

THE IMPACT OF THE COVID-19 PANDEMIC ON INTERNATIONAL TRADE

CBI SUBMISSION TO THE INTERNATIONAL TRADE SELECT COMMITTEE INQUIRY

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About the CBI

Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them, about one third of the private sector workforce. This number is made up of both direct members and trade association members. The CBI is a confederation and both classes of membership are equally important.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With 13 offices around the UK (including in Scotland, Wales, and Northern Ireland) and representation in Brussels, Washington, Beijing and New Delhi, the CBI communicates the British business voice around the world.

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales, and Northern Ireland plus 16 sector-based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in CBI positions. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community.

Executive Summary

- **The international health crisis has had a dramatic impact on international trade, with steep falls in trade volumes, significant interruptions in supply chains and proliferation of trade restrictions.**
- **The CBI has identified multiple areas in the short-, medium- and long-term where business and government can work together to ensure that trade helps to restart, revive, and renew the UK economy. These efforts should build on the unprecedented co-operation between government and business during the crisis and be linked to wider domestic policies to rebuild the UK economy.**
- **In the short-term, to help international trade restart the UK economy, priorities are keeping trade moving or maintaining capacity for when recovery comes.**
- **In the medium-term, to help international trade revive the UK economy, priorities remain securing trade continuity with a comprehensive EU trade deal which avoids significant new burdens on UK exports of goods and services, continuity of UK's existing trade deals and short-term commercial wins to boost confidence and generate growth.**

- In the longer-term to help international trade renew the UK economy, priorities are implementing a 10-year strategy for the UK's newly independent trade policy and, on a global level, promoting resilience through digital and low-carbon and reforming institutions like the WTO.
- It is not yet clear how long the crisis will last and how severe it will be. But in any scenario, government and business should work together to make the case for trade.

The ongoing international health crisis has had a dramatic impact on international trade, with steep falls in trade volumes, significant interruptions in supply chains and proliferation of trade restrictions

Global and national statistics point to a steep fall in international trade in both goods and services

While still playing out, the pandemic has already proved a seismic event for world trade. According to a WTO study published on 8 April, world trade is set to plummet between 12% and 32% in 2020, with trade falling steepest in sectors with complex value chains like electronics or automotive, and services hit by transport and travel restrictions.¹

Recent Chinese trade data foreshadows the scale of the shock to world trade. Chinese exports fell 17.2% in dollar terms in the first two months of the year, before recovering slightly to a year on year fall of 6.6% in March. Exports to ASEAN countries rose in March, but this was offset by falls of over 20% in shipments to the EU and US, as well as a slight decline in exports to Japan.² Moreover, it is not yet clear that China's recovery is on a sustainable path. There are mixed signals on Chinese domestic demand with some CBI members reporting strong buyer interest for cars (in part because of renewed interest in personal transport), but the hotel sector reports occupancy rates at still only 30% after falling to 4-5% at peak crisis.

Official European trade data has yet to capture the full impact of lockdowns on trade flows, but business surveys provide a taste of things to come. Germany's closely watched IFO business survey saw export expectations plunge to the weakest since 2009 in March, and in France INSEE's manufacturing survey shows order books collapsing to their weakest since 2010.³ Meanwhile, the CBI's latest quarterly Industrial Trends Survey showed a slide in export orders for UK manufacturers accelerate in April, and export sentiment plunged at the fastest pace since the start of the series in 1961.⁴

Although European industrial output appears to be suffering declines on a par with the financial crisis during March-April, there are signs that businesses are adjusting, with European car factories coming back on stream. But the European auto industry is likely to see a double-digit decline in output during 2020, with knock-on effects for suppliers in sectors such as metals, rubber, plastics and so on.⁵

Supply chains continue to be interrupted with production outages giving way to transport/distribution challenges

The CBI's April Industrial trends survey indicated that 49% of manufacturers reported shipping delays for raw materials/inputs; 44% reported shortages of raw materials/imports.⁶ Across a range of channels, businesses are concerned about the continued movement of goods into and out of the country.

¹ WTO trade outlook 2020 https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

² China Customs Administration; Macrobond.

³ <https://www.ifo.de/en/node/53943>; <https://www.insee.fr/en/statistiques/3530222?sommaire=3530679>

⁴ <https://www.cbi.org.uk/media-centre/articles/manufacturing-activity-drops-sharply/>

⁵ Capital Economics, "Covid-19 Economic Brief, April 17th, 2020.

