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Global trade redefined: Entertainment and media

Dealing with tariff uncertainty

April 2025

This report has been developed in collaboration with the Strategy& team PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Introduction

The UK entertainment and media sector has continued to grow strongly, despite a backdrop of market headwinds that include limited ad budgets, high inflation, consumer pressures and wider uncertainty.

It would be easy to conclude that the sector can continue to weather the impact of changing global trade dynamics - particularly given less direct impact from the introduction of US tariffs, reciprocal tariffs and ongoing bilateral negotiations relative to other sectors of the UK economy (e.g. automotives and pharmaceuticals).

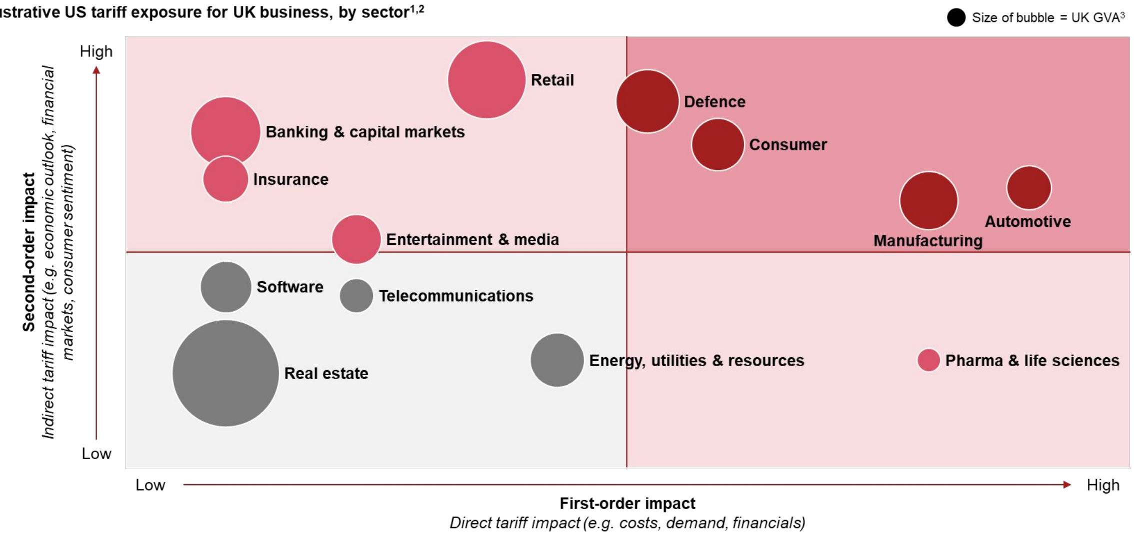
However, an environment of lower global economic growth, delays to decision making, and global trade rebalancing threaten to put additional pressure onto a sector that is already under strain in many parts.

Businesses in the sector will need to continue to show high levels of agility and flexibility as end markets are disrupted and be prepared to do 'more with less'.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks

Illustrative US tariff exposure for UK business, by sector[1,2]



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930. The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely, including pharmaceuticals.

The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories, including pharmaceutical products, regardless of the country of origin.

Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind. Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

> "Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake."
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the 'baseline' tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes 'reciprocal' tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

Taking stock of tariffs

Understanding the impact on the entertainment and media sector

A sector already facing headwinds is reckoning with increased input costs from cross-border tariffs, and a wider impact from second-order effects suppressing budgets and confidence across end-customer markets.

01 **Advertising budgets challenged in affected end-sectors**
Brands from more directly affected sectors, such as consumer and automotive, may look to scale back advertising budgets in the short term. Ad-supported business models, such as broadcasters and online platforms with exposure to these end-sectors, are potentially vulnerable in this climate.

02 **Higher input costs for content production**
Content production sectors such as film and television face some direct impacts. These businesses often rely on imported production equipment or operate under fixed-price contracts with US-based suppliers/clients. They are exposed to higher input costs, changing inflation rates, with limited ability pass through potential.

