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RESEARCH

Mode 5 services: exploratory research with businesses and trade bodies (summary)

The aim of this research is to gain a better understanding Welsh business awareness of, and experiences with, mode 5 services.

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Contents

Aims and methodology (#section-110045)

Findings (#section-110047)

Contact details (#section-110049)

Aims and methodology

IFF Research was commissioned in April 2022 to conduct a small-scale exploratory research project with businesses and trade body organisations to better inform Welsh Government's understanding of the issues associated with mode 5 services.

Trade in services is regulated at World Trade Organisation (WTO) level by the General Agreement on Trade in Services (GATS). The GATS defines a service by the method, or 'mode', it is supplied in and by the end use of the service. However, increasingly it is recognised there are aspects of services which cannot be measured or governed appropriately by current trade rules under the GATS. 'Mode 5' services are described as such because they constitute an additional channel in trading services beyond the four traditional or direct modes of services trade currently regulated under the GATS.

Defined as the services content embodied in goods exports, typical mode 5 services include design, engineering and software services incorporated and traded as part of manufactured products. For example, this could include selling a product which comes with an ongoing servicing contract, training services or remote diagnostic tools; or selling a car with software updates or navigation services included.

The role of mode 5 services inputs as part of manufacturing exports has increased considerably in recent years and is projected to continue to grow. However, mode 5 services have been under-explored within research and there are key gaps in our understanding, including a lack of Wales-specific evidence and data collected directly from businesses. The Trade Survey for Wales (TSW) included a question on mode 5 services in years 2 and 3 (collecting 2019 and 2020 data). The TSW also includes a recontact list, which details businesses who agreed to recontact for research purposes. TSW therefore provided an

opportunity to identify and engage potentially relevant businesses, inviting them to participate in follow-up mode 5 research. Trade body organisations representing relevant sectors in Wales were also invited to take part.

This report is based on findings from qualitative online interviews with a small number of businesses (n:2) and trade body representatives (n:4). The research is intended to provide Welsh Government with some initial insight from stakeholders to help inform actions and next steps in this area, including on providing appropriate support to businesses.

The research objectives were to explore with businesses and trade body organisations:

- awareness levels around mode 5 services and the language used around services embedded in exported products
- experiences of exporting services as part of goods exported
- any effects on businesses from the UK's new trading relationship with the EU around exporting mode 5 services

Findings

Low awareness and limited understanding of the term mode 5 services and associated language

Almost all interviewees had not heard of the term mode 5 services when first asked at interview. When given the definition however, interviewees were familiar with the idea of service provision included as part of exporting goods. The form of mode 5 services most discussed by interviewees was customer service and maintenance, which was not considered part of the original

transaction, even if part of a warranty. Trade body interviewees tended to have better awareness of mode 5 services but had not spoken to their members about it. Using trade bodies could be a way of increasing awareness and understanding of mode 5 services among businesses.

Mode 5 is important and could become increasingly so

Despite the low awareness levels apparent when first questioned at interview, interviewees felt mode 5 services were an important form of trade. One business also explained how mode 5 services offered value for them beyond financial profit. Through offering ongoing support following the sale of goods, mode 5 services were considered vital for securing repeat custom and instilling customer faith in their business.

Exporting goods and exporting services are considered two distinct forms of trading

Based on businesses engaged for this research (two interviewed and additional businesses spoken to during the recruitment screening stage), there is limited understanding amongst businesses on what mode 5 services encompass. In general, businesses did not perceive themselves as trading services content alongside or embodied in goods exports. While familiar with the concept of mode 5 services when explained in lay terms, both trade body and business interviewees still perceived exporting goods and exporting services to be distinct.

Information on mode 5 services is not reaching smaller Welsh businesses

The trade bodies interviewed showed greater awareness of mode 5 services than businesses. These interviewees pointed to the existence of both academic literatures on the topic and press releases from larger companies related to exporting mode 5 services. However, interview data collected from both trade body and business interviewees suggests publications aimed at awareness raising and engagement work (for example, around mode 5 services and its increasing relevance to business exports) are not reaching smaller businesses.

Given the growing relevance of mode 5 services however, interviewees expected information on the topic would resonate soon. Though for this to happen, and specifically for smaller businesses to engage with mode 5 and understand its relevance to them, interviewees also felt several things were necessary. This included clearer communications around what mode 5 services are alongside concise definitions and specific examples.

There is an appetite for more awareness raising and support

As a result of their lack of awareness, neither business nor trade body interviewees had sought further information or support on mode 5 services. Interviewees were however curious to learn more and find out what support could be available for businesses.

Improving the evidence base

Any future research in this area would be strengthened by gathering data from a

larger sample of businesses, including from larger businesses known to be exporting mode 5 services. Changing some of the language around mode 5 services to be clearer in lay terms could help with research recruitment, as could a focus on recruiting businesses via trade bodies over a longer fieldwork period.

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