Lloyds Bank Trade Insights

The changing face of UK trade

By the side of business

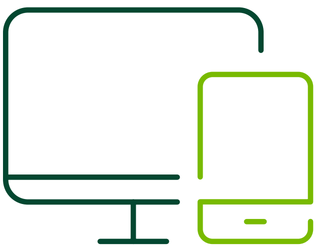
LLOYDS BANK

At a glance

- For businesses engaged in international trade, **recent years have been defined by change and transformation**.
- As the UK finds its place in a new and emerging geopolitical landscape, businesses are now able to **access new opportunities in a world that has become more of a level playing field**.
- The way we import and export has changed, with the UK looking to **build robust and resilient supply chains** while also **leveraging lucrative trading relationships** with countries around the world.
- Who we trade with, and the way we trade, has evolved. With the Electronic Trade Documents Act coming into effect on 20th September 2023, **we have begun a journey of mass digitalisation in the field of trade**, modernising centuries-old processes to boost speed, efficiency and innovation and delivering monumental economic and environmental benefits.
- UK businesses face a landmark moment in the history of international trade: **not only is the landscape changing to enable trading relationships with new markets, but it's also becoming easier than ever before to trade with them**. So how can firms embrace this change and maximise its potential?

The changing face of UK trade

The way the UK trades internationally is evolving. In the context of geopolitical and macroeconomic change, radical digital transformation, and developments in trading relationships, the UK is undergoing a significant evolution in both where and how it trades around the world.



A world in flux

On 16th July 2023, the United Kingdom formally signed the Protocol of Accession to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[1] and will become part of the 11 country-strong trade bloc once the agreement has been ratified in the latter half of 2024. The agreement, which includes Australia, Canada, Japan, Mexico, New Zealand, Vietnam, Peru, Malaysia, Chile and Brunei, will not only enable the UK to access reduced trade tariffs for goods, it also establishes a new framework for rules involving investment, intellectual property, services, digital trade and more. UK exports to CPTPP countries were already worth £60.5 billion in the 12 months preceding September 2022[2] and the potential reduction in trade tariffs, in addition to new free trade agreements with countries such as Malaysia, means that this figure is set to grow.

Not only does this represent a significant trade opportunity for the UK in itself – the CPTPP represents 13.4% of global Gross Domestic Product[3] (GDP) and 15% of global trade[4] – but it's also geographically symbolic of a significant change in the UK's approach to post-Brexit international trade. As a nation, the UK is slowly diverging away from a reliance on traditional trade partners and instead shifting the focus eastwards towards high-growth emerging markets. This transition means that businesses can consider an increasing number of trading opportunities, and focus on a broader spectrum of markets that offer a good match for their business.

The shift beyond historical trade partners is part of a wider transformation in the UK's trading relationship with other countries; a change that brings with it opportunities for UK firms to seize.

The next generation of trade

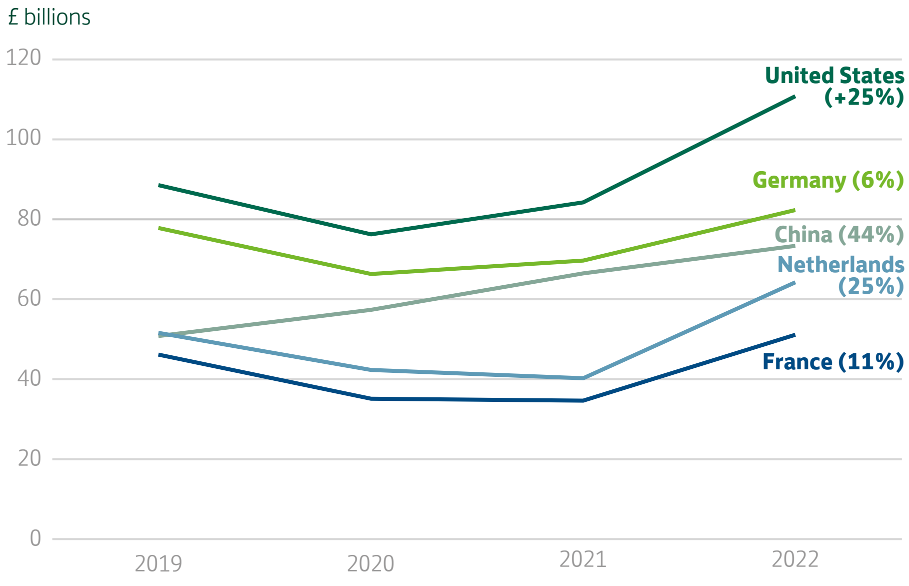
The evolution in UK trade is not just a geographical one, however. Lloyds Bank has spearheaded the digitalisation of trade finance in 2022 by using a Contractual Law solution to successfully complete the UK's first transaction using a digital promissory note[5]. This action was just the tip of the iceberg and the UK is making giant strides forward to uniformly digitalise the trade journey thanks to the Electronic Trade Documents Act[6] coming into effect on the 20th September 2023. The Act is a landmark achievement in the field of trade documents, which have remained relatively unchanged for centuries. It enables the legal recognition of digital versions of key documents such as bills of exchange, bills of lading, promissory notes, ship's delivery orders and warehouse receipts to name a few.