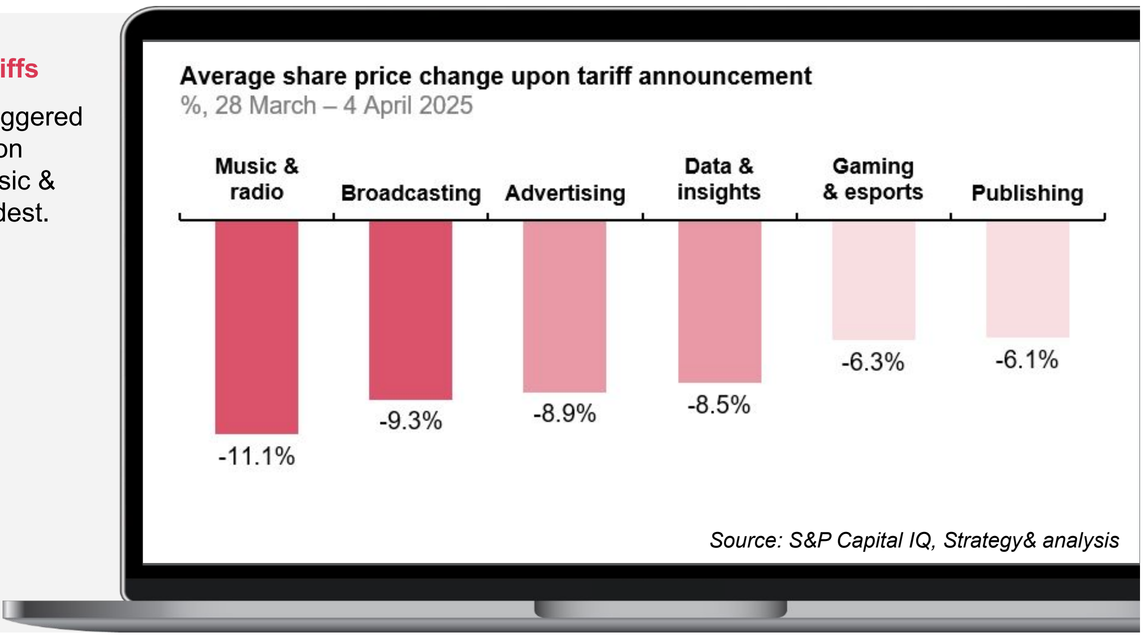
03 **Additional risk from global Goods and Services Tax (GST) disputes**
The threat of a Digital Services Tax (DST), while not part of the original tariff announcements, remains a latent risk. Although currently dormant, a re-emergence of this issue could introduce further complexity, especially given the cross-border nature of most digital platforms.

04 **Uncertainty in financial markets leading to short-term pause in capex heavy decision making…**
Wider volatility and uncertainty is leading to short-term delays in decision making, as businesses look to take stock and see the full impact of uncertainty, impacting all elements of the industry value chain.

05 **...but accelerating the business case to invest in GenAI to support defensibility and resilience**
Organisations are seeking to manage their cost base and drive efficiencies to manage margins and navigate any potential slowdown. GenAI presents opportunities to do this across the industry (e.g. production processes, content generation, advertising execution, back office efficiencies).

Public market reaction to tariffs

The announcement of tariffs triggered a negative stock market reaction across media sectors, with music & radio and broadcasting hit hardest.



Taking stock of tariffs

Understanding the impact by entertainment and media sub-sector

Some entertainment and media sub-sectors are more exposed than others, reflecting their end-market exposure and wider resilience of that spend for customers.

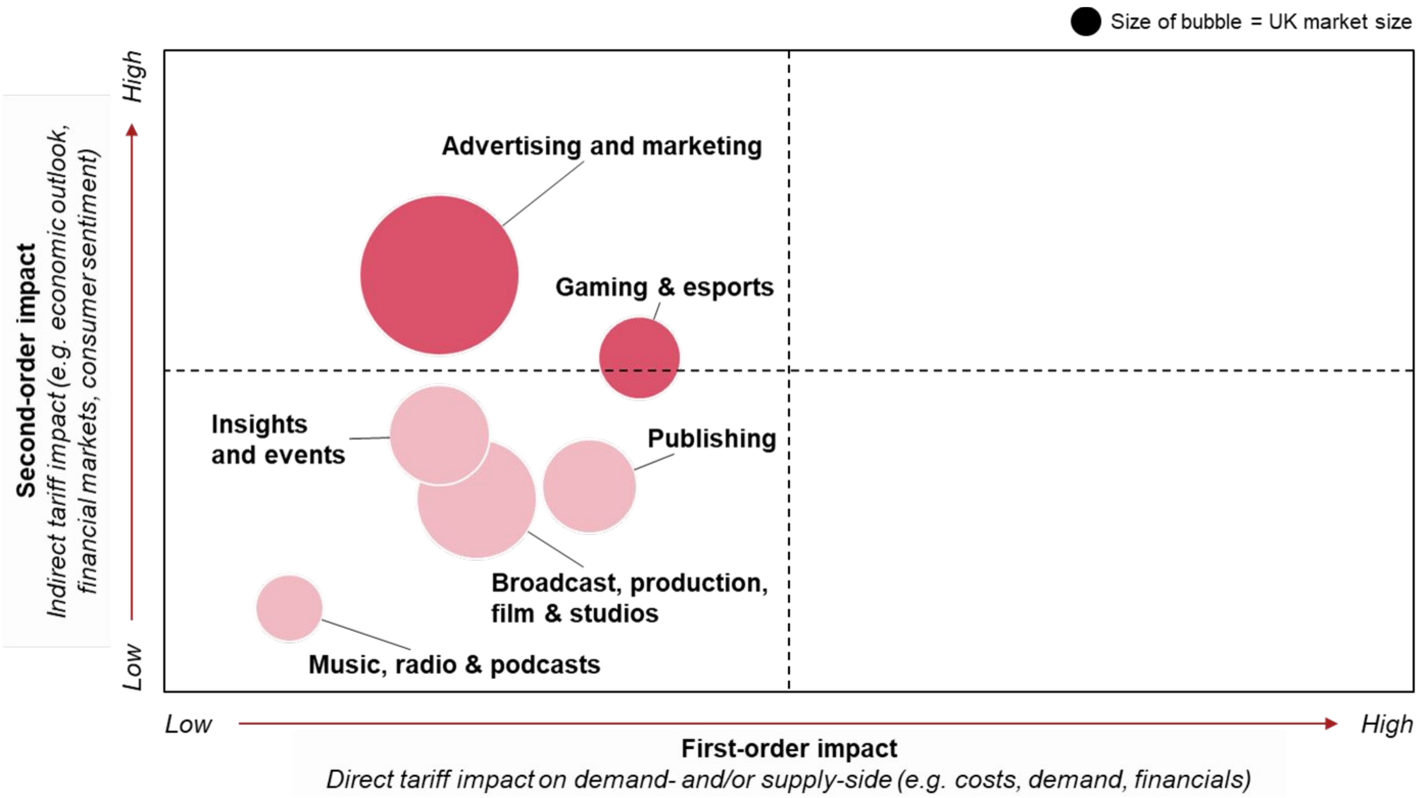
Advertising and marketing spend is impacted by business confidence and may see a slowdown within challenged end sectors. This could result in a shift to more innovative, low-cost campaigns, and focus on channels with greater certainty on delivering RoI for brands.

