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The City of London:

an ecosystem enabling international trade

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Executive summary

As the UK is in the process of reshaping its economic relationships with key global markets, and the UK Government seeks to position international trade as a central pillar of the post-COVID-19 recovery,¹ there is an opportunity to not only preserve the UK's trading strengths but also look anew at how best UK-based Financial and Professional Services (FPS) can support firms across all sectors of the UK economy to trade internationally.

The UK has huge strengths in international trade. The UK stands fifth in the world in total exports and second in the world in total services exports. The UK's world-class FPS offer is a key underlying factor.

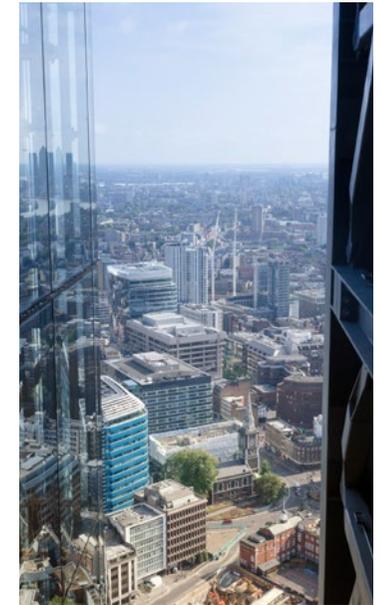
The UK's FPS ecosystem is recognised for its openness, global connections and culture of collaboration. This ecosystem underpins the UK's strengths as a services exporter as firms from around the world turn to the UK for its expertise, talent, supportive regulatory environment and access to capital. The UK FPS sector also plays a vital role in supporting and enabling firms.

Against this challenging backdrop, there is an imperative to maximise the value of UK-based FPS for non-FPS firms. Success will see firms up and down the country, and across all sectors of the economy, deriving greater value from the UK's leading services sector and increasing their capacity to export internationally as a consequence. The resulting benefits will include greater export volumes, underpinning jobs and growth across the whole of the UK.

This is a report for UK policymakers. Too often trade policymaking approaches trade in services and trade in goods in silos and as separate policy areas. Yet, as this report demonstrates, that is not how firms trade in practice.

Now the UK has the ability to set its own trade policy agenda, for the first time in some forty years, it should adopt a more holistic approach to policymaking and treat services trade and goods trade as interdependent and mutually supportive in order to maximise future opportunities.

The analysis shines a light on how the UK FPS ecosystem supports internationally exporting firms through a focus on three specific sub-sectors: legal services, trade finance and maritime services. This report offers a window into a small sub-section of much wider ecosystem and represents the beginning of a conversation where further analysis into the roles played by additional FPS sub-sectors would contribute greater understanding still. It is hoped that this report will contribute to plugging some of the knowledge gaps within the wider policy making community.



Now the UK has the ability to set its own trade policy agenda, for the first time in some forty years, it should adopt a more holistic approach to policymaking and treat services trade and goods trade as interdependent and mutually supportive in order to maximise future opportunities.

¹ <https://www.gov.uk/government/speeches/thecityuk-speech-liz-truss-highlights-importance-of-digital-data-and-services-trade>

The report provides a series of policy recommendations which, if enacted, could help realise these opportunities and meet this imperative. These recommendations are grouped in three themes:

1. Maximising new opportunities

Enhancing the UK FPS sector's capacity to support non-FPS firms trade internationally will require a holistic approach to trade policymaking which considers trade in services and trade in goods as interdependent. The UK's trade policy formation architecture and resourcing should reflect this need.

UK policymakers should complement these efforts with a focus on helping firms develop both an 'international mindset' and an 'international skillset'.



2. Preserving what works

Firms thrive on certainty. The UK should take a long-term view to any regulatory changes and take concrete steps to protect elements of the ecosystem perceived to be at risk, for example the primacy of English law.



3. Addressing perception gaps

The UK Government should focus on championing the value of services with non-FPS firms. Trade promotional efforts should aim at demystifying elements of the FPS ecosystem which would directly benefit exporters, especially for SMEs.



Foreword

How financial and professional services firms enable and support UK businesses to trade internationally



Success will see firms up and down the country, and across all sectors of the economy, deriving greater value from the UK's leading services sector and increasing their capacity to export internationally as a consequence."

The City of London Corporation is dedicated to ensuring a vibrant and thriving Square Mile as part of a globally successful UK.

We devote considerable energy to maintaining and enhancing the UK's leading global offer in Financial and Professional Services (FPS). In terms of global services trade, the UK's international financial reach is unmatched. As recent research reveals, the country's value of net financial services exports is considerably higher than in other global financial centres.

But this is only part of the picture. The UK FPS ecosystem is also a vital enabler of international trade for firms across the economy. Up and down the country, businesses large and small, and from all economic sectors are benefiting from the UK's unique FPS offer to help them access international markets.

This new report focuses on the FPS sector's oft neglected but vital role as an enabler of UK exports. In these uncertain times, we have an imperative to explore how the UK FPS can support globally trading firms still further. One of our key recommendations is that policymakers consider goods and services trade holistically when shaping the UK's future international economic relationships.

We believe that success will see UK companies well-positioned to seize new global trading opportunities as they arise and contribute to an inclusive post-Covid recovery.

We recognise, however, that this report is only the beginning of a conversation. Our analysis shines a light on the enabling roles played by certain sub-sectors of this complex FPS ecosystem: legal services, trade finance provision and maritime services. There is more work to be done in developing the picture still further and we hope this work stimulates more creative thinking in this space.

I would like to thank Sally Jones and her team at EY for their excellent work on this report. Together we have produced a broad list of recommendations which we hope will be of value to our UK Government colleagues as they develop UK trade policy now and into the future.

Catherine McGuinness
Policy Chair, The City of London Corporation

Guest foreword

Maximising financial and professional firms' capacity to support global trade



While conducting our research, it became clear that the FPS ecosystem is brimming with ideas about how it can expand its support for UK firms to trade internationally... We encourage all players – government, professional bodies, FPS firms – to think creatively to support UK export success.”

We at EY were delighted to be invited to work with the City of London Corporation on this report to drive forward research in how Financial Professional Services (FPS) firms enable and support UK businesses to trade internationally. This is something that FPS firms are doing up and down the UK every single day, yet for which they rarely receive any acknowledgement.

Nor is their role particularly well understood. Many of us find it more difficult to picture the contributions of a lawyer drafting a contract to sell a product, or a banker providing a letter of credit needed as part of the export process than to imagine the product itself crossing a border. However, without these professionals and firms providing their services then the cost, risk and feasibility of carrying out international trade would undoubtedly be higher, prohibitively so in many cases.

This is an area of policymaking which has not received enough attention. It represents a real opportunity for the UK to lead the global discussion on the role of services trade and be at the centre of future trading rules. It is my fervent hope that we seize this opportunity.

While conducting our research, it became clear that the FPS ecosystem is brimming with ideas about how it can expand its support for UK firms to trade internationally. We have captured some of these ideas in this report, but believe that we have just scratched the surface by covering just three of the many subsectors in the wider FPS ecosystem. We encourage all players – government, professional bodies, FPS firms – to think creatively to support UK export success.

Further, the ecosystem works best when it works holistically to support a client's export journey from start to finish. But, so often, that export journey is not taken into account, and silos between FPS subsectors and service providers once again form. This must change.

Time is ripe for the UK to lead and leverage the deep innovation and experience of the UK FPS sector, with the help of industry stakeholders, to support the Government and the Department of International Trade in supporting the UK's FPS ecosystem for the broader benefit of UK traders.

Sally Jones
Partner, Trade Strategy, EY

Recommendations

Based on our research, we have drawn up a list of suggestions we believe will enhance UK-based FPS' ability to support internally exporting firms across the economy. These can also help to support the objectives of the Industrial Strategy and the Government's "levelling-up" agenda. Further detail can be found in Section Three.

MAXIMISING NEW OPPORTUNITIES

Approaching services trade and goods trade holistically

1. Trade policy should not be siloed between goods, services and investment and relevant teams need appropriate funding
2. Product journey approach should be reflected in Free Trade Agreements
3. Tackle services market access barriers through trade agreements as well as regulatory and economic dialogues
4. Improve ONS data on trade in services

Work with UK firms to help develop an 'international mindset'

5. Make UK government trade offerings more accessible
6. Focus on smaller businesses and facilitate consortia of related businesses in reaching overseas markets

Work with UK firms to help develop an 'international skillset'

7. Enhance focus on upskilling UK businesses on the cusp of international expansion
8. Make digital skills acquisition a cornerstone of business support
9. Establish a digital adoption fund for SMEs

Embed wider policy objectives in forward-facing issues such a digitisation and sustainability into trade policy considerations

10. Embrace digitisation and sustainability as key opportunities for the UK
11. Create a forward-looking domestic regulatory environment for digital trade, including a 'TradeTech' sandbox
12. Champion multilateralism at international fora

PRESERVING WHAT WORKS

Certainty and continuity

13. Provide long-term view on regulatory reform
14. Offer access to tracking of developments pertaining to market access

Preserving primacy of English law

15. Preserve primacy of English law, including through the UK's accession to the Lugano Convention

ADDRESSING PERCEPTION GAPS

Highlighting the value of services

16. Enhance use of trade promotional campaigns and materials to underline opportunities for SMEs

Lack of knowledge of the UK supply chain overseas

17. Promote the value of UK content in overseas supply chains, including via UKEF
18. Organise a UK cities' overseas trade mission

Introduction



The UK is the world-leading supplier of financial and professional services (FPS), helping businesses around the world prosper. In addition, UK FPS firms play a fundamental role in enabling UK and other international businesses to export their products around the world and facilitate inward investment, which in turn supports jobs and livelihoods around the country.

An international character

UK services sector now account for nearly half of all UK exports, demonstrating the success of this diverse and innovative sector from the creative industries through to technology start-ups.