As a result of this digitalisation, international trade is set to become faster and more efficient, representing a step forward in terms of solving the complex bottlenecks that occurred following the Covid-19 pandemic. 28.5 billion paper trade documents are printed and flown around the world annually[7] – the estimated equivalent of 3 million trees[8] each year. The Act will not only help improve the speed of trade processes, but it will also play a part in reducing carbon emissions by at least ten percent[9], according to the UK Government, making international trade more sustainable.

Changing imports: A spotlight on reliability and locality

The Covid-19 pandemic drew attention to the fragility of global supply chains and put the issue of supply chain resilience in the spotlight. Since then, the way we import has changed, with businesses placing emphasis on local, reliable suppliers. This is not only the case from a delivery point of view, but also from an economic one given the current inflationary pressures. Indeed, the July edition of the Lloyds Bank Business Barometer revealed that among businesses that import, the most frequently cited concerns (28%) for the upcoming six months are inflation and rising costs.

Chart 1: UK businesses' top five import markets



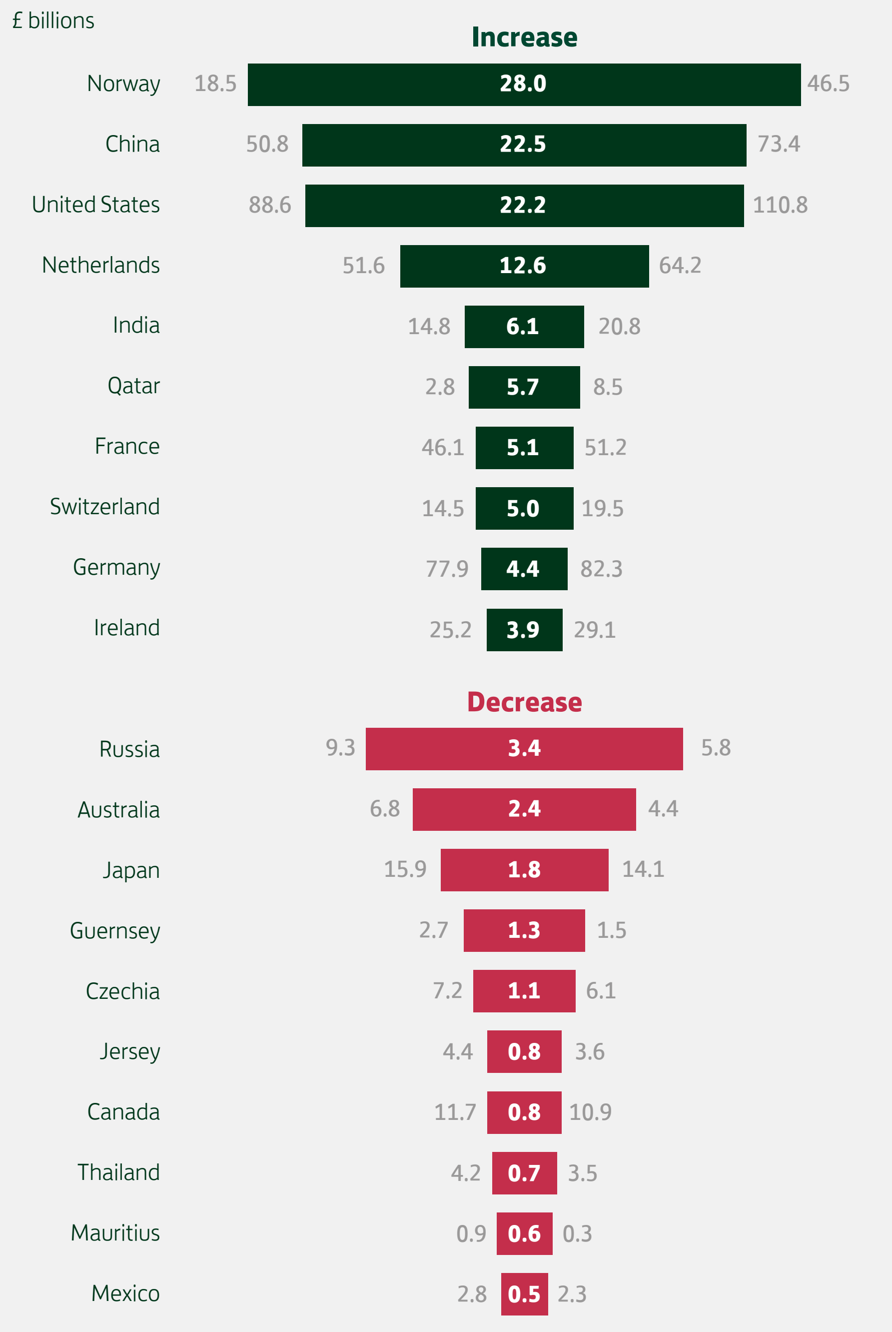
Source: ons.gov.uk[10]