⁶ <https://www.cbi.org.uk/media-centre/articles/manufacturing-activity-drops-sharply/>

- **Air freight** – Businesses that rely on the import and export of goods via air freight have seen a dramatic rise in costs following the cancellation of most passenger flights leaving the UK, and consequent reduction in belly cargo. One member reported that the price of flying freight from Thailand had increased eight times since the crisis began, while transatlantic freight costs have increased by a reported 80%. While in the short-term this problem will add to manufacturers' costs, there is a longer-term threat that sustained high prices will make certain trade into and out of the UK no longer commercially viable.
- **Road haulage** – The Road Haulage Association estimates that as much as 46% of the UK's lorry fleet has been parked up during the crisis.⁷ In a sector that has low margins and relies upon an ageing workforce (average age of UK HGV drivers is over 50), as well as foreign drivers (many of whom are no longer travelling into the UK), there is real concern that when demand picks up for these services, there will not be capacity in the sector to match. Already, some ports are complaining that a shortage of haulage is inhibiting the flow of goods into and out of the country, while traffic between the EU and UK is down. As the country gears up for a recovery in trade volumes, it will be essential that the UK sector has capacity to reconnect UK/EU trade.
- **Roll-On-Roll-Off ferries** – The government's intervention on 24 April alongside the French and Irish authorities to support roll-on-roll-off sea ferry routes between the continent and mainland Britain, as well as routes to the island of Ireland, has been welcomed by businesses that depend on the trade carried on these vital services. Businesses were seriously concerned that these services would stop because they were no longer commercially viable – significantly impeding the flow of essential goods into, around, and out of the country. To preserve the health of this sector which is essential for the flow of UK/EU trade, further protections, including allowance for the offering of voucher instead of cash receipts for cancelled passenger journeys, may need to be considered as many of the operators remain financially vulnerable after weeks of loss-making services. The collapse of these companies would have a devastating effect on supply chains just as UK/EU trade picks up again.
- **Supply and demand issues** – Production in the Far East is coming back online and, subsequently, goods ordered by UK importers ahead of lockdown are at sea. Now that the majority of UK retailers are closed due to lockdown, there is considerable concern that goods arriving in the UK with these shipments will be held at the expense of importers. Faced with limited warehousing options (discussed below) and the potential for incrementally increasing port quay rents, demurrage, and detention charges, the danger is that many importers will face extremely challenging cash-flow problems and/or eventual bankruptcy. These financial pressures on importers could impact the UK's recovery as costs are passed on to retailers, while the number of importers will likely be reduced.
- **Warehousing within the UK** – The UK Warehousing Association suggests that third party warehousing is at 90% capacity with inflows outstripping outflows of goods.⁸ They estimate that UK capacity will be full within weeks. While this statistic represents only part of the wider picture on national warehousing capacity, anecdotal evidence of retail members struggling to fill warehousing space and ports approached by companies for use of their storage facilities signals that there is a wider problem. In the coming weeks, a lack of warehousing options will mean that importers may have no other option than to leave their goods in port, or to store containers on unsuitable land. This will have the potential to increase congestion at points of entry and departure from the UK, increasing costs and inefficiencies in the handling of goods and likely slow a restart to trade. The Leisure and Outdoor Furniture Association (LOFA) has estimated for a member who has imported 10 40ft containers, 6 weeks of lockdown will cost them £49,230 (Demurrage - £32,480, Detention - £16,750). With 60 containers brought in a year, this could potentially add £300,000 to annual transport bill of £875,000 – a massive increase for a 15-person company with a £6.5 million turnover.

⁷ <https://www.youtube.com/watch?v=cIOzETHpkaM>

⁸ <https://www.ukwa.org.uk/market-intel/ukwa-urges-cargo-owners-to-look-for-space-through-emergency-register/>

- **Shipping container imbalances** – the build-up of containers in Western Europe and the US will likely have an impact on global trade as international supply chains begin to start-up again. Heavy concentrations of containers held in UK ports and a build-up of empty containers away from the main manufacturing exporters could prove disruptive for efforts to restart global trade cycles.

CBI member companies expect the recovery from the crisis to be stop-start and lumpy, with a mismatch in supply and demand, and supply chains backing up as production outages give way to transport/distribution challenges, exacerbating cash-flow issues for companies. It will take time for systems to get back in sync. Manufacturing needs customers, suppliers and transportation. Construction firms need builders' merchants up and running. Non-essential retail must readjust seasonal stock. CBI members who supply clothing are worried that they cannot release stock now and are concerned that an imbalance in availability of sea freight will slow down supplies in subsequent seasons. The chemicals industry has reported how chemicals essential to the economy have been stuck in port in the Netherlands with no clear horizon for when they will be shipped back to the UK. Exporters of specialist electronics who are reliant on air freight are finding it difficult to find slots on increasingly expensive air freight services. Congestion in the sectors above makes it harder to get essential medical supplies through.