FPS continues to be the largest sector as a share of UK services exports.² Putting this into perspective, the UK is 5th in the world in total exports and 2nd in the world in services exports. The UK has the world's largest trade surplus of financial services, increasing from £61bn in 2017 to £63bn in 2018. Despite the marginal decrease to £60.3bn in 2019, this remains on par with the combined surpluses generated by the next two leading countries in the financial services sector (the US and Switzerland). When the estimated trade surplus for other related professional services is also considered, the UK's 2019 trade surplus for services exports increases to £79.4bn³. The UK's services exports to key non-EU markets specifically increased from £47.6bn to £49.6bn over the same 2017-2018 period.⁴

² <https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/internationaltradeinservices/previousReleases>

³ The City UK – Key facts about the UK as an international financial centre 2020

⁴ <https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/The-Global-Cities-Providing-Financial-services-to-the-world-WEB.pdf>



The UK is **5th in the world** in total exports and **2nd in the world** in services exports



£61bn
£63bn

The UK has the **world's largest trade surplus** of financial services, increasing from £61bn in 2017 to £63bn in 2018

This uniqueness extends to supporting international activity and trade within the UK itself. The UK is an international banking centre with 250 foreign banks and covering 43% of global FX trading.⁵

However, this data does not tell the whole story. In particular it does not speak to the role that the FPS sector plays as specialist service providers in helping non-FPS businesses to navigate the export journey from obtaining the necessary raw materials or intermediate goods (i.e. components and parts) to exporting their finished products anywhere in the world. This is central to the UK's offer. The London market, for example, provides 60% of world's aviation insurance and 33% of shipping insurance, and English law is the most frequently used governing law for cross-border transactions.

This is a story that stretches more widely than the Square Mile. These services firms are not just located in London, with 48% of all financial and related professional services exports in 2019 being generated outside the capital. Regional hubs around the UK play an important role in providing much-needed FPS with a particular concentration in the South East, Scotland, and the North West, which respectively contributed 8%, 7%, and 7% of the 2019 exports.⁶ The FPS sector plays a key role in regional economies and helps them to thrive, from supporting business planning, financial management and exporting to technology development, recruitment and marketing.⁷

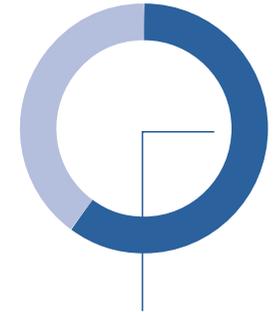
These statistics outline how the UK's global reach, high levels of expertise and well-developed FPS ecosystem enable UK firms to navigate the international trading landscape.

Supporting international trade:

Much of the existing research on trade and FPS has focused on how individual types of services are traded and on attempting to address the barriers which firms face in different countries around the world. Yet very little work has been done to look at how the different sub-sectors that contribute to a vibrant UK FPS industry operate together to enable and encourage British non-FPS firms to trade internationally.

There is an unrealised opportunity to harness the FPS sector's international character in support of the wider UK economy.

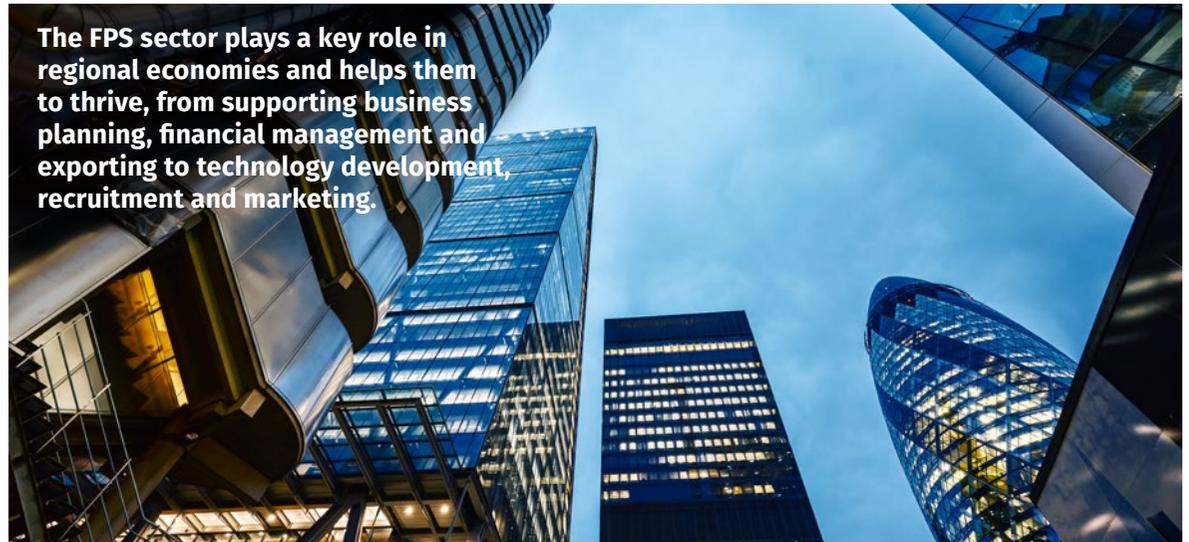
This report takes a holistic view of the whole FPS ecosystem and looks to illustrate and detail how the different FPS sub-sectors are interconnected to, and in many ways mutually supportive of, other sectors in different parts of the country. The analysis focuses on three specific sub-sectors in which the UK currently has competitive advantage and which, when taken together, display the breadth of the UK FPS offer: legal services, trade finance and maritime services.



60%

The London market, for example, provides **60% of world's aviation insurance** and English law is the most frequently used governing law for cross-border transactions.

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⁵ <https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/London-as-a-centre-for-management-of-financial-risks.pdf>

⁶ Source: <https://www.thecityuk.com/news/financial-services-is-the-largest-services-export-for-nearly-all-parts-of-the-uk/?s=09>

⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/866329/professional-business-services-sector-growth-outside-london.pdf

Structure of report:

The structure of the report is as follows:

- Section I provides an overview of what we mean when we refer to ‘the City of London ecosystem’, as well as how various FPS providers enable other companies to trade internationally.
- Section II then goes into more depth and elaborates on these relationships through detailed case studies on legal services, trade finance and maritime services.
- Finally, Section III draws out the relevant lessons from the study and provides recommendations for the UK Government and other stakeholders on how the trade-enabling services provided by different FPS sub-sectors within the City of London can be enhanced and improved in order to increase international trade for the entire UK economy.

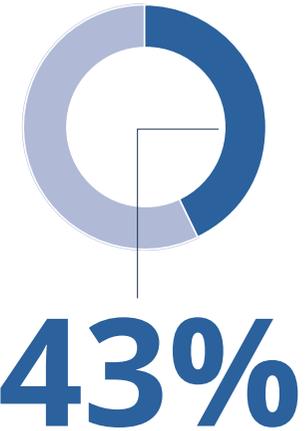
Ensuring that enabling and supportive policies are put in place is particularly relevant at this point in time, as 2021 will mark a period of unprecedented change for UK companies domestically and internationally. According to the World Trade Organisation,

global trade is forecast to drop 9.2% in 2020, with the forecast for 2021 leaving trade growth well below the pre-pandemic level.⁸

Businesses are having to contend with the implications of the UK leaving the European Union against a backdrop of heightened geopolitical tensions and trade disruptions, as well as recover from the economic challenges brought about by the COVID-19 pandemic.

In this context, this report seeks to suggest ways the silos in which trade is most regularly considered, namely goods trade and services trade, can be broken down so as to both boost the capacity for UK companies to export more efficiently and to ensure the FPS sector across the UK remains internationally competitive. As better and more efficient FPS firms support UK competitiveness, jobs and bottom line, growing the sector’s capacity to support internationally trading firms further will benefit not just FPS but the whole of the UK economy.

⁸ https://www.wto.org/english/news_e/pres20_e/pr862_e.htm



The UK accounts for **43% of global FX turnover**



As better and more efficient FPS firms support UK competitiveness, jobs and bottom line, growing the sector’s capacity to support internationally trading firms further will benefit not just FPS but the whole of the UK economy.

Section 1

The international trade profile of the City of London

This section of the report illustrates the need for a cross-cutting approach to policymaking around FPS through an overview of 'the City of London ecosystem' and sets out how various FPS providers enable businesses to trade internationally. It underlines the essential role this ecosystem plays in the UK to support non-FPS companies to develop their products and navigate the challenges of global trade. It examines the benefits of trading internationally for both exporting firms themselves and for the consumer. This section also analyses some of the key factors influencing an evolving global trade landscape.

The section concludes that a holistic approach to policymaking, which approaches services trade and goods trade as interdependent, has the potential to underpin even greater UK exports and contribute to wider policy objectives in areas such as sustainability and development.

What is the City of London ecosystem?

London has one of the biggest clusters of financial and professional services (FPS) of any global city.⁹ London is also a pre-eminent tech hub and the future will see increasing crossover between tech and financial services. London’s ecosystem is particularly attractive because of the convergence of these two industries at scale. In 2019, the City of London Corporation estimated that this ecosystem provides home to just under 24,000 companies, ranging from large financial services providers through to new technology start-ups.

London is London because of its people and the innovation ecosystem it facilitates. Ideas thrive in London because of the deep expertise, access to capital, a supportive regulatory environment, and talent to make it happen. This is buttressed by London’s unparalleled education and cultural offers.

This report focuses on the UK’s FPS ecosystem. The FPS sector is part of a wider UK services sector; services now account for 80% of UK GDP and employ over 29 million people (not taking into account the indirect benefits for the UK economy).¹⁰ Nearly a fifth of services jobs are in the wholesale and retail industries, followed by human health and social work activities, and professional, scientific and technical activities.