Console video games are often tied to hardware release cycles. This is likely to be impacted as some hardware launch schedules are changed due to complex, cross-border supply chains and higher end-customer price points.

Broadcast and film studios may face greater equipment costs from imposed tariffs, while broader protectionist policies and trade barriers may require an increased focus on locally produced and culturally relevant content. Adoption of AI in content generation may accelerate as they seek efficiencies.

Insights and events: Insights providers may benefit from heightened demand for knowledge and clarity given volatility (offset by any end market slowdown). Events may benefit in the short term from customers seeking alternative suppliers as they reassess their supply chains.

Illustrative impact of US tariffs by entertainment and media sub-sector



Taking stock of tariffs

Assess the impacts and short-term actions

Tax and operational assessment

While the medium to long-term structural impact on the entertainment and media sector may ultimately be significant, such shifts are likely to unfold gradually. Any operational responses or strategic interventions will need to be carefully phased over time. In the near term, however, the immediate priority should be to thoroughly assess and quantify the tariff implications from a tax and operational perspective. The following actions can be taken now and may have a meaningful impact on your business's overall exposure.

01 Conduct/validate impact assessments, including understanding the physical product/material flows.

02 Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.

03 Understand the country-of-origin rules and place where goods are substantially manufactured.

04 Understand the value build up of the price to ensure the custom value is correct and review cost components.

05 Consider from a transfer pricing perspective that intercompany product pricing is correct and that any revised pricing (of product or wider services) adheres to the arm's length principle (and aligns with customs considerations).

06 Consider the US specific valuation principles.

07 Review contracts to confirm whether they include a tariff cost adjuster/escalator in terms of cost.

08 Consider the impact on any changes to the above on the income tax position in the US and other jurisdictions.

Navigating the potential fallout

Actions you should take

Entertainment and media businesses need to prepare for a new world order which is characterised by regional power blocs, state capitalism and bilateral relations. This transition will create geopolitical volatility in the short term and global trade realignment in the medium term.

Businesses can make some 'no regret moves' now to mitigate initial risks to margin and more structural changes to transform the business model – that collectively embed resilience to counter any geopolitical shocks (tariffs or otherwise).

	Short-term 'no regret' moves	Medium-term strategic moves
Themes	Absorb initial shock from US tariffs and navigate geoeconomic volatility	Make structural changes to future-proof business against global trade realignment
Sourcing and supply chain	• Review and understand the value chain and the potential impacts of tariffs and economic policies on production costs, supply chains, and margins, and identify areas where costs can be cut or efficiency improved.	• Examine where supply chains can be shifted locally, such as through partnerships with local production houses. • Examine potential to leverage GenAI within content production workflows.
Product and geo portfolio mix	• Review pricing levels for products/services (subscriptions, purchases, advertising fees) • Consider short-term incentives to ensure that (i) key clients continue to spend and (ii) key suppliers can deliver core services	• Assess health of end-markets and revenue streams, and consider diversification from the US market • Explore expansion into other territories or open up new channels and partnerships
Financial and liquidity	• Manage any working capital risk associated with supply chain disruption. • Pre-empt refinancing and credit requirements.	• Review and adapt contracting and legal agreements, and ensure the robustness of clauses that can handle tariff impacts • Reset margin and cash thresholds under new global trading regime.
Overall	• **Rapid tax impact assessment** • **Scenario planning** • **Risk mitigation**	• **Sources of defensible and scalable differentiation** • **Business model transformation**

"The secondary effects of tariffs are going to exacerbate issues that media businesses have been facing for a while - but there is an opportunity to navigate through the disruption by building agility and flexibility."

Ben Bird, PwC UK Media and Entertainment Sector Leader

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.

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