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Exporting out of recession

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Oral and written evidence

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The Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills. On 5 June 2009, the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills become the Department for Business, Innovation and Skills. On 1 October 2009 the Business and Enterprise Committee was renamed the Business, Innovation and Skills Committee to reflect that change. The Committee retained the same membership as the Business and Enterprise Committee.

Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)
Roger Berry MP (*Labour, Kingswood*)
Mr Brian Binley MP (*Conservative, Northampton South*)
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)
Mr Lindsay Hoyle MP (*Labour, Chorley*)
Miss Julie Kirkbride MP (*Conservative, Bromsgrove*)
Anne Moffat MP (*Labour, East Lothian*)
Mr Mark Oaten MP (*Liberal Democrat, Winchester*)
Lembit Öpik MP (*Liberal Democrat, Montgomeryshire*)
Ian Stewart MP (*Labour, Eccles*)
Mr Anthony Wright MP (*Labour, Great Yarmouth*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via http://www.parliament.uk/parliamentary_committees/parliamentary_committees

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/bis.cfm

Committee staff

The current staff of the Committee are: James Davies (Clerk), Ben Williams (Second Clerk), Aruni Muthumala (Economist) Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Eleanor Scarnell (Committee Assistant) and Jim Hudson (Committee Support Assistant).

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Oral evidence

Taken before the Business & Enterprise Committee

on Monday 23 February 2009

Members present

Peter Luff, in the Chair

Mr Michael Clapham
Mr Lindsay Hoyle

Miss Julie Kirkbride
Mr Mark Oaten

Witness: **Lord Jones of Birmingham**, a Member of the House of Lords, gave evidence.

Q1 Chairman: Lord Jones, welcome. I think this is your third appearance before the Committee.

Lord Jones of Birmingham: Two while at the CBI and one as a minister.

Q2 Chairman: In this Parliament, it is the third time. This is a slightly unusual session. We are beginning a new inquiry into exporting out of recession and to what extent exports can help lift the country out of recession. The prime questions we are going to ask today are in that area. As we talk about a recession, and you have been quite vocal recently on “the recession”, we thought it would be helpful if we began by giving you the chance to say briefly something about what you have been saying publicly in the media recently, on Channel 4 and in other places, about the recession and possible cures, just to put your other remarks in other contexts.

Lord Jones of Birmingham: Thank you, Chairman, and thank you for asking me to come and contribute. I would just like to declare two interests: I am Corporate Ambassador for Jaguar (about a day a month) and I am the very recently appointed Chairman of the International Business Advisory Board of HSBC (about 20% of my time). I believe that 2009 is going to be probably the most difficult year economically for this country since the Second World War. I do not see much hope of any green shoots, subject to two things I will come back to, but I do believe that 2010 will be a year of a degree of bottoming out. I do not mean suddenly we are going to go off into sunlit uplands of boom or anything but I think we are going to see stabilisation and a slight growth in the economy. That might bring it from greater contraction to less contraction but it will be going in the right direction. I am not one of those who think this is a three-year recession. I did say there were two exceptions. I get around the country a lot and I am hearing from various house-builders that at the bottom end of the house-building market, social housing definitely—and that is good because it is a job creator in building, and I hope it also provides good homes for many people—but also in private sector housing, they are seeing greater activity. They are seeing more applications for mortgages, they are seeing more people interested. That is good to see and, with any luck, maybe my prediction will be a little too pessimistic and it could be happening a little earlier. I also think we have to

get this completely into context, Chairman. I think there are a lot of people around the country who would like to cure us of what I will call “Robert Pestonitis”. We are not, as a nation, going to hell in a handbasket. So much of this is about confidence. I remember doing *Any Questions* in the autumn, and on *Any Answers* on the Saturday one guy, a picture framer from Harrogate, rang up Jonathan Dimbleby and said he was absolutely at the wrong end of discretionary spending—it was a complete luxury item that he was selling—and he said he was having an awful time, but he had had two good weeks, and one was the week that Barack Obama was elected and one was the week that Jonathan Ross and Russell Brand did all their silly stuff. You know why? Because the recession was not the first item on the news every day. For two weeks the spenders were told something else about news in the world and on that basis they went out and spent a bit. It is true to say, however, and I say this with great sensitivity to those who are out of work and those who are worried sick about their jobs and obviously those who are losing their homes—I do not belittle that for one minute—that the vast majority of this country is still in work and the vast majority of those who went into the recession owning their homes still do. A lot of the issue is about confidence. It is also true to say that this is a global recession and there is a global contraction in the economy but no two countries are the same. China’s economy is contracting but she is still going to deliver some 6%/7% growth in GDP this year. India’s is contracting, but is still going to deliver 5% or 6% growth in GDP. In America, with all this effort that Obama and his colleagues are putting into this, there will be areas of America that are going to come out of this more quickly. Eastern Europe is not going to suffer as badly as others. So many aspects of British business are accented to the global trading aspect, that I will tell you that the only way this country is going to get out of this quickly is to trade its way out of it. If Britain was a company I would be saying, “The fundamentals are okay, you’re not going to go bust, but this is going to be bloody”. Now, how do you address it? You trade your way out of it. If this was a business, you would be trading your way out of it: head down, batten down the hatches, work hard and deliver the goods, and get the profit and start regenerating the business. That would be the same for this country. On that