80%

Services now account for **80% of UK GDP** and employ over 29 million people

29m

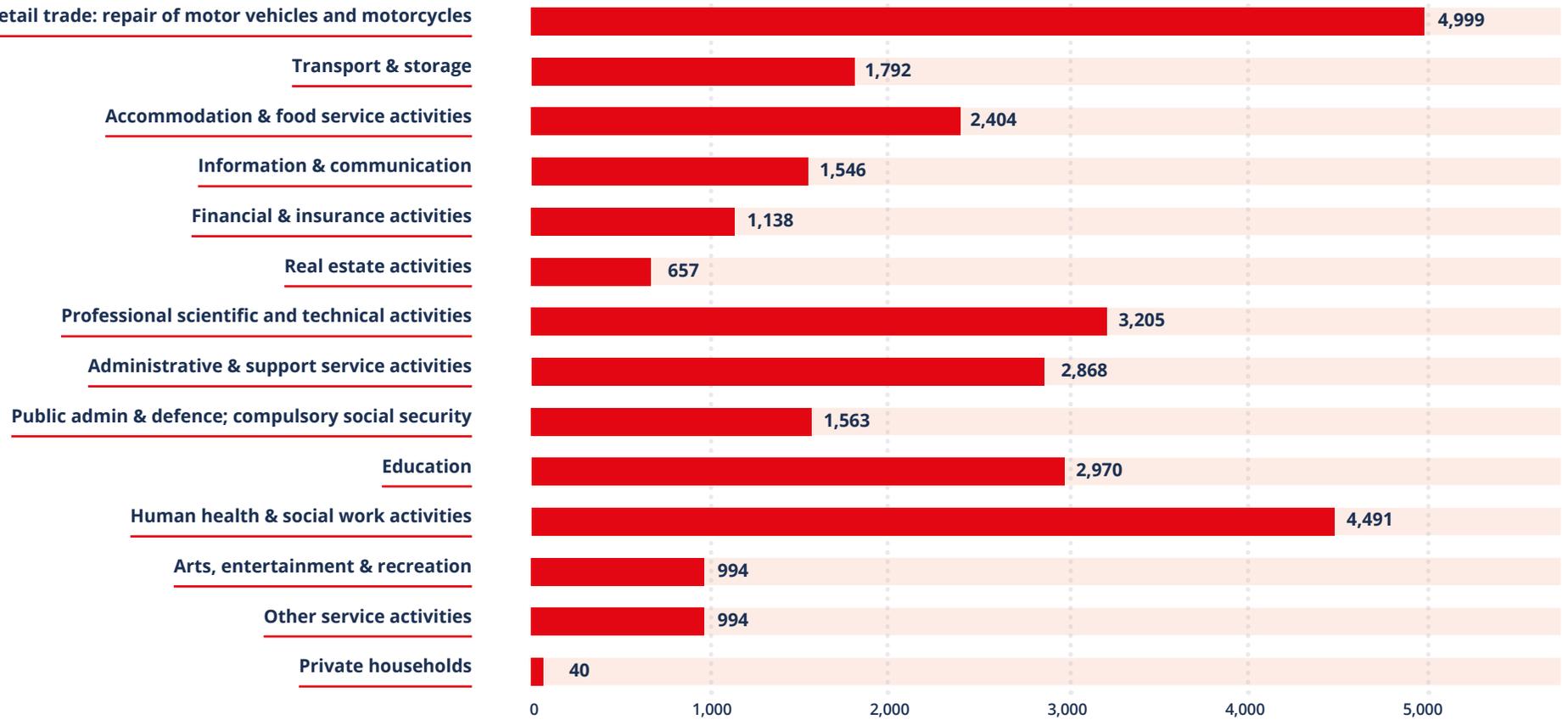


In 2019, the City of London Corporation estimated that this ecosystem provides home to just under 24,000 companies, ranging from large financial services providers through to new technology start-ups.

⁹ ONS, BLS, INSEE, Statistik Berlin Brandenburg, Tokyo Bureau of Statistics, SingStat, HK Census and Statistics Department quoted in Wingham, M. (2016) London in comparison to other cities. <https://www.london.gov.uk/sites/default/files/cin48-international-comparisons.pdf> & <https://www.thecityuk.com/research/key-facts-about-the-uk-as-an-international-financial-centre-2019/>

¹⁰ As of June 2020. Source: ONS, “Labour market statistics summary data tables”, September 2020

Figure 1: Workforce jobs by industry (June 2020)



Services now account for nearly half of all UK exports. In 2019, the UK exported a total of £318bn and 42% of UK services exports were from London.¹¹ Financial services (plus insurance and pension) continued to be the largest service product to be exported with £59.2bn.¹² When combined with the export figures from the Professional and Business Services (PBS) sector¹³ which works alongside the financial services sector in the City, that figure rises to £115.7bn.¹⁴

As part of that PBS sector figure, in 2017 the UK exported approximately £5bn worth of legal services and imported approximately £0.80bn – a positive net contribution of £4.29bn to UK balance of trade.¹⁵ Legal services had the highest trade surplus among PBS sub-sectors in the UK. Insurance and pension services contributed another £19.6bn of exports.

Where City firms provide their services not only to UK-based companies but also to many overseas companies, they build the competitiveness of the City as a global destination for trade-related services and products.



For over 80% of companies, international trade is simply about doing more business and increasing sales beyond domestic markets”

MakeUK International Trade Report

¹¹ Source: ONS, Source: ONS, “The Pink Book 2020”, October 2020 & “International exports of services from subnational areas of the UK”, September 2019

¹² Source: ONS, “The Pink Book 2020”, October 2020

¹³ Professional and Business Services includes: Legal, accounting and management consulting; Advertising and market research; Architectural, engineering and other technical services; and Trade related services as defined in the ONS Pink Book

¹⁴ Source: ONS, “The Pink Book 2019”, October 2019

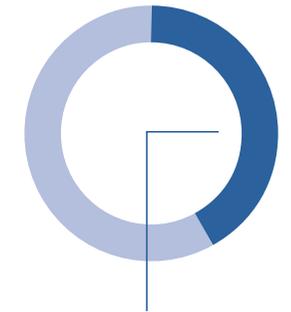
¹⁵ <https://www.lawsociety.org.uk/en/topics/research/contribution-of-the-uk-legal-services-sector-to-the-uk-economy-report>

Why trade internationally at all?

Trading internationally brings real benefits for firms and consumers alike. Businesses export in order to maximise their comparative advantages and reach the largest possible number of customers. Firms scale-up their operations to underpin this access to bigger markets, allowing them to maximise the available consumer base for their products. In a recent MakeUK and HSBC survey of UK businesses, over 80% of respondents cited this as a reason.¹⁶ For some businesses critical inputs (for example rare earths or chemicals) need to be imported into the UK as they cannot be sourced domestically.

International trade also brings opportunities for companies to further specialise and improve their production processes. These processes include production, manufacturing, transportation, distribution, marketing and purchasing. It also allows firms to source different inputs into their supply chains, providing UK business and consumers access to certain products that are not indigenous to the UK.

The COVID-19 pandemic has also added impetus to some of these drivers, as businesses have looked to diversify their supply chains to build resilience and guard against future shocks to their production inputs and processes. It has also highlighted the inherent fragility of certain just-in-time supply chains and their significant exposure to exogenous shocks. Discussions have developed over recent months around balancing the cost efficiency of just-in-time supply chains with systematic resiliency and risk management.



42%
£318bn

In 2019, the UK exported a total of **£318bn** and **42%** of UK services exports were from London.

£59.2bn

In 2019, the UK exported **£59.2bn in Financial Services** (plus insurance and pension)

¹⁶ <https://www.makeuk.org/insights/reports/international-trade-report-2020>

Challenges to trading internationally

However, trading internationally entails a degree of cost and risk that must be overcome. It often involves additional complexity, administration and risk (e.g. to source appropriate distributors and other intermediaries, to comply with border formalities, and so on). 'At-border barriers' can be difficult and time-consuming to navigate; businesses wishing to trade internationally have to weigh up the potential benefits with the extra investment in time and resources needed to import and export.

Firms must also navigate the specific conditions in a new market, including often a different regulatory environment, which may place additional conditions on their entry into that market. These 'behind border barriers' are just as hard to navigate as the barriers at the border.

Cultural differences, language barriers and different consumer and business preferences mean that even if a company is able to overcome the trade and regulatory barriers preventing them from placing their product or selling their service in an overseas market, there might not be sufficient consumer demand.

In short, operating internationally raises the level of economic, social and regulatory complexity.

In order to manage these risks and overcome the possible barriers that prevent companies from trading internationally, companies have three options:

1. Expand gradually through trial and error to build expertise;
2. Employ people with the necessary expertise in-house; or,
3. Procure the services of specialist providers.

The three approaches are not mutually exclusive, and often companies will choose to blend them when managing their international trading position.

Throughout our research, the ability to embed an international culture within a company, regardless of its size, emerged as a key driver of international trading success. For some businesses where critical inputs (for example rare earths or chemicals) need to be imported into the UK, this can be done through intermediaries or distributors rather than the business directly trading themselves.

6 The six largest factors when trading internationally that firms need to take into account when looking to expand their trading operations overseas are:

- **Certainty of the regulatory environment;**
- **Reliability of local representatives and networks;**
- **Access to accurate market information and data;**
- **Availability of financing;**
- **Transport and geographical considerations; and,**
- **Cultural and linguistic considerations.**





Throughout our research, one driver of success in international trade was agreed to be the need to embed an international culture within a company, regardless of its size. Our research has highlighted that international success relies on the importance of local knowledge, support from the domestic market, and compliance with regulation. Trade missions are an important way for business to learn about overseas markets.”

Catherine McGuinness,
City of London Corporation



How the City of London ecosystem supports firms on their international trade journey

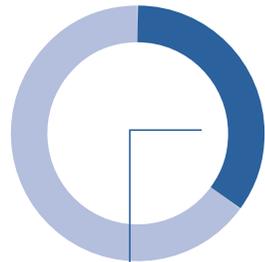
Financial and Professional Services are integral to international trade, however the City of London might not be the first thing that comes to mind when thinking about international trade by UK businesses. Often the first image is one of trucks and ships carrying containers across borders.

Yet, every ship that sets sail represents a mountain of legal, financial and bureaucratic work from lawyers, bankers to maritime professionals. The City of London ecosystem helps make that happen.

FPS firms play a critical role in helping non-FPS businesses in the UK navigate the opportunities and risks involved at every stage of their international trade journey set out in the previous section, whether through supporting business planning, financial management, technology development, recruitment and marketing.

For example, if a company wants to buy products from overseas to incorporate them into its high value manufacturing production processes, it needs foreign currency or if a British exporter wants to sell to an emerging market, it will need to hedge currency risk.

In value-added terms services now represent half of the value of world trade¹⁷, with the services value-added content accounting for 33.7% of the value of UK manufacturing exports in 2015.¹⁸ Specifically, the type of specialist services that City firms offer to exporters is illustrated in **Figure 2 overleaf**.

