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Global trade redefined: Telco

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.

Last updated: 3pm on 25 April 2025

RITM0212680

Introduction

The direct impact of tariffs on UK-based telecommunications companies is expected to be more limited than other sectors. This is largely because the sector exports few physical goods to the US and has relatively modest integration with American-based supply chains.

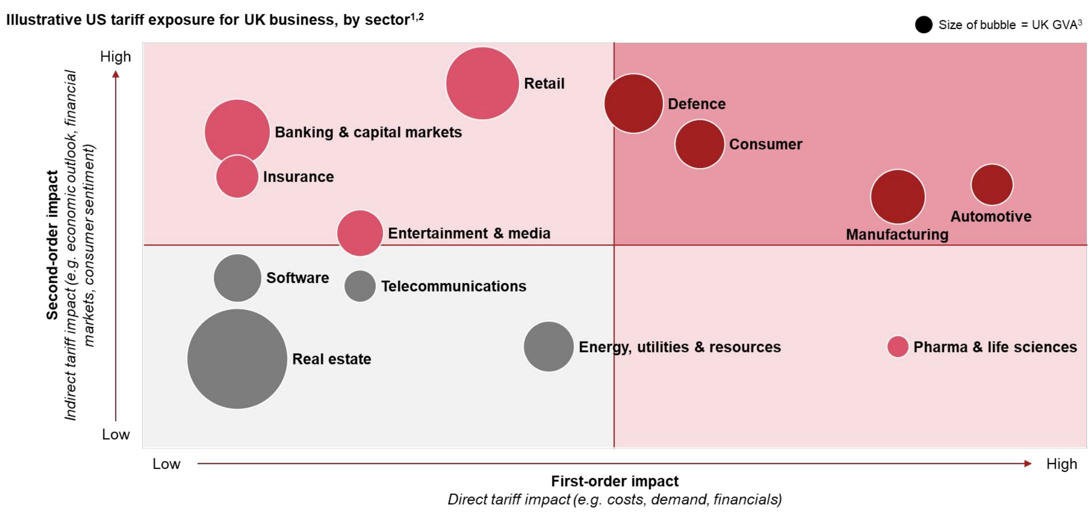
However, broader uncertainty in global financial markets could prompt industry leaders to reassess their capital expenditure plans. This caution may dampen long-term growth prospects across the sector.

While the telecoms industry has historically shown resilience to macroeconomic shocks, a slowdown in overall economic growth could affect both consumer and enterprise demand. Consumers may shift towards lower-cost packages or providers. On the business side, as well as reduced capex, there could be a risk of an uptick in company closures.

Beyond economic implications, telecom operators are reevaluating the structure of their supply chains as geopolitical alliances shift. Within this, there is a growing emphasis on sovereignty, including local data hosting and reduced reliance/ greater caution around foreign technology partners.

Some common industry actions:

1. Scenario plan determining first-order and second-order impacts and risks.
2. Move ahead with ‘no regret moves’ in the short term while investing sufficient time to shape concrete strategic choices which can be executed based on downstream scenarios.
3. Be deliberate in seeking out growth opportunities, these may be in adjacent areas or as a consequence of how other markets react.
4. Embed ongoing resilience and decision-making frameworks to respond to geoeconomic shocks.



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 Southeast 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. 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. 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 aid our clients to better understand how the future of tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes that are happening, we've chosen to limit these to tariff policy. We are however 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, up to and including Canada, Mexico as well as 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 in force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including for 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 8th 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 April 2, 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 8th July, 2025. With this in mind, the EU, Japan, China and other economies retaliate, in equal measure, to the tariffs. 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 much closer trading relations with China. These changes are rapidly also reflected in investment flows.

Taking stock of tariffs

Understanding the tariff impact on the telco sector

First-order impacts

UK telecommunications businesses are largely insulated from the direct effects of US import tariffs, both in terms of revenue and costs. With limited export activity to the US and hardware components typically sourced from supply chains outside US jurisdiction, most UK and European telcos are unlikely to experience immediate or significant changes in the cost or complexity of doing business – however this may change if services exports eventually fall within the remit of US tariffs.