Supply chain impacts are being felt in services as well as goods, with movement of people a key concern

CBI members have reported disruption in call centres (with the need to set up home working in India or the Philippines) and report that R&D work in China has been put on hold. In India, though there has been some success in including financial service workers as essential workers, there have been gaps between government notifications and on-ground decisions, so that local authorities are not issuing passes to workers under lockdowns, particularly if an area is considered to be high risk. This has impacted financial services to clients both in-country and globally.

Movement of people is a critical constraint. According to Universities UK, the UK's higher education faces a loss of £790m in academic year 2019-20. A 100% fall in fee income from international (non-EU and EU) students would result in a £6.9 billion loss of income to the UK.⁹ Provision of services in third countries depends on the movement of critical staff whether in energy, shipping (over 90% of trade goes by sea), and professional services where regulatory audits sometimes have to be done in-country by visiting staff.¹⁰

While flows of people are critical for services, they also matter to goods and agriculture. High value products like whisky sell better with a personal touch and need changes to regulation to allow digital sales. UK agriculture is reliant on migrant labour. Production sites of UK companies in China are still waiting on critical staff from the UK because of Chinese government restrictions on movement.

Meanwhile trade restrictions in medical products have proliferated with worries that this might spread to other areas including food

As of mid-April, around 76 countries had imposed 106 export restrictions on medical supplies, medical equipment, and medicine, according to Global Trade Alert. While 77 countries have cut tariffs on medical goods, the trend remains towards greater protectionism, with worrying signs of export restrictions spreading to food. Twenty-six countries have imposed export bans on food as of 17 April.¹¹

CBI members in life sciences have raised concerns about restrictions on active pharmaceutical ingredients (APIs) and generic pharmaceuticals such as paracetamol being imposed by other countries, particularly India. While there has been some relaxation on export restrictions, after welcome interventions by UK

⁹ https://universitiesuk.ac.uk/news/Documents/uuk_achieving-stability-higher-education-april-2020.pdf

¹⁰ Source IMO <https://business.un.org/en/entities/13>

¹¹ <http://pubdocs.worldbank.org/en/756611587587532919/Evenett-WB-April-2020.pdf>;

https://twitter.com/SimonEvenett/status/1249648508728115202?utm_source=POLITICO.EU&utm_campaign=d38538c2bd-EMAIL_CAMPAIGN_2020_04_14_04_58&utm_medium=email&utm_term=0_10959edeb5-d38538c2bd-189729157

Ministers, most of the relaxations have been in favour of domestic producers.¹² CBI members have also raised concerns about export restrictions in the EU. The CBI, like other European business groups, raised these restrictions with a letter from BusinessEurope to Commission Vice-President Dombrovkis on 6 April.¹³ While EU trade Ministers agreed to limit export restrictions when measures renew on April 25,¹⁴ individual EU members continue to go further with imposition of unilateral export bans and national stockpiling.¹⁵

As thoughts turn to recovery, the CBI and its members want to work with government to ensure that trade helps with efforts to restart, revive, and renew the UK economy. These efforts should build on the unprecedented co-operation between government and business during the crisis and be linked to wider domestic policies to rebuild the UK economy

Companies have gone the extra mile in the crisis to keep trade flowing, including by securing short-term medical supplies, pioneering innovation, and sharing valuable intelligence with government. CBI members have helped ship critical medical equipment such as ventilators from China or have offered to source masks at cost price for organisations in the UK. Companies have adapted processes like ensuring that drivers do not need to get signatures for packages when delivering medical supplies. Companies abroad have committed to wider efforts against virus in-country by committing to supply sanitisers in India or making donations to support vulnerable populations. Telecoms companies have also worked around the globe to keep digital infrastructure working and scale up networks to allow home working.

Companies and business associations have also worked closely with government to share the intelligence that is critical to managing a crisis. The CBI team in India secured inclusion of IT/ITES/Banking and insurance in the list of 'essential services' for the Indian market, liaising with DIT officials in New Delhi to lobby state and local district authorities.

Government and business should build on this unprecedented co-operation to find a way out of the crisis. The measures below sketch out how international trade could help the UK, if linked to wider measures to restart, revive and renew the domestic economy.

To help international trade restart the economy, priorities are keeping trade moving or maintaining capacity for when recovery comes

Targeted short-term support for the infrastructure which underpins the UK trading system and measures to protect the global mobility of key workers

Maintaining the domestic infrastructure for trade depends on getting wider UK economic policy right. Transportation and distribution companies depend on the same policy decisions as other sectors, such as support on business rates, or clear instructions on public health measures to apply to workers, consumers and freight operations.