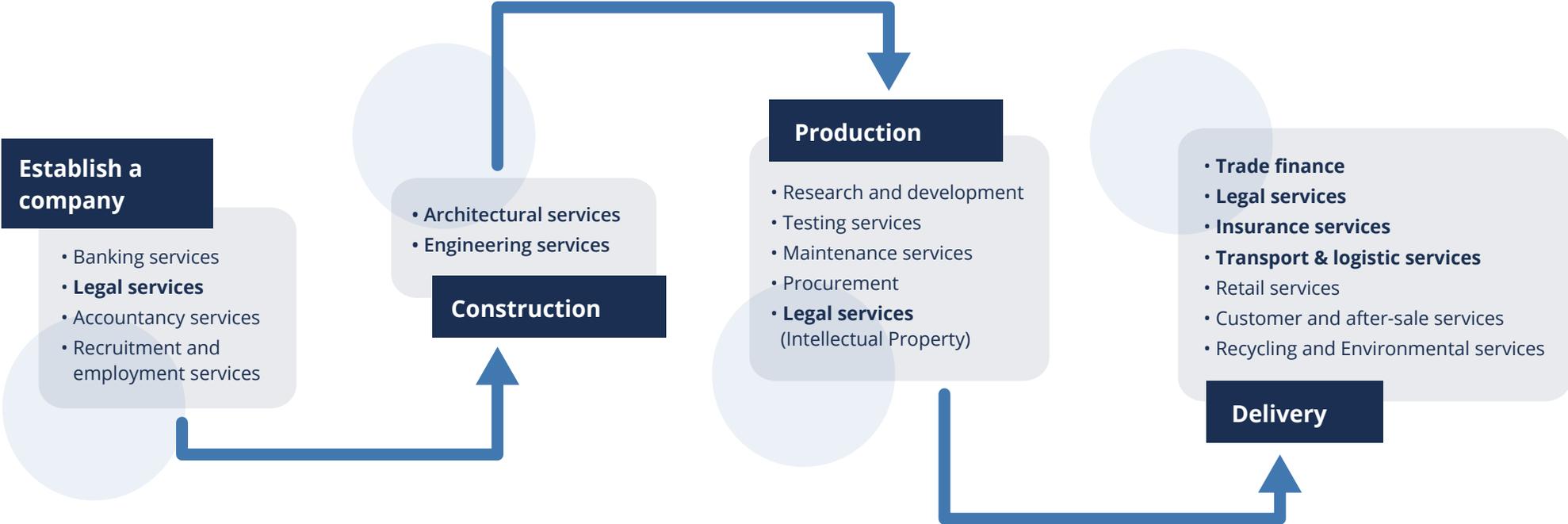


33.7%

In value-added terms services now represent half of the value of world trade, with the services value-added content accounting for **33.7% of the value of UK manufacturing exports** in 2015.

¹⁷ https://www.oecd-ilibrary.org/trade/services-in-global-value-chains_465f0d8b-en
¹⁸ <https://www.oecd.org/industry/ind/TIVA-2018-United-Kingdom.pdf>

Figure 2: Services provided by the UK FPS sector¹⁹



Many of these services provide formal assurances to both sides of a trade transaction to address a trust deficit and help to mitigate against the possible risks associated with moving products from one side of the globe to another. Without these, global trade would dry up.

¹⁹ The Highlighted sectors are subject of case studies in this report.

A FOCUS ON:**Providing services in a changing world**

Some manufacturing firms have shifted towards being full services providers where they no longer sell goods but provide 'solutions' to their customers that no longer involve the transfer of ownership on their products.

The way in which businesses are trading internationally is also changing and this is having a corresponding impact what types of FPS services which are being provided as well as how they themselves are provided.

Like many industries, the three sectors featured in the Section II case-studies are currently undergoing fundamental shifts due to the impact of technology, the increasing servicification of goods and growing consumer pressure for sustainable environmental standards. For example, in the case of the legal sector and other advisory services, this shift will bring a change in the type of issues covered when having to advise companies on the changing regulatory environment.

**Servicification**

Many businesses are increasingly packaging services together with the goods that they export – ‘servicification’ for short. This is where manufacturing firms try to add value and better serve their customers, by bundling monitoring and maintenance contracts in with an aircraft engine, for example. These additional services contributed to 33.7% of gross manufacturing exports from the UK in 2018²⁰. The OECD has found that the pharmaceuticals and ICT & electronics sectors are the ones where servicification is the most pronounced.²¹

Some manufacturing firms have shifted towards being full services providers where they no longer sell goods but provide ‘solutions’ to their customers that no longer involve the transfer of ownership on their products. Typically those manufacturers who have moved towards servicification tend to have larger value-added as well as employment per unit of value added.²² However, when selling internationally those businesses who also provide services face additional services-related trade barriers in addition to the goods-based ones they would have faced previously.

This servicification does not only apply to how the products are sold but also to services that accompany the sale such as repairs, maintenance or warranties. With technological developments, manufacturers can now embed ongoing services provision within their products through the Internet of Things (IoT) – which can include monitoring, software updates and the like.

20 <http://www.oecd.org/industry/ind/TIVA-2018-United-Kingdom.pdf>

21 https://www.oecd-ilibrary.org/trade/services-exported-together-with-goods_275e520a-en

22 https://www.oecd-ilibrary.org/trade/services-exported-together-with-goods_275e520a-en

Digital trade

The rise of the internet and digitally-enabled products has led to a fundamental change in how UK firms access international markets. In 2018, e-commerce sales by UK businesses were over £688.4bn, accounting for around 18% of total UK business turnover.²³ It is striking how e-commerce has enabled SMEs, in particular, to access international markets which previously they would not have been able to reach.

However, businesses have reported difficulties in adapting to this new international focus arising from e-commerce and that the main difficulties in selling to other countries via websites or apps were all too familiar. These issues include the high costs of delivering/returning products; difficulties resolving complaints/disputes; and lack of knowledge of language for communication.

This growth in digital trade has not come without issues specific to digital trade. Companies have also been required to navigate new and changing regulatory regimes around data retention, processing and privacy concerns. They must also grapple with concerns around increasing prevalence of cyber-attacks and taking the necessary steps to ensure cyber protection and security.

These challenges have also been a driving factor in several of the ongoing geopolitical tensions, where the future of certain keystone technologies like semiconductors and 5G have become an increasing source of geopolitical tension, with competing regulatory and technological regimes emerging around the world and increasing the costs for business to operate across multiple regimes.

²³ E-commerce estimates include manufacturing, production, construction, distribution sectors, and part of the services sector. Source: ONS, "E-commerce and ICT activity, UK: 2018", November 2019

Sustainability and trade

Companies looking to green their operations and embed sustainability face multiple challenges and competing pressures — including from suppliers, consumers and employees. They also struggle to comply with various mandatory and voluntary government and international initiatives as they move products, services and people across borders. FPS firms have been responding to this challenge, for example through advice on corporate governance and legal obligations.



Trade policy considerations

As the previous sections have shown, the trade of goods and services are inextricably linked – but often treated as though they are entirely separate types of trade and inadequately understood. The purpose of this report is, in part, to demonstrate the interconnected nature of UK firms and service providers when trading their products.

These changes also present new opportunities and challenges which UK companies must navigate when trading internationally now that the UK has left the European Union. In response, the UK's economic and trade policies cannot just look at the world today, rather it should be preparing for that of tomorrow.

There is a need to integrate these different dimensions when creating coherent policy frameworks at the level of detail and complexity needed. By integrating trade in services as an integral part of the UK's trade policy, it will also facilitate wider UK economic and trade policy objectives.

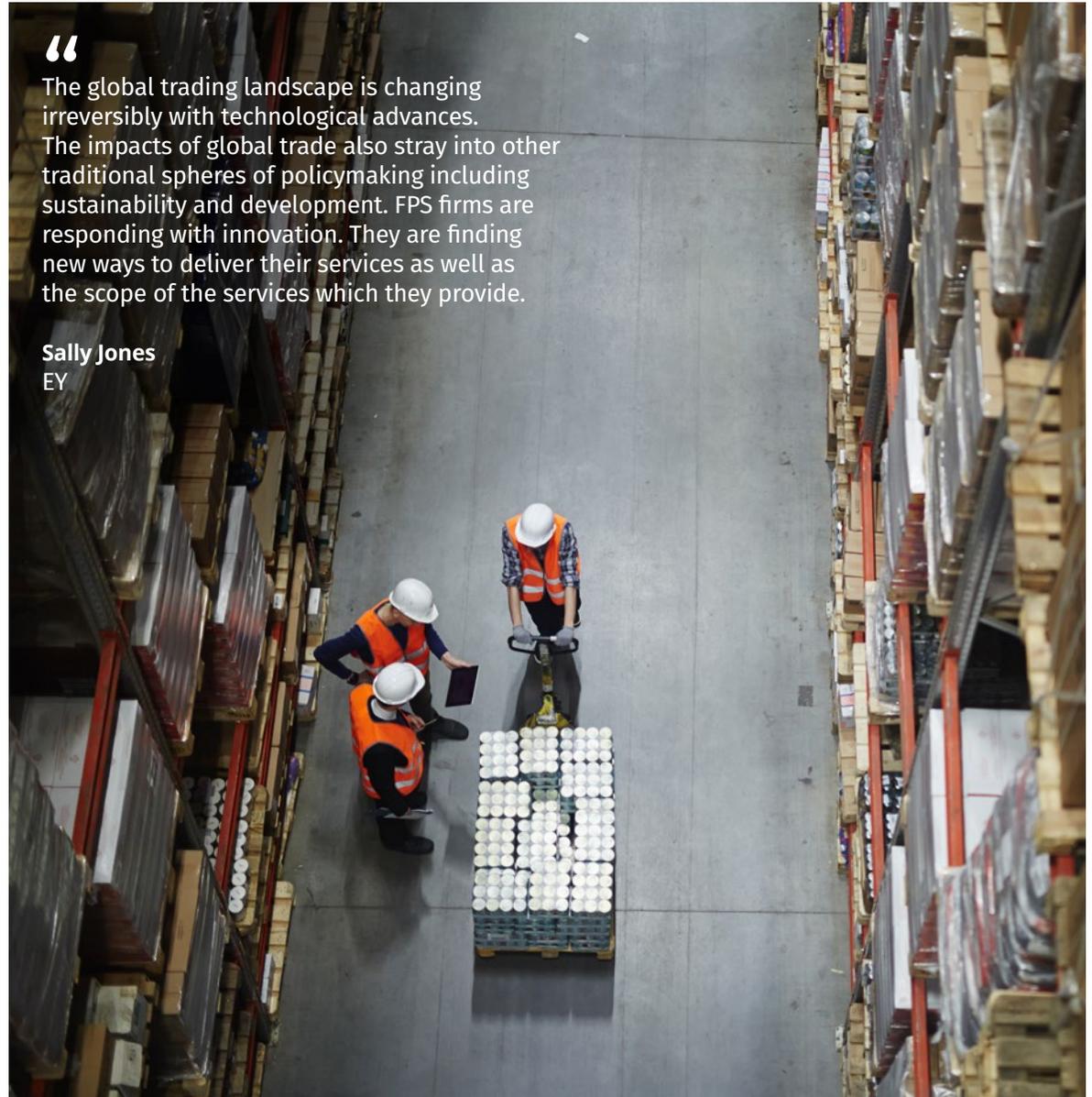
For example, technological development is redefining the way in which services are being delivered both domestically and internationally. In the case of legal services, this will have profound implications for the international practice of law and the development of the international trade in services regulation; both domestically and as currently embodied primarily by existing practice in trade agreements and the WTO's General Agreement on Trade in Services (GATS).

