Government on suspending import duties and VAT on crucial medical supplies and equipment, and the [recent letter](#) from DIT to businesses trading internationally.
10. In the short-term, measures that enable crucial medical supplies and equipment should be prioritised by removing trade restrictions and refraining from introducing new ones. Examples of ways in which trade in essential medical products and equipment could be facilitated include: products which can prove conformity with international standards allowed entry without additional checks; duplicative testing and auditing reduced; shipment inspection frequency reduced based on risk assessment.
11. Concurrently, to address the question of agricultural, the Government should look to more technical guidance on sanitary standards; focusing on keeping global food chains fully functioning; moving approved imports through green channels; and labelling employment in the agriculture sector as “essential” and therefore unimpeded by economy wide restrictions.
12. The B20 on 14 April 2020 published a statement on [Finance and Trade](#) which included a number of additional measures governments could take. Of particular importance is ensuring the continued availability of trade finance for micro-, small and medium-sized enterprises who rely on such financing to trade internationally.

What medium- and long-term negative impacts could arise from the pandemic for UK businesses trading internationally? What steps could the Government take to mitigate these impacts?

13. In the medium-term, UK businesses will need to look to re-establish their supply chains, work with clients to resume projects and rebuild their customer base. This will take time, money and effort. There will undoubtedly be issues where supply chains are broken due to one component company failing, and those will be particularly difficult to fix through alternative sourcing.
14. Currently, UK businesses are having to consider doing all of this while also facing the uncertainty of what the trading relationship will be with the UK’s largest trading partner – the EU - from January 2021. The single biggest thing the Government could do for UK businesses trading internationally is to provide clarity on:
 - i. Following the delay to the negotiation process as a result of Covid-19, the Government will consider seeking an extension to the Transition Period under the Withdrawal Agreement; and,
 - ii. If so, for how long.
15. If an agreement between the UK and EU is able to be reached in 2020, then to the greatest extent possible, the Government needs to inform business as to what terms the trade

agreement includes as businesses needs time to adjust their operations in order to meet the additional requirements that will result from the agreement – across their customs operations, IT systems, workforce planning, regulatory compliance and supply chain management.

16. In the longer-term, in order to continue attracting global businesses to the UK and foster home-grown entrepreneurs and start-ups, as a country we need to refocus ourselves on what the UK needs. This means re-investing in its infrastructure (both digital and physical), ensuring a first-rate education system to address our current skills shortages, and promoting a world class scientific research agenda.
17. The ability of the PBS sector to remain world-class depends on providing the best talent to deliver the service required. Ensuring that the UK's future immigration system is fit-for-purpose is essential to encourage growth, attract talent and promote social mobility.

What steps can UK businesses take to mitigate the negative impacts of the pandemic on international trade?

18. Most of the PBSC have been working with their own members and clients in order to provide the highest degree of sub-sector specific support possible in order to help UK businesses survive this pandemic. This includes, but not limited to:

- [The Law Society](#)
- [Bar Council](#)
- [ICAEW](#)
- [RIBA](#)
- [Advertising Association](#)
- [City of London Corporation](#)
- [CityUK](#)
- [Management Consultancies Association](#)

How best can the UK Government facilitate trade in essential goods during the pandemic?

19. Prior to any facilitations of trade in essential goods, the Government should ensure that there is clarity over what goods classify as essential goods. For example:
 - i) Guidance on the original temporary relaxation of the enforcement of the drivers' hours rules in March referred to eligible goods as "essential items", specifying that these consist of "food, non-food (personal care and household paper and cleaning), over the counter pharmaceuticals and other medical supplies"
 - ii) This guidance has since been withdrawn, and replaced by a further relaxation which covers all sectors. We can find no specification (other than in the now withdrawn guidance) as to goods defined as essential by the UK Government.
 - iii) No list of commodity codes has been provided. The World Customs Organization has provided an indication in this regard but it is not the same as government advice. As such, even if the above types of goods remain deemed as "essential", there has not been clarity provided as to what goods fall into these categories.
20. If approval is required for a good to be defined as essential, a fast process for this approval should be ensured. For example, if a household item can be used as a substitute for an item

of PPE which is unavailable, there should be a rapid process in place for defining certain shipments of these goods as such.