¹² See <https://www.gov.uk/government/news/uk-to-receive-nearly-3-million-packets-of-paracetamol>

¹³ https://www.businesseurope.eu/sites/buseur/files/media/public_letters/rex/2020-04-07_letter_dombrovkis.pdf

¹⁴ COMMISSION IMPLEMENTING REGULATION (EU) 2020/568 of 23 April 2020 making the exportation of certain products subject to the production of an export authorisation. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0568&from=EN>

¹⁵ For example see French decision on 24 April <https://newsaf.cgtn.com/news/2020-04-24/France-expands-export-ban-on-COVID-19-drugs-despite-EU-plea-PVZeEzJxS/index.html>

The specific requirements of infrastructure also bring special demands. Airports, which are critical for emergency services and the energy industry as well as export, are exposed by their high fixed costs and statutory obligations. They need support with CAA fees, business rates, PAYE, and airport policing costs. There are also specific requirements for training of staff, such as flexibility on requirements to keep air controllers trained and additional complications with social distancing (e.g. queues at security). Ports need help with hugely reduced cash flows, support with seafarers' salaries to prevent loss of expertise and grants to assist with the additional costs of virus provisions, such as overtime, agency fees and other costs associated with providing sufficient crew.¹⁶ Ramping up sites which have previously been mothballed will be trickier if, as is likely, recovery is stop-start.

Business welcomes the fact that UK Ministers have been very supportive of keeping ports open for crew changes, and for crew to be recognised as 'key workers' on a global basis.¹⁷ This should continue to be a priority for the UK in its engagement with other nations. The UK should work to ensure that other key international workers can fly in/out of countries to keep essential services operating. This will be a priority for developing nations, particularly those dependent on the energy/mining sectors for hard currency exports.

Digital infrastructure is also critical. To support the UK's global service exports, government should ensure that the courts operate virtually in the short term and upgrade their capacity so that the English legal system remains a centre for international dispute resolution, however the pandemic pans out.

Easing the flow of goods, especially essential products, in and out of the UK

Business wants to continue working closely with government to design the facilitations which will ensure that goods keep moving smoothly through the crisis, help the UK when it reaches the recovery phase and take advantage of the UK's new status as an independent trading nation.

Business welcomes recent moves by government, such as considering deferral of import duties on a case by case basis. This will help importers, particularly SMEs, manage cash flow and reduce the risk of goods being parked in ports to avoid paying of import duties and creating new blockages.

It would also be helpful if government could extend the deferral of import duties and look at further facilitations including:

- A temporary extension to the 4 working days to process Customs Freight Simplified Procedure.
- An electronic customs declaration for speeding up the importation of goods.
- Increased communication on staff contingency plans if critical staff at the border become sick.
- Specific actions for the pharma sector including fast lane clearance at the border and exploiting the free movement of its products.

In the medium-term, business wants to work with government to develop clearer guidance on 'green lanes' at customs, allowing freight to move quickly across borders – aiming for border checks and release of goods to take no more than 15 minutes. There should also be scope to simplify domestic regulatory requirements and procedures for the goods linked to fighting COVID-19 – i.e. the right certificates and licenses – without compromising health & safety standards.

Extend access to export credit

Business welcomes the recent announcement by UK Export Finance (UKEF) that it will expand its Export Insurance Policy to cover major UK markets previously considered as too low risk (EU, US, Australia,

¹⁶ See <https://www.britishports.org.uk/news/how-are-uk-ports-faring-during-the-covid-19-outbreak>

¹⁷ <https://www.iata.org/en/pressroom/pr/2020-04-15-01/>

Canada). Business wants to work with UKEF to develop and promote new products, including those designed to support working capital for exporters such as the General Export Facility, and to bring in new sources of non-bank finance such as inventory finance.

A growing concern is reduced access to trade credit insurance (TCI). Without action to address this problem, there is a risk that export credit facilities will come under greater pressure. Furthermore, de-risking credit facilities would help critical physical infrastructure for trade. Without credit risk facilities, suppliers are currently unable to deliver products like fuel to airports and ports and, ultimately, airlines and shipping companies. Government underpinning credit facilities would be the cheapest form of support.

Continue direct government interventions to unblock barriers to trade in export markets

Business welcomes the efforts by DIT and others to tackle blockages either by direct action, such as facilitating transport of vital parts for MedTech from China, or through interventions with foreign governments, such as requests to India to allow export of paracetamol.¹⁸ Business welcomes a recent offer from a DIT Minister to raise specific country issues with Trade Ministers in 3rd countries as and when they arise. As we move into the revive phase, this approach should be a model to tackle long-standing market access issues.