In the next section, we will draw out these relationships through the detailed case studies into legal services, trade finance and maritime services.

“

The global trading landscape is changing irreversibly with technological advances. The impacts of global trade also stray into other traditional spheres of policymaking including sustainability and development. FPS firms are responding with innovation. They are finding new ways to deliver their services as well as the scope of the services which they provide.

Sally Jones
EY



Section 2

Deep dive into how different service providers support international trade

This section focuses on case-studies examining the interactions between three sub-sectors of the wider ecosystem – legal services, trade finance, maritime services – and the rest of the UK economy in their support of international trade. While conducting our research, we have just scratched the surface by covering just three of the many subsectors which we believe are illustrative, rather than a complete overview of the much wider FPS and services ecosystem.

The section draws out these relationships; articulates the value-add generated by these specific activities, including the extent to which these sub-sectors of the ecosystem enable UK firms to trade internationally; and identifies a number of barriers which hinder the provision of these services as well as the policy recommendations to alleviate these barriers.

Section 2.1 Legal services

The UK legal services profession is the largest in Europe²⁴ and the second largest in the world, with the top 100 firms alone generating £26.4 billion of revenue in 2019.²⁵ Its success is underpinned by a number of factors, including the pre-eminence of English law (which is the most popular choice of law in the world for commercial contracts and governs about 40% of all global corporate arbitrations) and the quality of its legal education, including the commercial focus from the outset of the traineeship model, which is regarded world-wide as being of particular value.²⁶

The triumph of UK law firms and barristers' chambers comes from their ability to provide pragmatic, sector-specific and issue-specific expertise. Furthermore, the UK's appeal is strengthened by virtue of its common law, reputation for stability, and choice for resolving disputes, either through arbitration or the UK judicial system.

England & Wales is home to legal professionals from nearly 40 jurisdictions and is a base for over 200 foreign law firms. The importance of London as a hub for international legal services trade is clear, with the largest international law firms in London having between 45% and 65% of their lawyers outside the UK.²⁷ In 2019, 77% of all cases in the UK commercial court were of an international nature. It is arguably this open market approach that has helped to turn the jurisdiction into a global leader.

How legal services support UK trade

In a world where geopolitical tensions are rising and protectionist measures are becoming more sophisticated and widespread, many companies are choosing to access legal advice in order to overcome these challenges.

Through our research, we have identified the way that the legal services sector supports international trade at a number of different stages of UK firms' trade journeys. According to research by the Law Society of England and Wales, only 10% of users of UK legal services relate to public administration and defence, with the rest supporting commercial transactions across the economy including retail trade, manufacturers, technology companies and transport providers.²⁸ The nature of the legal support needed and the stage of the export journey at which is sought, depends on the type of trade that non-FPS businesses are undertaking and the issues specific to their industry.

Broadly speaking, these trade-enabling legal services can be broken down into two areas – preparatory and dispute resolution.

Preparatory and market access-related legal services include:

- Drawing up of contracts for trading transaction including advising on appropriate clauses.
- Intellectual property advice.
- Branch set up and/or company incorporations, including advising on corporate structures for overseas establishment.
- Formation of joint ventures and partnerships.

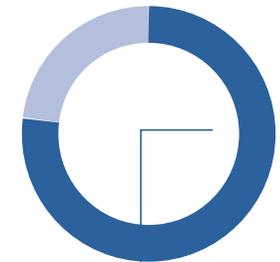


£26.4bn

The UK's top 100 legal firms generated **£26.4bn** of revenue in 2019

c.40%

English law governs **c. 40%** of all global corporate arbitrations



77%

In 2019, **77%** of all cases in the UK commercial court were of an international nature.

²⁴ The City UK – Key facts about the UK as an international financial centre 2020

²⁵ www.thecityuk.com/research/legal-excellence-internationally-renowned-uk-legal-services-2019

²⁶ <https://www.lawsociety.org.uk/topics/research/contribution-of-the-uk-legal-services-sector-to-the-uk-economy-report>

²⁷ The City UK – Key facts about the UK as an international financial centre 2020

²⁸ <https://www.lawsociety.org.uk/en/topics/research/contribution-of-the-uk-legal-services-sector-to-the-uk-economy-report>

- Assessing regulatory requirements for imports/exports, including consumer law, product liability, procurement, obtaining approvals/licenses and engagement with regulators.
- Cross-border transaction support, involving inward investment or the acquisition of overseas businesses in key territories.
- Compliance with, and legality of, trade controls including trade remedies, export controls in the context of sanctions, anti-money laundering checks, etc.
- Consideration of competition and state aid requirements at market entry stage.
- Advising both businesses and government on ongoing intergovernmental trade negotiations, whether at the multilateral level, free trade agreement level, smaller scope deals such as mutual recognition agreements, or regulatory alignment.

Dispute resolution:

- International dispute resolution including trade disputes, international arbitration and choice of jurisdiction/ courts.

Each of these areas takes into account factors that are unique to each business when pursuing international trade opportunities. When procuring legal advice, companies are able to access a range of services from discrete advice on the specifics of a particular cross-border contract to broader advice on the regulatory environment both in terms of application and legality of governmental measures within a particular market.

This range is indicative of not only the enabling role legal services provide with regards to international trade but also of the commercial value added in helping companies to navigate and overcome trade barriers set out in the table below. This table illustrates examples of how legal services add value by addressing some of the barriers to trade identified in Section 1.

Barrier to trade	Value of legal services
Certainty of the regulatory environment	Enables doing business and addresses information barriers in different jurisdictions, through advice on regulatory requirements and compliance obligations, support in legal entity set up if required for regulatory purposes as well as antitrust advice on joint ventures.
Reliability of local representatives and networks	Reduces uncertainty and costs of doing businesses through putting in place legal agreements, ranging from contracts on specific transactions through to agreements on joint ventures/partnerships, with mechanisms in place for dispute resolution, etc.
Availability of financing	Enables access to finance through providing legal certainty on obligations and mechanisms for guarantees and collateral.

Ensuring UK legal services firms can help UK businesses trade internationally

Throughout our research and interviews, we identified a number of key barriers which prevent legal firms from providing their services to enable non-FPS businesses trading internationally.²⁹ Overcoming such barriers would make it easier for legal services firms to operate internationally (and to provide local advice) and would therefore have an associated positive impact on other businesses looking to engage their trusted legal adviser to help them overseas.

It is also true that with the embedding of services in physical products there has been a growth in the number of products which incorporate legal services, particularly with regard to warranties and other contractual rights.

Through our research, we have gathered the following insights:

- **Preservation and promotion of English law³⁰**
Ensuring that English law remains the law of choice for international contracts and that the UK remains the jurisdiction of choice for arbitration and litigation remains a fundamental priority for many legal service providers because it is the foundation on which their business is built – the provision of English law advice. The UK's exit from the EU has caused international competitors to question the ongoing attractiveness of English law and jurisdiction, and those competitors are also investing significantly in their legal services offerings. The EU's delaying of its decision on the UK's accession to the Lugano Convention means that the previous framework for the automatic mutual recognition of jurisdiction clauses and enforcement of judgements ceased to operate at the end of the transition period. While the UK's accession to the Lugano Convention would helpfully reinstate the previous automatic arrangements to the mutual benefit of SMEs and consumers across the UK and the EU, other mechanisms

CASE STUDY

Legal services

How a legal service provider helped advise an SME to draw up the right contracts to start trading internationally.

A London-based law firm was approached by a fast-growing SME in the electro-components sector. This SME was successfully selling their products in the UK but wanted to accelerate their growth trajectory by expanding their reach and start selling into overseas markets.

The SME already had overseas buyers in two of their target markets who were interested in buying their products but as a company were not familiar with the regulatory and customs requirements needed to transport their products overseas and ensure that the products could be sold in those markets.



The law firm was able to provide commercial and practical advice to the SME on ensuring that the following contractual elements were included as part of the transaction:

- Advising on which INCOTERMS to include in the contract between the SME and their overseas buyers;
- The correct use of Standard Contractual Clauses were included for the proper protection of data;
- Advising on the required documentation needed for product safety requirements;
- Securing appropriate termination clauses in the event of unforeseen circumstances and other risk factors; and,
- Ensuring compliance with the UK's export licensing regime as some of the electro-components were listed as dual-use goods.

Following the successful conclusion of the SME's first two international transactions, the law firm was able to provide additional advice on other overseas markets which was bolstered by leveraging their on-the-ground experience of their global network.

²⁹ <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-trade-committee/trade-in-services/written/95425.pdf>

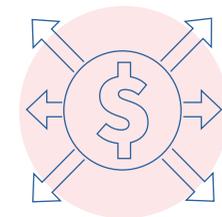
³⁰ Referred to hereafter as English law for purposes of brevity.

exist which mean English court judgments will continue to be enforceable throughout EU and EFTA countries and English jurisdiction clauses respected, and vice versa. Brexit has not altered the fact that the benefits of choosing English law and England and Wales as a jurisdiction remain. The government and the profession should work together to ensure that this fact is understood by global business and that the domestic policy environment enables the UK legal services sector to further strengthen its position a world leader.

- **Improving perception of costs with increased transparency:** Many UK firms do not seek legal advice related to international trade due to the perception of costs associated with the advice and a lack of understanding of how seeking legal advice can enhance their commercial positions.
- **Retaining mobility and attraction of talent:** When looking overseas, law firms are hampered in their ability to advise on home country law and international public law overseas across the different modes of supply, including in-person fly-in-fly-out advice. In the UK, several participants raised concerns about the UK's future immigration system and the ability to continue hiring the best talent, which is crucial for the continued success and competitiveness of the UK legal services sector.
- **Encourage innovation:** The UK is already a world leader in legal innovation. In recent years, the speed of this innovation has gathered pace, yielding many world firsts and supporting the global scale-up of lawtechs. Client reporting and collaboration is being re-designed, and lawyers are using tech to perform their duties differently and often remotely. Indeed, the digital delivery of legal services has, in some contexts, made geography irrelevant. The UK should take steps to maintain momentum as the leading hub for the provision of tech-enabled legal services. This includes providing clarity and encouragement for the use of cloud in legal services delivery for data storage, innovation, and operational functions. Enhanced regulatory clarity and technical understanding is needed to ensure cloud-based practices are interoperable between legal services and client firms, such as

those in financial services. Further work should also be done to support collaboration across the legal ecosystem. This includes forums that identify and address common challenges, cross-sector legal innovation programmes, or technology sandboxes that incorporate industry involvement. Finally, access to data for development and testing of technology remains limited. Efforts to produce high quality synthetic data sets or otherwise anonymise large data sets is needed to support the legitimacy of new technology and boost adoption rates.