21. The UK Government could implement a dedicated hotline for assistance with or clearance of essential goods movements. This is a particular issue for new importers of certain goods, who may lack the expertise to manage imports.
22. The UK Government could implement a customs pre-approval form which could be shown to UK Customs to expedite release of goods.
23. If looking to provide additional tariff exclusions for certain goods, it could be possible to utilise a single HS code to classify these "essential goods" and ensure that the common external tariff remains in place.
24. Where goods are not currently eligible for duty relief, the UK Government could provide End Use Relief if it can be proved that goods are utilised for the defined "essential" purpose.

How can the UK Government engage with countries at the World Trade Organization and bilateral trading partners – including those with which the UK has a significant trading relationship or one facilitating trade in priority goods – to promote international cooperation and a coordinated global response to the pandemic?

25. **Services** – Financial services, ICT services, retail and distribution, and transportation and logistics services are all examples, though not exhaustive, of critical enablers of trade in goods and agri-food products. Ensuring that they can continue to function requires international cooperation. Where appropriate, the WTO should be used to provide that function for the enablement of these services cross-border. We support the [Global Services Coalition statement](#) issued on 1 April 2020.
26. **Tariffs** – During the WTO Uruguay Round negotiations, several major trading partners agreed to reciprocal tariff elimination, the so-called "zero-for-zero initiative", for pharmaceutical products and for chemical intermediates used in the production of pharmaceuticals. The agreement has undergone four revisions based on WHO criteria and was due for a revision in 2015. It was not so revised, and the UK should look to build support for a 5th revision to be launched as soon as possible, prioritising products which will contribute to fighting the COVID19 pandemic. The UK should also look to the next revision of the Information Technology Agreement which covers some, but not all, crucial medical equipment needed to fight such pandemics.
27. **Intellectual Property** – Finding effective vaccines will be critical, but so too will advances in diagnostics, new and repurposed anti-viral medicines to manage COVID-19 symptoms, and processes for rapid production of both pharmaceuticals and PPE. Ensuring that countries make full use of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights and its Amendment on Public Health should be considered.
28. **Development** – As mentioned previously, developing countries are likely to be disproportionately impacted by the current pandemic. The UK government, through DFID, has announced several initiatives together with other countries to address many of the health-aspects of this crisis in developing countries. There should also be a redoubling of efforts through the UK's Aid-for-Trade programmes which are coordinated through the WTO as well as bilaterally with developing country partners to address the economic impacts of

the pandemic in developing countries. This in turn will support efforts towards global economic recovery.

29. **Transparency** – The UK has already submitted an update to the WTO on its trade policy responses to the COVID-19 crisis. The UK should continue to do so, transparency is a cornerstone for updating businesses on policy changes in international trade and continue to urge other WTO members to do so as well.

How might the pandemic impact global trade patterns and international supply chains in the long-term?

30. The COVID-19 event has struck various industries, but not all to the same level of damage. Industries such as auto, travel, consumer goods, electronics and retail have been more profoundly impacted than others.
31. The pandemic has illustrated in many stark ways the fragility of supply chains across the world. A knee-jerk reaction calling for supply chains to be onshored in the UK is neither practical nor desirable beyond specific circumstances of building PPE and medical device capacity where international demand has proven to outstrip supply. Instead, the importance of supply chain resilience and multiple points of sourcing will be an active concern for many companies going forward, primarily through long-term diversification and/or decentralisation of footprint. In order to learn from the current situation and prevent such shortages from happening again if another such event were to occur.
32. As a result, it is possible that a number of new suppliers and operators will gain greater prominence in various trade flows as a result of the pandemic, with businesses in the UK having been required to seek alternative sources of supply when traditional partners are unable to deliver.
33. It is also clear that the pandemic is accelerating the acceptance of digitalisation for a number of services providers as well as the growth of e-commerce. These are trends that are likely to continue, highlighting the importance of Trade in Services and Digital Trade for the UK's independent trade policy going forward.