An immediate step change in action at G7 and G20 to reduce damage and co-ordinate the relaunch of economies

CBI members welcomed the commitment from G20 Trade Ministers on 30 March that “emergency measures designed to tackle COVID-19, if deemed necessary, must be targeted, proportionate, transparent and temporary, and that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules”. The CBI joined 16 business federations including its US, Japanese, German and French counterparts with a joint statement by the Global Business Coalition on March 27 supporting further efforts by the G20.¹⁹

The international community is still a long way from launching the kind of co-ordinated response seen after the 2008 financial crisis, when China and the US worked together to protect the global economy. Words need to be followed by action. G7 and G20 members should be avoiding recriminations and committing to work together to support the global trading system. Above all, they need to avoid making things worse by limiting any export restrictions on essential goods and set an example by reporting their own trade restrictions to the WTO. At a time when transparency is key to building confidence, the UK has done this but several leading economies, including the US and China have not.²⁰

Showing the WTO can still function and promote transparency despite political obstacles

The pandemic has hit the world trading system just as the WTO is bitterly divided over issues such as dispute procedures, state owned enterprises and rights of developing countries. In the revive phase, governments should try and turn this crisis to opportunity, aim high and try to build consensus for WTO reform at G7 and G20. In the restart phase, there are less ambitious things the WTO can do and is doing.

¹⁸ See <https://www.gov.uk/government/news/uk-to-receive-nearly-3-million-packets-of-paracetamol>

¹⁹ https://twitter.com/GB_Coalition/status/1243544341831958534

²⁰ According to WTO as of 23 April, 13 members (or 39 if the EU member states are counted individually) have notified under the QR Decision the introduction of new export prohibitions or restrictions as a result of the COVID-19 pandemic: Albania, Australia, Bangladesh, Colombia, Costa Rica, Egypt, the European Union, Georgia, the Republic of Korea, the Kyrgyz Republic, North Macedonia, Thailand and Ukraine.
https://www.wto.org/english/tratop_e/covid19_e/export_prohibitions_report_e.pdf

The WTO needs to show that it can function in a world during the crisis. It is welcome that, after long haggling in Geneva, all WTO members were finally able to meet virtually on 17 April, about a month after in-person meetings were suspended.²¹ With this year's WTO Ministerial postponed, the WTO's General Council meeting in December 2021 should be used to demonstrate that decision-making is not paralysed and critical dossiers such as the WTO e-commerce agreement can still progress. The crisis has increased the case for a review of the Telecoms Reference paper as part of e-commerce talks – the world needs more competition to support better digital services.

The WTO should continue to promote global transparency in trade. Business supports efforts by the WTO to collate real-time evidence of trade restrictions and supply chain impacts as critical to maintaining the trust on which trade depends. The decision by the WTO Director-General to ensure that data on food-related trade measures should be made freely available in real time, might counter the spread of protectionist measures to other areas and should be supplemented by case studies.

Business supports efforts by groups of like-minded WTO members to bind themselves to higher standards such as the Canada-led 22 April joint statement supporting open and predictable trade in agricultural and food products, which was signed by 22 members including EU, UK, US and China.²² At a time when negotiations on tariffs or regulatory commitments are held back by political division, joint initiatives on transparency/co-ordination can widen support for open trade. Business would support joint actions in other areas such as medical and digital as proposed by Business at the OECD.²³

In the medium-term, to help international trade revive the UK economy, priorities remain securing trade continuity with a comprehensive EU trade deal which avoids significant new burdens on UK exports of goods and services, continuity of UK's existing trade deals and short-term commercial wins to boost confidence and generate growth.

The first priority for the UK's trade policy should be an ambitious EU trade deal covering both services and goods, and continuity of existing trade deals (Canada, Mexico, Japan plus the customs arrangements with Turkey). These trade deals are for governments to negotiate, but business can support by bringing governments the evidence they need. As the CBI set out in its report *The Red Tape Challenge*, business fully respects the parameters of the negotiations which have been set down and wants to work with government to ensure the fullest possible access in both goods and services, with tariff-free trade, mutual recognition of professionals and a data adequacy agreement to maintain cross-border data flows. As the crisis has shown, securing supply chains and ease of trade flows with Europe will be critical for economic revival and the UK's world-leading industries must not be distracted by significant new burdens on their exports. The business community has constructive suggestions for keeping red tape low, while recognising that sovereignty and the ability of the UK to set its own rules are central to the government's ambitions.²⁴

Ramp up market access issues in key markets

²¹ https://www.wto.org/english/news_e/news20_e/hod_17apr20_e.htm

²² https://trade.ec.europa.eu/doclib/docs/2020/april/tradoc_158718.pdf

²³ <http://biac.org/wp-content/uploads/2020/04/Statement-on-the-Trade-Policy-Response-to-Covid-19-2.pdf>

Proposals include reducing tariffs on medical supplies, imposing strict conditions on the use of export bans, agreeing co-operation arrangements for future stockpiles, expediting certification arrangements for medical goods, and helping medical researchers to co-operate by enabling flows of sensitive data. In digital they include measures to enable e-payments, e-signature, and e-contracts, reducing tariffs on ICT and promoting e-commerce by reducing de minimis thresholds.