- **Enshrining rights of establishment for law firms and lawyers abroad:** Due to the regulated nature of the profession, each country has different restrictions on the ability for international law firms and lawyers to establish themselves. Legal services providers look to deliver advice through commercial presence for firms, establishment rights for individuals, and digital provision – including the ability to partner with, employ and be employed by local lawyers. Facilitating the clear communication of establishment laws would aid in this area.
- **Ensuring straightforward routes to requalification as local lawyers:** Have a clear, transparent and proportionate path to requalification into the host state profession including through Mutual Recognition Agreements (MRAs). A number of participants noted the importance of integrating international trade and maritime law as a core component of future legal training.



\$77bn

In 2019, the UK's net financial services exports were higher than the value of Singapore, Hong Kong, and Germany's combined

Section 2.2 Trade Finance

Trade finance has a long-established history in both the UK and global economies and has been a critical enabler of international trade for centuries. This is an extremely dynamic field with finance providers and government bodies such as UK Export Finance and the British Business Bank expanding their offers in response to changing market conditions. Trade finance should be considered as one financing solution among many, including off-balance sheet financing and other non-traditional options available to firms, without which trade in any material quantum would not be feasible.

How trade finance supports UK trade

Trade finance can take a number of forms, all of which aid the trading of goods and services. In its most basic form, trade finance provides the ability for a firm to manufacture and ship its product before having received payment from its customers for those products.

These services provide liquidity to businesses to cover the gap between when the goods leave a manufacturer's warehouse and are paid for by the customer which can span into the weeks and even months depending where on the planet they are being shipped and delivered. Some businesses require larger and sustained forms of trade finance, such as supply chain financing options which allow for extending working capital to both the exporter and customer. This can include sales finance (which extends the period of time in which the customer has to sell the products).

The trade finance industry also supports and accommodates transactions that facilitate international payments and mitigate risk and exposures (including currency, political and non-payment risks). Where commercial providers in the UK cannot offer the level of finance required, companies may obtain government-backed finance, guarantees, or credit insurance via UK Export Finance.

The fall in world trade due to the COVID-19 pandemic has had a significant impact on the trade finance sector³¹, with banks and trade finance providers contending with significant operational continuity challenges as well as addressing the lower levels of trade overall in 2020.

This table illustrates how trade finance adds value by addressing some of the barriers to trade, identified in Section 1.

Barrier to trade	Value of trade finance services
Certainty of the regulatory environment	<ul style="list-style-type: none"> • Limits through credit insurance and guarantees (commercial or government backed) the risk of damaging regulatory changes.
Availability of financing	<ul style="list-style-type: none"> • Enables access to cash and supports working capital requirements, which can be particularly critical for SMEs.
Reliability of local representatives and networks	<ul style="list-style-type: none"> • Reduces uncertainty and costs of doing businesses as trade finance providers are able to facilitate international payments and provide market intelligence through their local presence.
Transport and geographical considerations	<ul style="list-style-type: none"> • Enables access to finance more widely to support the upfront costs of trading, including transport costs.



Our research highlighted the dynamism of the trade finance sector. Finance providers, alongside government bodies like UK Export Finance and the British Business Bank, are continually expanding their offers to respond to changing needs”.

Catherine McGuinness,
City of London Corporation

31 https://www.ey.com/en_uk/banking-capital-markets/how-trade-finance-can-operate-effectively-in-the-wake-of-covid-19

Role of UK Export Finance

UK Export Finance (UKEF) is a UK Government department reporting to the UK Secretary of State for International Trade. UKEF works with partner banks to offer flexible, financing solutions including government-backed trade finance and insurance. Though the UK is not unique in offering government-backed support for international trade, UKEF is viewed as one of the leaders in this area. UKEF works with partner providers to enable firms to engage in markets or opportunities which may be viewed as too risky for traditional trade finance offerings. Through their prioritisation of UK-based contracting and employment, they not only support financing of projects, but the wider economic landscape.

Role of the British Business Bank

British Business Bank plc (BBB) is a state-owned economic development bank established by the UK Government. Its aim is to increase the supply of credit to SMEs and providing business advice services. The BBB plays a critical role in support of the SME sector and displayed its agility throughout the COVID-19 crisis by expanding its remit to support larger firms grappling with current uncertainties.



CASE STUDY:

Bombardier Transportation and the Egyptian Government

A consortium led by Bombardier Transportation was able to strike a deal with the Egyptian Government to build two new monorails thanks to £1.7 billion backing from UK Export Finance (UKEF) together with JP Morgan. First export of UK-built trains for over 12 years allows Bombardier to expand manufacturing capacity in Derby.

Bombardier Transportation, Orascom and Arab Contractors were awarded the EPC to design and build two new monorail lines (New Capital City and 6th October City) in Cairo, Egypt. It is the first monorail project in North Africa and, once complete, will be the longest monorail system in the world at a combined 98.5 km. It is expected to open in 2023.

Upon completion of the construction phase, the consortium will be responsible for the O&M of both lines for 30 years. The total value of the design, build and O&M contract is c. EUR 4.5bn.

The Projects are of strategic importance for the development of Cairo's transportation system and will aid in reducing pressure on existing infrastructure, air pollution levels and road traffic congestion

UK Export Finance working with trade finance providers

The total funding requirement for the EPC Contract is EUR 2,695m, JPMorgan arranged a EUR c.1,886m UKEF-covered facility ("UKEF Facility"), balance amount was financed by budget resources.

The UKEF Facility has a 3-year availability period and 14-year repayment period with semi-annual repayments. Syndication was successfully launched in April 2020, with the most bearish market in decades driven by COVID-19 and lockdown across the world, including Egypt, nonetheless JPM was capable of syndicating to 7 other lenders.

The financing is UKEF's largest-ever guaranteed financing for an infrastructure project.



12 years

First export of **UK-built trains** for over 12 years.

Ensuring UK trade finance firms can help UK businesses trade internationally

Throughout our research and interviews, once again several key themes in the case of trade finance emerged when looking at the barriers it faces and which need to be overcome. While trade finance providers do not typically advise individual companies on whether to pursue an international trade opportunity, they are well placed to advise on the risk-profile of potential opportunities.

Through our research, we have gathered the following insights:

Perception:

There is a perception among many small and medium-sized companies (SMEs) that trade finance is complex and only suitable for large companies, this was a recurring theme in our research. However, this isn't the case. There are trade finance offerings for companies of all sizes and the trade finance facilities can grow together with the company from simpler letters of credit through to sustained supply chain finance. In 2019-2020, of the 339 companies directly supported by UK Export Finance, 77% were SMEs. UK Finance has outlined the opportunities for early stage trade finance, particularly through UK Export Finance where capital for newly established micro and small firms presents a heightened risk.

Understanding government support on offer and access to information:

There are currently many sources of information on international trade available to businesses in the UK. However, it can be challenging for firms to navigate the amount of information available and identify what is most applicable to their specific circumstances. Our research identified an understanding gap among respondents of the UK government's offer in relation to trade finance and how this is coordinated across the different trade-related services provided by the UK government both in the UK (through the regional offices) and as part of HMG's overseas network.

Digitalisation:

As a result of the COVID-19 pandemic and increasing regulatory transparency requirements³², many firms are looking to digitalise their supply chains from end-to-end, which provides real-time data on inventory, supply and demand. As supply chains have become more complex, this has increased opacity. Increased transparency brings trust and transparency on physical asset can lower the risk-calculation as well as on its financing. Trade finance providers are a necessary part of this change and must look to support innovative trade finance solutions that can adapt and connect to such new digital approaches. However, to digitise a transaction from end-to-end, all participants in that supply chain including transport providers would need to be signed up to the same digital solution. There are currently a number of providers looking to develop such offerings. Given no one provider is likely to set the new standard in the near future, newer offerings are looking at either platform-neutral solutions or at closed-loop solutions among a defined group of participants with a focus on interoperability. Given the international nature of trade finance, digitalisation will lag as long as some countries and regions do not have the necessary digital capabilities.

Supportive regulatory environment for digitalisation of trade:

Digitisation is an area where UK could lead in bringing standardisation. The digitisation of supply chains brings huge benefits as noted in the point above. The UK should lead in creating a legislative framework needed to support the digital development of international trade, both physical and financial. This should include the transferring of records and acceptance of electronic documents.

Lack of knowledge of the UK supply chain overseas:

In parallel, there is a lack of understanding around the breadth of the UK's offer in overseas markets. The impact of the COVID-19 pandemic and cessation of business travel has reduced opportunities for UK companies, SMEs in particular, to learn about procurement opportunities in different markets.



Our research identified an understanding gap around the UK's trade finance offer both at home and overseas".

Sally Jones. EY

There are trade finance offerings for companies of all sizes and the trade finance facilities can grow together with the company from simpler letters of credit through to sustained supply chain finance

³² The UK Modern Slavery Act and the ongoing HMG consultation on preventing deforestation in UK supply chains are two examples of such regulation.

Section 2.3 Maritime services

The maritime services industry in the UK is quite often considered to be its own ecosystem within the wider FPS sector. It has both its own niches and links the physical infrastructure of the ports-system, supply-chain management, and the crewing of the ships themselves. As one of the oldest and most established sectors in the UK, it has provided the template for other countries to establish their own maritime services structures.

Previous studies undertaken by the City of London Corporation have shown that the maritime services industry generates approximately £4.4 billion per annum and directly employs over 10,000 people. The international nature of the sector is clear, with nearly 80% of sales coming from outside of the UK and many shipbroking firms locating their headquarters in the UK. The UK is consistently in the top ten most connected economies in terms of liner shipping and remains among the top three countries in terms of business-to-consumer e-commerce sales.³³ The importance of London's role in this industry is also clear, being noted by Menon Economics as the leading global maritime capital in terms of finance and law, and the second global hub for maritime technology³⁴.

How maritime services supports UK trade

In 2019, 11bn tons worth of cars, coffee and all other manner of products were loaded onto ships and transported around the world.³⁵ Maritime services provide a crucial means for the bulk of the world's trade to move between countries, including those UK businesses looking to trade internationally. These fleets of ships criss-crossing the world's oceans require a series of maritime services professionals in order to finance those ships, ensure that



cargo is loaded onto them, that it goes where it is supposed to go and that it is insured while on the high seas to name a few.