28%

of UK companies that import, cited in July that inflation and rising costs were their main concerns.

It's no surprise that the United States, Germany and China – as traditionally reliable trade partners – are the most valuable of the UK's import markets, with China in particular having increased in value by 44% since 2019. While Germany and France remain key import markets and are placed second and fifth in the list of the top five, they have witnessed more modest increases in value over recent years – by 6% and 11% respectively – perhaps reflecting trade friction caused by the UK's departure from the European Union. According to one piece of research by the London School of Economics[11], imports from the EU abruptly declined by 25% more than imports from the rest of the world after the provisional application of the EU-UK Trade and Cooperation Agreement in January 2021 and this decline persisted throughout the rest of the year.

Chart 2: UK import markets that have seen the biggest increase/decrease in import value between 2019 and 2022



Source: ons.gov.uk[12]

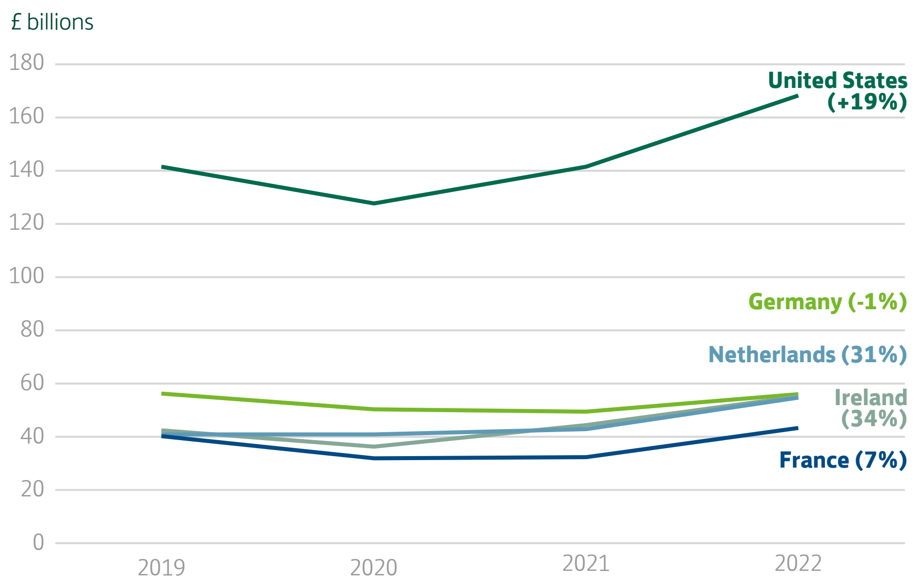
In terms of value, UK businesses have increased their import value from many nations within the European Single Market between 2019 and 2022. The value of imports from Norway saw the largest increase (£28 billion), with the Netherlands (£12.6 billion), France (£5.1 billion), Switzerland (£5.0 billion), Germany (£4.4 billion), and Ireland (£3.9 billion) also seeing increases. This highlights that following the disruption experienced as a result of Covid, resilient and local supply chains with neighbouring countries remains an attractive proposition to many UK businesses looking to flourish.

This idea of reenforcing supply chains through locality is echoed by the fact that Australia (-£2.4 billion) and Japan (-£1.8 billion) are among the top three markets to witness the biggest decreases in import value between 2019 and 2022, perhaps as a result of the geography of trade with these countries.