²⁴ <https://www.cbi.org.uk/media/4112/the-red-tape-challenge-final.pdf>

The crisis has shown that regulation and paperwork often have a bigger impact than tariffs on international trade. Unlocking short-term blockages on a case by case basis will have greater immediate impact than hard to negotiate trade deals. Companies support increased UK Ministerial engagement with strategic markets like China and India, based on a hard-nosed approach to mutual interests. Business stands ready to provide the evidence about the barriers that still exist and are keen to see Joint Economic Trade Committees (JETCOs) and Economic and Financial Dialogues (EFDs) go ahead later this year.

Turbocharge export promotion to ensure that the UK does not lose out to international competition in the recovery

Trade promotion will matter as much as trade policy. Pre-crisis, business was keen to demonstrate that the UK was back on the global stage after the uncertainty of Brexit. As the Covid-19 crisis abates, the UK will need to repair the damage to its reputation from the last few years. Business will enthusiastically support trade missions, including on a virtual basis, as a way of promoting early commercial wins and are keen to see export schemes stepped up and mobility supported.

UK companies will want to move quickly to target short-term opportunities as they arise, including in digital in countries like South Korea which relaxed previous restrictions on digital trade. The UK's competitors will also be proactive and first-mover advantage should not be missed.

Restoring international confidence with positive signals from the G20 summit in Saudi Arabia in November, including on learning lessons from the crisis

Business welcomes the active role played by the UK government to encourage other G20 members away from protectionism and is playing its part to rally business support through the B20 grouping of international business organisations which meets in Saudi Arabia in October. Signals of unity from the G20 summit would be a critical boost to confidence and business wants the G20 to aim high, but expectations are tempered by ongoing divisions between the US and China.

A critical test will be whether the world's leading economies find a way to show whether lessons are being learned from this crisis. Confidence in the global trading system depends on whether measures are being taken by all countries to prevent a health crisis of this magnitude happening again. A minimal outcome would be commitments on co-operation to tackle future health crises. A more ambitious outcome would be a special commission to learn the lessons of the crisis and make recommendations on what more could/should have been done.

The G20 should also make a commitment to do whatever is necessary to support emerging markets, recognising that the global recovery will be linked to developing countries successfully managing the crisis. The 15 April commitment by G20 Finance Ministers and Central Bankers to suspend debt service payments for the world's poorest countries to the end of the year was a welcome signal of support for globalisation.²⁵

To help international trade renew the economy, priorities are implementing a 10-year strategy for the UK's newly independent trade policy and, on a global level, reforming institutions like the WTO and promoting resilience through digital and low-carbon.

²⁵ [https://g20.org/en/media/Documents/G20_FMCBG_Communicu%C3%A9_EN%20\(2\).pdf](https://g20.org/en/media/Documents/G20_FMCBG_Communicu%C3%A9_EN%20(2).pdf)

Use the UK's G7 Presidency in 2021 to lead co-ordination of the international recovery effort, including support for a reformed WTO and put business at the heart of the shift to low-carbon at COP-26

With the UK holding the G7 Presidency next year and co-hosting COP-26 with Italy, which coincidentally has the G20 Presidency, the Prime Minister will have an opportunity to work with others to promote a global agenda for renewal based on reform of WTO, and promotion of resilience through digital and low-carbon.

Promoting WTO reform will be far from easy. But progress at Geneva will be impossible unless the world's largest economies can first agree amongst themselves and the crisis has shown that the world needs the WTO more than ever. The UK acted as an effective post crisis bridge-builder in 2008 and the PM should try the same in 2021 by seeking consensus at G7 then working closely with Italy to see if momentum at G7 (which does not include China) can translate into momentum at G20 (which does). Following lessons learned from 2008, one minimum ambition should be to ensure that short-notice temporary crisis measures do not become permanent.

The CBI will support the UK's G7 Presidency by hosting the meeting of the B7 group of business associations and will seek to unite leading business associations from the US, Japan, Germany, France, Italy, and Canada behind the recovery agenda.