As such, the maritime services sector is an important facilitator in allowing businesses to develop their global supply chains by ensuring that their products get where they are supposed to, on time and on budget. They ensure that consumers have access to products from around the world. The most significant maritime services provided in the UK and clustered around London are:³⁶

- Shipbroking
- Ship financing
- Chartering services
- Marine insurance
- Specialist maritime legal services
- Freight forwarders
- Maritime education

11bn

11bn tons worth of cars, coffee and all other manner of products were loaded onto ships and transported around the world

£4.4bn

The maritime services industry generates approximately **£4.4 billion per annum** and directly employs **over 10,000 people**.

³³ UNCTAD Review of Maritime Transport 2020

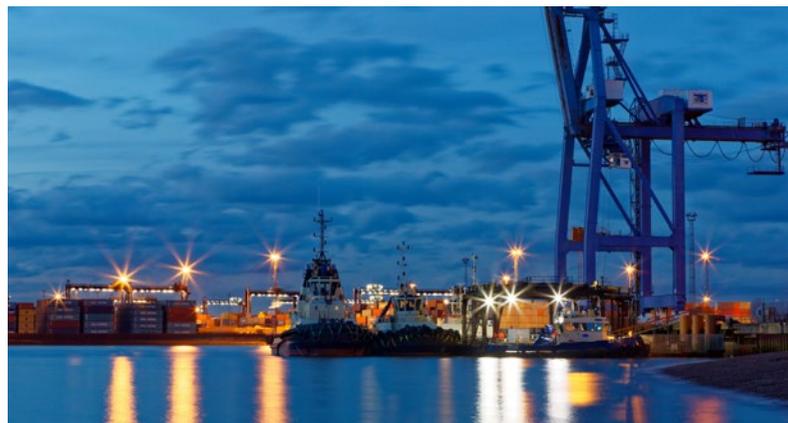
³⁴ Menon Economics, 'The Leading Maritime Capitals of the World 2019', (10 April 2019), as quoted in The City UK – Key facts about the UK as an international financial centre 2020

³⁵ <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=32363>

³⁶ CoLC and PWC: The UK's Global Maritime Professional Services: Contribution and Trends

This table illustrates how maritime services add value by addressing some of the barriers to trade, identified in Section 1.

Barrier to trade	Value of maritime services
Certainty of the regulatory environment	<ul style="list-style-type: none"> • Reduces risks in trading goods, through the provision of marine insurance.
Access to accurate market information and data	<ul style="list-style-type: none"> • Reduces potential time and cost by optimising route and timing of transport of products.
Transport and geographical considerations	<ul style="list-style-type: none"> • Reduces potential costs associated with shipping, including for losses, delays, etc.
Cultural and linguistic considerations	<ul style="list-style-type: none"> • Improves efficiencies in supply chain networks by exploiting prevailing local networks and representatives common in shipping.



The reliance on English law continues in maritime services. The UK is viewed as the leader in maritime law as well as maritime insurance. UK case law in maritime disputes is cited the world round and has provided the groundwork for the legal landscape of many foreign countries. Maritime contracts are often written to reference English law and for disputes to be settled in English courts (admiralty or otherwise) with approximately 80% of the maritime legal work done in the UK originating from overseas customers.³⁷

Maritime services are also uniquely placed to provide solutions to cultural and linguistic considerations. Maritime Protection & Indemnity (P&I) providers are an example of this. Each P&I firm utilises a local network of individuals who are locally trained, whether that be in legal, ship inspections, customs, or port knowledge, as part of their vessel coverage. These individuals provide on the ground information and knowledge of any situation not only to the insurers, but also owners and others. This ability for insurers to provide accurate real time feedback from those who are dealing with the problem first-hand is invaluable to the supply chain.

Maritime services also face a collection of unique challenges, from ship emissions to reliance on hard copies of documents to labour regulations.

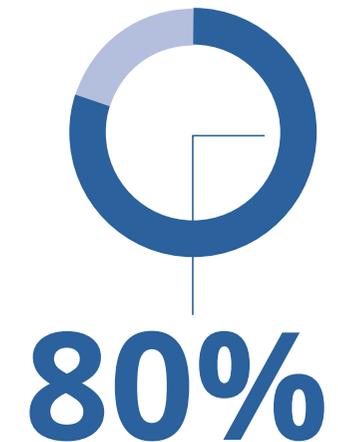
Though traditionally the maritime services sector has been extremely reliant on traditional means of trade and ways of working, this is changing with the UK as one of the leaders. When it comes to the utilisation of technology in the maritime industry, London is a particular leader but there has been a historical disconnect between technology and finance providers which will need to be overcome. There are a number of UK firms which are working to develop better costings, more efficient routes, and easier management.

³⁷ <https://www.cityoflondon.gov.uk/assets/Business/the-uks-global-maritime-professional-services.pdf>



The reality of maritime services underlines the global importance of English law. Approximately 80% of the maritime legal work done in the UK originates from overseas”

Catherine McGuinness



80% of the maritime legal work done in the UK originates from overseas customers.

CASE STUDY

How a marine insurance provider has responded to increased cyber risk with a new Marine Cyber Insurance product

The specialty insurance business segment of a leading insurance provider recently partnered with an international law firm to develop a new Marine Cyber Insurance product. This new product responds to evolving threats in maritime services by providing insurance cover for the marine shipping market to protect against cyber exposures on board vessels and onshore in shipping company offices. From cargo management to navigation to staff management, cyber is becoming increasingly crucial in the day to day activities and functioning of any vessel. This is only going to increase as the sector continues to advance and make innovations in areas such as autonomous shipping.



The product was made available for all new and renewing insurance policies issued by the provider. These policies will feature four main pillars to provide a comprehensive approach to prepare, protect against and respond to cyber threats across the maritime industry:

- A single dedicated point of contact always available to report a cyber incident and process insurance claims simultaneously.
- An extensive network of marine, legal and technical experts in any part of the world at any time to aid recovery.
- Support, if required, offering a range of assistance from system restoration, counsel and liaising with cyber experts.
- Online cyber security awareness training for all maritime personnel, both onshore and offshore.

The partnering legal firm provides marine cyber incident response services, legal advice and ancillary services. In addition, policyholders anywhere in the world at any time can access a dedicated helpline to navigate their way through a cyber incident, whether that be on land or at sea, which is often a very daunting and challenging experience that requires immediate specialist advice and expert guidance.

The product is underwritten and managed by the provider's Global Cyber and Technology team in London.

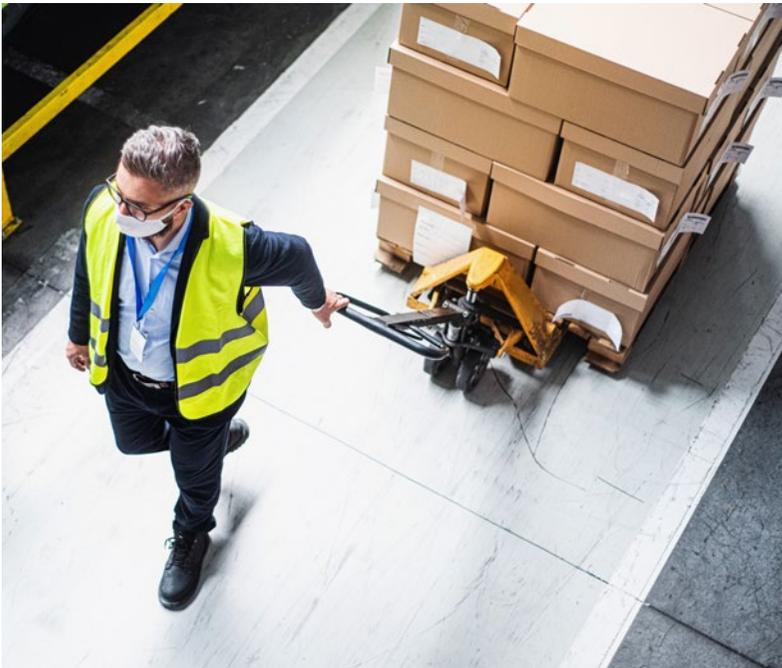


“The marine shipping insurance market dates back to the very origins of the insurance industry, and it’s under threat from one of the newest perils: cyber risk,” said the insurance provider’s Global Head of Cyber and Technology. Through this product, “policyholders will have access to an extensive network of experts to address the modern needs of shipping as cyber threats take centre stage.”

Ensuring UK maritime services firms can help UK businesses trade internationally

The UK's central role in the provision of maritime services is evident. However, its place is not automatically ensured and effort is needed to safeguard and promote UK maritime services. Maritime services are not immune from global shocks, with the sector facing a significant reduction in ship financing through London since the 2008 economic crisis. This has been paired with a fall in shipping rates and changes in the regulatory structure facing all areas of maritime services, from taxation to emissions.

Through the course of our research and interviews, several themes emerged in terms of facilitating the continued provision of maritime services in the UK as a means of enabling UK trade.



In particular, we want to highlight the following insights:

Impact of the COVID-19 pandemic:

The impact of COVID-19 on the UK maritime services industry has been profound, particularly in terms of the reduced income for ports as well as the uncovering of the resilience level of the wider logistics ecosystem. Global maritime trade is expected to decrease by 4.1% in 2020 as a result of the Covid-19 disruption³⁸. Specifically, marine insurance traditionally relied on face-to-face interactions and proximity to operate. COVID-19 and the rise of teleconferencing has disrupted these in-person interactions markedly, and a 'new normal' for interactions has not yet emerged. The pandemic also reduced income for ports, imposed travel restrictions on seafarers, and exposed inherent issues in the resilience of the logistics ecosystem. Fundamentally, however, it has also highlighted the importance of the maritime industry to the survival of the UK.

Digitalisation:

As in the trade finance case-study, the provision of maritime services is one part in a line of an effective port and logistics value chain. Facilitating the efficient flow and competitive landscape will be key drivers in the innovation of maritime services. A number of participants as part of this research highlighted the (relatively) less developed enabling environment for maritime-tech start-ups when compared to their fintech counterparts. The relative delay in the digitalisation journey is in part due to the fact that maritime traders are based in a wider range of countries with differing degrees of technological development and IT infrastructure, as well as the high cost of upgrading legacy infrastructure. As the evolution of the legal environment is constrained by the need for appropriate technology, this is arguably a technological issue at its source, rather than an environmental one.