Changing exports: Explore, diversify and grow

In our previous Lloyds Bank Trade Insights report, Exploring Opportunities Overseas[13], we addressed how export conditions are becoming more favourable for UK businesses amidst the backdrop of the government's ambition to increase the value of exports to £1 trillion by 2030. Since the release of that report, the July edition of the Lloyds Bank Business Barometer[14] has confirmed that there is significant appetite for exporting among businesses in the UK. 17% of respondents to the Business Barometer are planning to begin their export journey within the next 12 months. 31% of businesses said that they believe entering new markets – whether that's diversifying into adjacent markets or exporting to new markets – will present the biggest opportunities to grow their business.

Chart 3: UK businesses' top five export markets



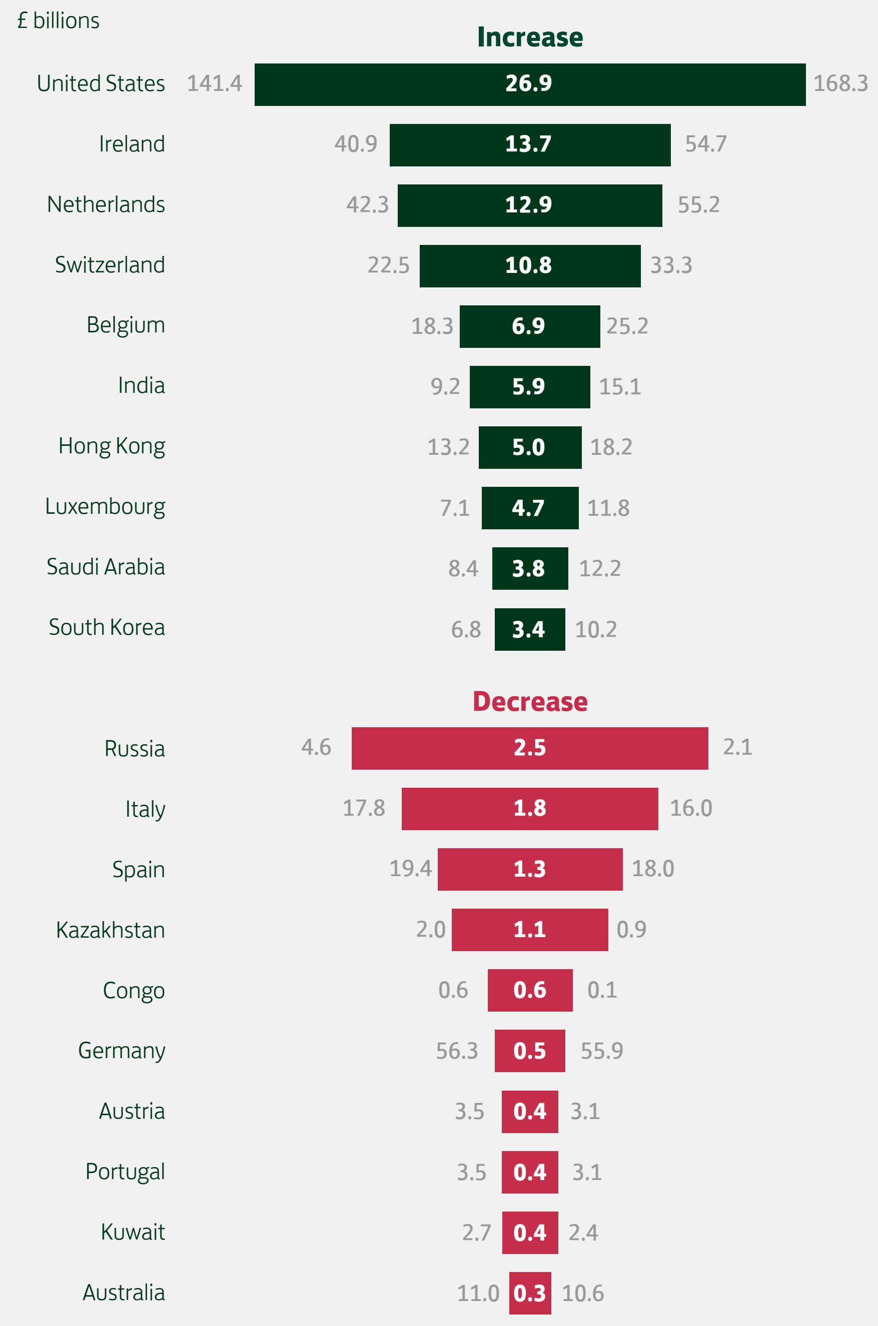
Source: ons.gov.uk[15]

Analysis of the Lloyds Bank International Trade Portal showed that India was the country most researched in June 2023.