The rescheduling of COP-26 to 2021 provides a further opportunity for the UK to lead the global response to the climate crisis. There are many lessons to learn from the Covid pandemic, including the importance of building back resilient economies that are better prepared for future threats, including climate change. Countries around the world are also witnessing improvements to air quality, alongside reductions in greenhouse gas emissions, which highlight the benefits of accelerating the shift to sustainable investments and commitments to achieve net-zero emissions. The delay to COP-26 means there is additional time to prepare for the conference and manage the international diplomacy ahead of the event that is vital for ensuring that a successful set of negotiations take place. Business wants to be at the heart of the conference to showcase how it can promote new technologies and low-carbon investment and work with governments to reduce emissions.

Agree new FTAs to boost business confidence and address critical post-Covid issues like diversifying supply chains, fostering co-operation between health regulators and accelerate development of digital trade and low carbon

Business stands ready to support new trade deals, including with the US. As the CBI set out in its report *A Roaring Trade*, a trade deal with the US offers exciting opportunities for SMEs, for services – particularly through mobility – and co-operation on the sectors of the future.²⁶ New FTAs will be a powerful boost for business confidence. As well as playing to the UK's strengths, such as opening global markets for UK service exports and supporting creative industries with agreements on IP, FTAs should address some critical issues in a post-Covid world, such as helping to diversify supply chains, fostering co-operation between health regulators to reduce approval times for medicines, facilitating sharing of medical data, and accelerating the growth of digital.

²⁶ <https://www.cbi.org.uk/articles/a-roaring-trade/>

Align trade policy and trade promotion so that export promotion is targeted at the opportunities created by trade deals and that enabling commercial opportunity is built into the negotiating strategy, especially for SMEs.

Trade deals are not an end in themselves. More trade should be the goal. Business wants to work with government to ensure that future export promotion is targeted at the opportunities created by trade deals and that enabling commercial opportunity is built into the trade deal negotiating strategy from the outset. A good example of this would be proposals for a joint UK-US working group for SMEs as part of a UK-US trade deal. This should encourage smaller companies to work together to ensure that trade deals deliver concrete results. Export promotion needs to be tied to the UK's industrial strategy, so the UK builds capacity to deliver the goods and services that sell.

Create pathways to trade deals via long-term market access work for priority markets where trade deals are a long-term aspiration

The UK's bandwidth for agreeing new trade deals will be further limited by the Covid crisis. In a ten year plan the UK will need to identify future priorities for FTAs and the pathway to achieve them. Business wants to work with government through DIT's Strategic Trade Advisory Group to advise which markets should be in the next wave after US, Japan, Australia, New Zealand and identify which market access issues which could be used as milestones on the way to FTAs. One idea would be to establish a hierarchy for countries to progress: Bilateral Trade & Investment Working Groups for initial audit/mapping work through JETCOs and Economic and Financial Dialogues to Strategic Economic Dialogue as a final route to a UK FTA.

Work with business when considering the UK's future strategic positioning between EU, US and China and to promote the UK's reputation as a place to do business

The crisis will prompt longer-term consideration of the UK's wider role in the world, including how the UK manages the increasing politicisation of world trade. Critical to this will be how the UK positions itself vis a vis China, the US and the EU. Business wants an active dialogue with government about the UK's role in the world and wants the UK to act as a bridge-builder and to support the global trading system.

Whatever kind of Brexit emerges, the EU and UK must remain the closest international partners to protect and promote our fundamental shared interests. Bilateral co-operation should be complemented with joint efforts in international institutions to ensure a powerful voice on the global stage that promotes open markets and free and fair trade. The UK and EU should build a coalition of the willing to provide the required momentum to reform and modernise the WTO to deliver an institution that is adapted to the demands of 21st century business.²⁷ The UK should also use its transatlantic links and its proposed FTA with the US to encourage the US to stay close to the global trading system e.g. by pioneering regulations which could be promoted at a global level.

With China, business recognise the very real concerns both on the wider politics and health, but also the case for continuing engagement with China based on the UK's own economic interests.

Business will work with government to promote the UK's brand including through the GREAT campaign.

²⁷ See <https://www.cbi.org.uk/media/3991/working-together-cbi-priorities-for-a-strong-and-open-europe.pdf>

Stay open to investment while being alive to the continuing risk of opportunistic take-overs

Openness to investment will also be critical. While the UK may need to manage the short-term risks of strategic industries falling to foreign buyers, the UK's long-term strategy should be to remain open to foreign investment and to remain a world-beating destination for foreign capital and qualified staff.

Set a global example by building resilience through economic diversification and not protectionism

With the crisis exposing the vulnerability of global supply chains, the crisis has prompted calls for greater emphasis on resilience from politicians and policymakers.²⁸

CBI members are already thinking about diversification of supply chains but caution that it's too early to draw conclusions, with timescales likely to be different in different sectors (questions being most acute in medical supplies) and discussions best done behind closed doors where questions are most pressing.