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Supportive regulatory environment for innovation:

There should be regulatory encouragement and support for the various innovations occurring within the sector by creating a forward-leaning regulatory environment. Creating policies which supports beneficial innovations such as electronic bills of lading and other electronic versions of “traditional paperwork” would not only strengthen the UK’s offering, but also encourage others to sign up to it. This is also the case when it comes to blockchain technologies, which are often seen as a potential solution to numerous issues in maritime services yet are hampered by competing commercial offerings which undermine adoption and hinder interoperability. The UK is already known for its forward-looking approach to innovation in financial services regulation through the various sandboxes. There could be value in recreating and supporting innovation through regulation in the maritime services sector.

Regulation and legal frameworks:

The UK is a leader in maritime law and legal services provisions. The UK needs to not only provide certainty through maintaining this, but should work to innovate and ratify appropriate treaties and legal structures. The UK should work to ensure impact assessments and critical analysis of policy changes include consideration of the maritime services industry.

Infrastructure investment:

Meeting the new requirements of the UK’s exit from the EU and ensuring the continued flow of trade through UK ports and ships will require an integrated investment strategy for the UK economy with the maritime sector as a core component. This integrated and holistic approach is key to ensuring that the interests of various stakeholders are each given due consideration. This should also be done with a view to ensuring this does not preclude future developments, such as the government’s plans to develop free ports as well as the use of new technologies such as autonomous vessels and data connectivity.

Sustainability:

The IMO 2020 provisions on sulphur emissions are the first step towards creating a greener maritime services industry. The provision of green shipping finance to facilitate the transition to low-carbon will be crucial to ensuring the UK becomes the flag choice of net zero and overcomes the current gap in finance to fund the transition. Firms across maritime services, from insurers to financiers, should work together with HMG to develop a UK regulatory landscape which supports these goals. The steps towards sustainability taken thus far are significant, including the ratification of the Maritime Labour Convention in 2014 and the protections introduced against illegal deforestation activities.

Importance of UK-based shipping groups:

The primary buyers of most maritime services are shipping groups. These groups therefore underpin much of the maritime services sector and their presence creates a multiplier effect, with a single shipping group supporting an array of secondary and ancillary maritime services. Attracting and retaining these shipping groups in the UK therefore remains of critical importance to the UK’s position as a maritime hub. Shipping groups are generally internationally mobile, have light onshore footprints, and can relocate between the maritime hubs of the world with relative ease. Ensuring the UK’s competitiveness as a base location for these shipping groups is therefore vital to the strength of the overall maritime services sector. HMG should work with the maritime sector to ensure the UK retains and attractive regulatory and fiscal environment for shipping groups after Brexit in order to support the overall maritime services sector.

Section 3

Conclusions and recommendations

Risk is inherent to international trade. Recent events such as EU exit, geopolitical tensions and the COVID-19 pandemic have heightened these. Many of the FPS services cited throughout this research are designed to mitigate trade risk and ensure that companies are not deterred from trading internationally due to uncertainty.

Despite headline grabbing trade disputes and the erection of trade barriers, the facts speak for themselves – London is one of the few truly global cities, and its success depends on remaining open to trade and investment from around the world. Through sharing and developing our financial and professional services expertise, the UK can continue to build and strengthen trade and investment links across the world.

These recommendations build on the insights drawn from the three case studies presented in section two, but are of relevance to the wider FPS ecosystem.

Conclusions

The City of London is more than just the financial services behemoths, it is a diverse, vibrant ecosystem of globally-leading financial, professional services and technology firms – large and small – that has enormous value in and of itself.

Of at least equal importance is its role as an enabler of the rest of the UK economy, as has been demonstrated in the previous sections of this report. FPS firms provide the expertise that de-risks international expansion for the myriad of UK businesses. Growth through trade will drive the global recovery from the COVID-19 pandemic.

It is vital that the City of London is not allowed, by design or by accident, to wither. The City has been placed under unprecedented strain by the COVID-19 pandemic, but it has an impressive track record of re-inventing itself over the centuries of its existence when allowed to do so. This should not just be done for the sake of the City, but for the benefit of all the UK economy.

While UK-based companies must also improve their approach to international trade and engagement on trade policy issues, we urge policymakers to take active steps to maximise new opportunities; safeguard and preserve the UK's current strengths; and, address perception gaps. The below sets out a menu of options which will help to achieve this goal.

Main areas of recommendations:

1. Maximising new opportunities:

Approaching services trade and goods trade holistically:

- The UK's new trade policy must be supportive of the whole economy and must recognise that each sector supports and builds on the successes of the rest. It should not be siloed between trade in goods, services and investment, but instead be founded on a holistic viewpoint. Services should be prioritised as part of the UK's newly created trade policy and export strategy, as over-attention on goods trade will unbalance the benefits of this holistic approach. Relevant departments/ teams need to be appropriately resourced.
- Policymakers should take a 'product-journey' approach, rather than treat goods, services and investment as independent 'verticals'³⁹ as they are often done per different chapters in trade agreements as a matter of course when developing trade policy.
- DIT should prioritise the tackling of services market access barriers, e.g. recognition of professional qualifications. In this endeavour, all avenues need to be exploited, including trade negotiations as well as regulatory and economic dialogues.
- DIT should continue to work with the ONS to improve trade in services statistics to help support policymaking as the separation between goods and services in trade statistics and national accounts makes it difficult to document and assess the prevalence of services exported together with goods.

³⁹ Verticals are typically considered either trade issues set out in specific chapters of a trade agreement either by issue such as Technical Barriers to Trade or sector-specific such as Automotive or Life Sciences.

Work with UK firms to help develop an ‘international mindset’:

- Tailor UK government messaging in a more business-friendly way to improve engagement with UK businesses. This includes clearer signposting on gov.uk of business-facing guidance and announcements. Make it easier for UK businesses to participate in UK Government-sponsored trade missions, and to forge relationships with the UK embassies and missions in key territories overseas.
- Facilitate consortia of related businesses in reaching overseas markets (instead of individual SMEs working disparately, provide opportunities for synergies/cooperation). Run outreach campaigns to smaller businesses to help them understand which London opportunities are designed specifically for them. Leverage additional learnings from the City of London Corporation’s ‘Finance for Growth’ research, including how to create or support Institutes for Collaboration that can bring together elements of the funding ecosystem for businesses seeking funding.

Work with UK firms to help develop an ‘international skillset’:

- Government should work to help upskill businesses on the cusp of international expansion. The Department for International Trade’s Export Academy shows great promise as a pilot, and we urge the government to expand the Academy’s reach assuming that it proves successful. Other government initiatives that allowed exporting firms to deliver lessons learned to other businesses would be encouraged.
- Make digital skills acquisition a cornerstone of business support, so that companies can take advantage of the benefits of e-commerce (particularly SMEs) while mitigating the challenges of data protection and management. Provide guidance on migrating to best practice applications for productivity, such as automation and AI, to encourage innovation and resiliency beyond the status quo.
- Establish a digital adoption fund that can enable SMEs to

kick-start digital transformations. Funds could come from government-backed COVID-19 recovery funds, ESG investors or corporate sponsorships where digital engagement is a strategic imperative. An example is Tech UK’s Talent Charter.

Embed wider policy objectives in forward-facing issues such a digitisation and sustainability into trade policy considerations:

- In all the above, UK Government should consider digitisation and sustainability as cross-cutting ‘verticals’ which are changing services provision and provide a unique opportunity for the UK. This approach should be reflected in the Department of International Trade’s set up, including its sectoral Trade Advisory Groups (TAGs).
- The UK government should look at creating a forward-looking domestic regulatory environment for digital trade which supports the digitalisation of trade processes across the maritime services and trade finance sector. This should include complementary measures between HM Treasury and different regulators to develop a “TradeTech” sandbox which supports the, sometimes disparate, efforts across trade finance, maritime services and supply chain digitalisation. This approach could draw on the success of London’s Fintech sandbox.
- The current geopolitical situation has produced a tendency towards protectionism exacerbated by the COVID-19 pandemic. Protectionism has a cooling impact on international trade because companies are less likely to take risks. The UK government should demonstrate leadership at the multilateral level including the WTO, OECD and G20 as well as continue to advocate for the development of common guidelines/ standards and forms of cooperation to improve trade processes. Better access to FPS will allow non-FPS firms to better evaluate and manage their risks.

2. Preserving what works:

Alongside objectives focused on maximising new opportunities, UK policymakers should aim to preserve the fundamentals of the current system which allow FPS firms to support UK exporters at present:

Certainty and continuity:

- Business needs as much certainty as possible in order to invest. The UK Government could provide certainty for firms by taking a longer-view on regulatory reforms – both for FPS and more broadly. As the UK reviews its regulatory architecture, such an approach would improve cohesion around trade controls and ensure maximum compliance by businesses – including sanctions, bribery laws, money laundering and terrorist financing. The FCA's regulatory initiatives grid is an example of good practice that could be adopted more widely.
- Mechanisms should be put in place to track domestic and international regulatory developments which may jeopardise market access. The impact of regulatory developments on trade negotiations should also be considered.

Preserving the primacy of English law:

- The primacy of English law is an essential component of the UK FPS sector's support of exporting firms. UK Government should seek to preserve this primacy possibly, though not exclusively, through seeking UK's accession to the Lugano Convention.

3. Addressing perception gaps:

This research has highlighted several misperceptions hindering the capacity of the UK FPS industry to support exporting firms. Policymakers should focus on addressing these misperceptions.

Highlighting the value of services:

- Many firms, especially SMEs, do not seek legal advice related to international trade due to the perception of this being an unnecessary cost and a lack of understanding of how seeking legal advice can enhance their commercial positions. The UK Government should design its trade promotional campaigns with a view to busting this myth. There is a perception among many SMEs that trade finance is complex and only suitable for large companies. There are, however, trade finance offerings for companies of all sizes and the trade finance facilities can grow together with the company. The UK Government should design its promotional material to underline the opportunities for early stage trade finance, particularly through UK Export Finance where capital for newly established micro and small firms presents a heightened risk.

Lack of knowledge of the UK supply chain overseas:

- Parallel efforts should be made to promote the value of UK content in overseas supply chains. UK Export Finance's growing presence and work across the UK's international network is to be encouraged and this expansion continue.
- Organise a UK cities' overseas trade mission, convened by the Lord Mayor of the City of London and including representatives from other UK cities. This will help promote London as the global gateway to other UK cities and facilitate more collaborative partnerships between London and other cities.

Through sharing and developing the UK's financial and professional services expertise, the UK can continue to build and strengthen trade and investment links across the world.

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About the Global City campaign

The Global City campaign is The City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

theglobalcity.uk

About the City of London Corporation

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

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