Which export markets look particularly appealing to businesses looking to grow? The United States has remained the UK's top export market since 2019, with an export value of £168.3 billion – representing a 19.1% increase over the course of the subsequent four years. Other commercially appealing export markets include the Netherlands (+30.5%), Ireland (+33.6%) and France (+7.4%) all seeing growth. Although Germany still remains the UK's second largest export market, exports to the country have shrunk by 0.8% since 2019. Experts have pointed towards the global downturn in manufacturing[16] – which has hit Germany disproportionately hard – as being one reason for the slowdown, with trade frictions following the UK's departure from the European Union being another. This latter point would echo Lloyds Bank's own research in the July Business Barometer, which found that the main challenge cited by businesses when trading internationally (5%) is the difficulty they experience when exporting to Europe after Brexit.

Change may be on the horizon as the UK's new political position has made the world a level playing field for businesses looking to export. While the top five markets that have seen the biggest increase in export value between 2019 and 2022 are more traditional trade partners such as the United States and countries in the European Single Market, looking further down the list sees that India, Hong Kong, Saudi Arabia, and South Korea all feature in the top ten. This represents a clear preference on the part of UK businesses to diversify their

Chart 4: UK export markets that have seen the biggest increase/decrease in import value between 2019 and 2022



Source: ons.gov.uk[17]

trade strategies by exporting to Asian and Middle Eastern countries, in turn helping them reach new customers and grow their business. As a result trade agreements, such as the CPTPP, could be of clear benefit to UK businesses looking to export to Asia.

This interest in Asian markets is also represented in Lloyds Bank's data from our International Trade Portal[18], a powerful and easy-to-use resource that provides access to international trade opportunities, networks and market information. Users can browse specific markets through the platform to understand more about the export opportunities available there. In June 2023, the country researched by the largest number of International Trade Portal users was India, representing a clear level of interest in the market. The July edition of the Lloyds Bank Business Barometer asked businesses which markets they were interested in exporting to over the next 12 months. The second most frequently cited answer was Asia (6%), with India, China, Japan, South Korea, Vietnam, Thailand and Malaysia all mentioned as markets of interest.

While many European markets, including Italy, Spain, Germany, Austria and Portugal have decreased in export value since 2019, Europe still remains the most popular destination for UK exports, with 13% of respondents mentioning that they are interested in exporting to a European country in the next 12 months.

Overall, the data points towards a rising appetite for exporting to new and emerging markets, while maintaining trade links with European countries. The largest group (15%) of respondents to the July Business Barometer mentioned that their main reason for exporting is to increase sales, profitability and/or improve cashflow. With this in mind, the diversification of export strategy and the exploration of new markets is key to achieving growth.

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The introduction of the Electronic Trade Documents Act into UK law represents a seismic shift in the way businesses can trade internationally; enabling companies to transition off paper-based systems and into the digital environment where we can make trade cheaper, faster, simpler and more sustainable.

For businesses across the country, this is a game-changing opportunity to become unshackled from the inefficiencies that accompany paper-based trade and instead become more agile. As a result, we expect the new legislation to both help boost economic growth and drastically reduce the existing environmental burden of trade.

What’s more, the consequences of the Electronic Trade Documents Act extend far beyond the UK. Enabling all companies using English law to now digitalise trade transactions worldwide. It also represents a Pole Star for other nations to follow, illuminating the path towards a trading system that is fit for the 21st century.

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Chris Southworth
Secretary General
ICC United Kingdom

How to prepare for the dawn of paperless trade

Who we trade with, and the way we trade, has evolved – particularly when it comes to the digitalisation of key trade documents. As the Electronic Trade Documents Act comes into force and replaces 141-year-old legislation, it is estimated by the UK Government that the resulting digitalisation will reduce some processing times to just 20 seconds[19], enabling faster and more efficient processes for businesses and potentially increasing the opportunities available to them.

The Act puts the UK ahead of other modern economies in terms of trade digitalisation and the full benefits will be felt as other nations plan and execute their own digitalisation journeys. To ensure that your business is ready for digital trade, begin to look at your own exposure to trade documents and prepare your processes accordingly.

1 Check the availability of digital documents

Some documents, such as guarantees, are not affected by the Electronic Trade Documents Act and are therefore already in use. At Lloyds Bank, we already issue one in four guarantees in electronic form. To use electronic documents, check that both your bank can issue them, and that the beneficiary is comfortable in receiving them before proceeding.