Some of the emerging questions include:

- What are the best ways to secure genuine resilience? Reshoring does not automatically mean resilience, including in essential medical supplies. China increased domestic production of masks five-fold in February, but still had to import masks.²⁹
- How to balance the case for diversification against the need for efficiency. Switching to more expensive suppliers outside of Asia or to multiple suppliers could bring increased costs, though this has to be weighed against whether the crisis surge in transport costs proves permanent.
- The global nature of the debate. Decisions will be shaped at a global level both by multinational companies and by individual governments.
- The importance of European supply chains to the UK. The Covid-19 crisis demonstrates that minimising disruption from Brexit may become even more important. European supply chains may seem more attractive following disruption to Asian supply lines.
- The potential impact of shifts on sourcing and investment on sales. If protectionism is rising, it may prove easier to sell to China if you source from China and invest in China.
- How the changing economic landscape shifts with the crisis. China, for example, is already trying to increase its attractiveness to foreign investors in its post-crisis recovery plans.

²⁸ Contrast USTR Bob Lighthizer on USTR 30 March "We are learning in this crisis that over-dependence on other countries as a source of cheap medical products and supplies has created a strategic vulnerability to our economy. For the United States, we are encouraging diversification of supply chains and seeking to promote more manufacturing at home." <https://www.reuters.com/article/us-health-coronavirus-trade-ustr/coronavirus-shows-us-too-dependent-on-cheap-medical-imports-ustr-says-idUSKBN21I042> Thierry Breton EU Single Market Commissioner 2 April "La question que nous pose cette crise c'est qu'on est peut-être allé trop loin dans la mondialisation et la globalisation. La question, a-t-il ajouté, se pose notamment sur la santé (médicaments et matériels médicaux) mais aussi sur les "domaines industriels stratégiques" et sur l'agriculture." <https://www.lefigaro.fr/flash-eco/thierry-breton-estime-necessaire-l-emission-d-obligations-pour-faire-face-a-la-crise-20200402> Phil Hogan interview with FT 23 April "Strategic autonomy does not mean that we should aim for self-sufficiency. Given the complexity of supply chains to the European Union, this would be an unattainable goal . . . we have to look at how to build resilience based on how we can diversify, not be totally reliant on one geographical entity for supplies of everything." <https://www.ft.com/content/95dcaac2-162e-4ff4-aca5-bb852f03b1e9>

²⁹ "Total daily capacity surged to 110 million units at the end of February, according to the National Development and Reform Commission, from 20 million at the start of the month. At this rate, the country is set to churn out almost 10 times the volume it produced in 2019." South China Morning Post 16 March. <https://www.scmp.com/business/companies/article/3075289/china-boosts-face-mask-production-capacity-450-cent-month> For China's efforts to import masks see <https://theconversation.com/the-global-effort-to-tackle-the-coronavirus-face-mask-shortage-133656/>

- The impact upon services. Does the new way of remote working create opportunities for digital trade, or does the vulnerability experienced during this crisis – and/or further lockdowns - drive people towards domestic suppliers?

Business will want to work closely on these questions with the UK government going forward, bringing the evidence for decisions on supply chains across different sectors, and getting the right balance between resilience and opportunity. It is already clear, however, that the UK will need to build resilience through wider trade policy areas like regulation and digital.

In medical regulation, agencies like the UK's MHRA, the FDA in the USA and the EMA in the European Union should be co-operating more closely to accelerate the safe development of potential treatments. The UK should also look at closer regulatory dialogue with China so that delays in Chinese medical exports are less likely in future and that sensitive issues including managing health risks can be discussed discreetly by experts.

Digital will be critical as a source of resilience and commercial opportunity. As the world's second largest service exporter, the UK should promote facilitations for digital trade to insure against the risk of service localisation, and seek to lock-in commitments to liberalise digital trade made by countries in the crisis. Getting data and internet regulation right will increase public trust as data grows in importance to health and help companies take advantage of increased consumer demand for on-line services like education.

It is unclear how long the crisis will last and how severe it will be. But in any scenario, government and business should work together to make the case for trade

The crisis is still a long way from playing out. It is not yet clear how long the fall in economic output will last, with companies concerned that recovery will follow a 'W' or 'U' curve rather than 'a V'. Proposals sketched out here may go in a very different direction over the next few weeks and months. Without a vaccine or effective prophylactic treatment, a return to a rising spread of the virus is a genuine threat. Intermittent social distancing could become the new normal with huge implications for demand, consumer behaviour and business operations. In such a dynamic situation, the CBI will continue to work with the committee as business responds to the crisis.

Whatever happens, with risks of protectionism growing, both business and government will need to work together to make the case for open trade.