US telcos are expected to be more impacted and are likely to face steep increases in input costs as handsets and hardware are typically sourced from countries that now have significant import tariffs applied (notwithstanding any tariff exemptions). As a result, many of these goods may now be rerouted to the UK and Europe, leading to a large surplus of hardware in the market.

As a result, businesses involved in specific sub-sectors with greater hardware exposure (such as vendors/suppliers of telco equipment) may be more impacted in the short term.

Second- and third-order impacts

For UK telco companies, the more material impact of US tariffs are likely to emerge through second- and third-order effects. The most immediate is the macroeconomic impact of slowing global growth and increased market uncertainty. While the sector enjoys a degree of insulation as an essential utility, declining consumer confidence could lead to a reduced spend on services, while weak business sentiment could delay investment decisions.

Companies undertaking infrastructure upgrades are particularly exposed to financial market volatility. Fluctuations in share price, currency values and interest rates are causing a reevaluation of capex plans – with some commitments deferred. Beyond economic pressures, shifting geopolitical dynamics are prompting businesses to reassess supply chains and infrastructure with a view to sovereignty. There is an increasing need to more carefully evaluate reliance on foreign jurisdictions. This builds on longstanding concerns, such as the extraterritorial reach of the US CLOUD Act (Clarifying Lawful Overseas Use of Data Act), which allows access to data regardless of where it is stored, and the continued removal of Chinese equipment from UK networks.

In response, Telcos will need to manage not only economic uncertainty but also growing pressure to localise key functions, diversify technology partners and strengthen data governance. This shift brings both risk and opportunity. Domestic providers may benefit, while those dependent on foreign vendors are likely to face complex, costly adjustments. In a landscape increasingly shaped by geopolitical alignment, long-term competitiveness will depend on balancing performance, compliance, and sovereignty.

A tax perspective

01 Tariffs are applied to tangible goods when they are physically imported across an international border. This concept only extends to certain services integral to the goods themselves. What this means is that tariffs don't directly attach to the services provided by telco companies but would indirectly increase the cost for the consumer of services.

02 Some devices, such as smartphones, and key components used in technology, such as semiconductors, are currently excluded from US tariffs. But the list of exclusions is not exhaustive and the situation is fluid – telco businesses can expect further disruption and pricing impacts.

Navigating the potential fallout

Actions you can consider

UK telco businesses can consider various short- and long-term moves to address the evolving market and ongoing volatility.

Short-term 'no regret' moves	Moves to capture maximum value over the longer term
• Understand and map out the supply chain exposures to US tariffs, both direct and indirect, and identify alternative suppliers or markets where possible.	• Explore new or emerging markets or segments, where the tariffs may create opportunities or lower barriers to entry. For example, European markets that may seek to reduce reliance on certain providers, or which may offer higher margins or differentiation.
• Focus on cost reduction initiatives, such as operational efficiency, organisational restructuring, or divesting from non-core areas, to improve profitability and resilience.	• Innovate and develop new or value-added services or products, that can meet the changing needs and expectations of customers and create a competitive edge. For example, invest in 5G or digital infrastructure or offer cyber support or managed services
• Monitor and anticipate the changes in customer behaviour and preferences and adjust the pricing and marketing strategies accordingly. For example, offer more flexible or customised plans, or launch a low-cost brand to compete with budget providers.	• Invest in local or regional manufacturing or sourcing, where feasible, to reduce dependency on global supply chains and enhance resilience against trade disruptions.

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It's crucial for UK telcos to understand where their supply chains are exposed, both directly and indirectly, to US tariffs. This involves a detailed analysis of the entire supply chain to identify any potential vulnerabilities."

Russell Taylor, PwC UK Telecommunications Leader

Key contacts

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

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