2 Understand your own usage

Which documents do you already use, and which could you benefit from digitalising? The upcoming legislation will cover 8 key documents including bills of exchange, promissory notes, bills of lading, and cargo insurance certificates. If you already use any of these documents, then you might be able to benefit from their more efficient digital counterparts.

3 Scrutinise your policies

What do your internal policies say about the use of trade documentation? Take a look at your business' position and ask your counterparts to do the same. Primarily, check for any wording that might prevent you from working with digital documents and assess the underlying reasons why this may be the case, be it legal, compliance or procedural.

4 Track your bank's digitalisation journey

Some banks are further along the path towards digital transformation than others. Crucially, there is often more than one bank involved in a trade transaction, and for the transaction to take place in the digital sphere then all parties must have the capability to accommodate this legal change.

5 Consider digitalising elements of the full transaction

From port authorities to customs, there are many other parties involved in a trade transaction. Do these parties still need to work on paper, or can these legs of your financial and physical supply chain also be digitalised? Take a look at the processes you're involved in and consider which elements of your business could benefit from digitalisation.

Consistency amidst change

From whom we trade with to how we trade, the mechanics of UK commerce are changing. However at Lloyds Bank, we are committed to helping you navigate through an unpredictable environment through dedicated support. As winners of both the Global Trade Review's 'Leaders in Trade' award for Best Trade Finance Bank in the UK[20], and the 'TFG Award 2023' for Best Trade Finance Deal, we have the expertise and scale to help you achieve your trade ambitions.

Our solutions include:

Export letters of credit: Our export letter of credit coverage using our international network of banks can reduce the risk of exporting to, or importing from, almost anywhere in the world. Using an export letter of credit can give you the confidence to release goods knowing that payment will be guaranteed, so long as the terms and conditions of the letter of credit are fully met. Funding options available include discounting, enabling you to receive payment early.

Bonds and guarantees: Our bonds and guarantees can be required to bid for overseas business and can demonstrate improved credit-worthiness with your trading partners. As a result, they can give your customers confidence in your business and may help you win new contracts or negotiate better trading terms. Our UK-based centre of excellence can support with wording reviews and drafting, providing you with operational support and reassurance.

In addition, you can use our Trade Tracker[21] to check the status of your trade request within seconds.

Documentary collections: A cost-effective way to mitigate the risk of non-payment and help manage your cash flow. Documentary collections ensures that you receive payment for the goods sent. Your customers can only take delivery of the goods once they have paid for them, or accepted a bill of exchange to pay at a later date.

Trade finance: A comprehensive range of finance and risk mitigation solutions to help optimise your working capital cycle when exporting or importing. Lloyds Bank offers trade loans, pre- and post-shipment finance, open account trade solutions, supply chain finance and receivables purchase. The latter can be particularly useful in the context of exporting, where it can unlock the money tied up in invoices that have not yet been paid.

International Trade Portal: Our powerful insights platform, the International Trade Portal[22], provides practical support with both free and unlimited permanent access[23].

Open Account solutions: Accelerate payments for invoices ahead of agreed payment terms to optimise working capital. Open Account Trade solutions reduce risk, improve supplier relationships and align the objectives of Treasury, Procurement and Sales for both buyers and suppliers.

Foreign exchange: We offer a wide range of foreign exchange products to mitigate the risk of exposure to future exchange rate movements and provide clarity and control over margins.

While the UK is undergoing a period of transformation in terms of where and how it trades, the support that Lloyds Bank can offer businesses with international ambitions remains constant. Our specialist expertise can help firms navigate a landscape in flux, grasp new overseas opportunities and maximise the potential offered by the paperless revolution. With a broad range of specialist trade solutions available, Lloyds Bank are able to work hand-in-hand with UK businesses as they build robust supply chains and unlock international markets.

Ralph Edwards
Managing Director, Head of Trade Sales
Lloyds Bank Business & Commercial Banking

For more information on how Lloyds Bank can support your business when importing or exporting, **speak to one of our experts today**.[24]

You can also get the latest online insights, reports, expert commentary and client case studies direct from **The Source**.[25]

“The move to an electronic process which Lloyds Bank have instigated is extremely welcome and a game-changer for me personally and for our business partners and their representatives. The Lloyds Bank team have been excellent in helping us to make the most of this development and I look forward to working with them on similar deals in the future.”

Keith Mitchell
Vistry Homes

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