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basis, we have to do everything we possibly can to get businesses trading globally, to still be an attractive place for inward investment—companies are still going to be looking for places to invest—and at the same time to ensure that we preserve—and I think this is probably the greatest danger medium term of this recession—the skills base for the nation. We need a vibrant financial services sector. Our economy does have the biggest or the second biggest financial services sector. It is pointless saying, “We don’t want to do that any more”. Of course we want to do it, and we want to be a global standard for doing it, but there are other sectors where we should be accentuating the positive. Think of retail: Asda’s recent figures. Did they feature as number one in Robert Peston’s article? No. And yet a fabulous set of figures. Look at Morrison’s recruiting some 5,000 people. It is all good stuff in one mass sector. Do we read about it at the top of the news? No. If you look at manufacturing, we have some amazingly good global brands that really do stand up around the world, making quality stuff in a restructured and value-added and limited environment, and if we lose the skills base that keeps those people doing it in Britain then this Government should be blamed for that. That is the most damaging aspect of this recession. A good contrast would be to look at what the American Government is being asked to do in Detroit. There is a name for that in Britain: it is called British Leyland. That is exactly what we did. They are unstructured, they are unproductive, they are uneconomic, they are not really going to change just because government is going to give them money, and they are being driven solely by “Keep the people in work”. If you look at British manufacturers—automotive, yes, but others: Rolls Royce Aerospace, JCB, whatever—they have won markets around the world by having restructured and gone through the pain 10/20/30 years ago and they are now global champions. They cannot put people on to short time permanently, because, frankly, there is not the mechanism here, the government assistance, so they make loads of redundancies and then what happens is those people are lost to manufacturing for ever. You mentioned that I did Channel 4 *Dispatches* last week, Chairman, and there are skilled guys who used to be at JCB, applying to be bin men in Derby. I am sure there are some fabulous bin men in Derby, but they are not making a global, manufactured product, are they, and selling it around the world? When the sun comes up—and it will come up in the morning, the world will go round, this will pass—those companies, be they overseas investors investing here or British manufacturers, will say, “Well, where are my skilled people?” If they are all doing the bins in Derby, that stuff will be made in India, China, America, Germany, Eastern Europe and we will lose it forever. I cannot for the life of me understand why this Government will not follow the German example and ask for a three-way sacrifice: ask for the employer to, yes, only pay them for the two-days’ output they will give but keep them on the payroll, keep their sickness and holiday and pensions and length of service going; have the employees say,

“Look, the end result of this is you’re going to get 80% of what you normally get, so you’re going to have to pull your horns in”; and we, the taxpayer, make up the difference for a short period of time, basically to keep them around, so that (i) we have a skills base that we can be proud of, (ii) kids understand that manufacturing matters and is cherished by the nation, (iii) we do not have the social cost, the health cost, the destruction of communities costs that go with redundancies on a mass basis in a small place, and (iv) the nation is fit for manufacturing purpose exporting and trading our way out of it going forward. That, I think, is the aspect I do not see happening. And it is not to the exclusion of any other sector: there are many sectors, I think, that really can do well. I would perhaps close this aspect of it and say that there is another aspect of the economy where we have to pay some real serious attention at the moment, and that is our higher education sector as a business.

Q3 Chairman: It is quite a problem.

Lord Jones of Birmingham: They sell their services around the world, and the world is not paying for these students to come here, and therefore you have the issue of universities as well.

Q4 Chairman: You have thrown up an awful lot of ideas, and I do not want to spend too long on them because—

Lord Jones of Birmingham: Well, the different sectors of the economy.

Q5 Chairman: — we want to talk mainly about trading—as you have said, exporting out of recession.

Lord Jones of Birmingham: Sure.

Q6 Chairman: There are a number of things you have said that I am interested by, but, in a sense, Digby Jones’s two sound bites are: protect the skills base and export out of recession.

Lord Jones of Birmingham: Spot on.

Q7 Chairman: That is it.

Lord Jones of Birmingham: Skills and trading. This country is made for globalisation, and if you skill your workforce and trade around the world, this nation has nothing to fear.

Chairman: Maybe it is the second I would want to concentrate on, but Mick Clapham would like to ask a question.

Q8 Mr Clapham: Lord Jones, before we get into other areas, the one thing about the economy you have said is that you perhaps see the sun beginning to rise again in 2010, so that it is maybe halfway through 2010 when we will see the benefit coming through. Given the other two aspects that you have referred to, trading our way out of it and making sure that the skills base is retained, you seem to be happy with the way in which the Government is tackling the situation. Would that be correct? Do you agree with the Government’s approach?

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Lord Jones of Birmingham: I think there have been one or two things they have done which I would not have done. I would not have reduced VAT. There are better ways to spend 12 billion quid than that. If people are worried about their jobs or they are out of work, they do not go and buy a big ticket item for which you do enjoy the benefit of a VAT reduction: a car, white goods, or whatever. I personally would not have done that. Secondly—and this is the biggest thing I would criticise them for—I think a lot of the initiatives are very worthy, I think they are quite well-thought through to be honest, and I think it is important that a government is not only seen to be doing something but is also doing it, but the problem is—and I see this everywhere, both in business and in society generally—that you could stop people in the street, someone from a small business through to an unemployed person who has just lost their house, and they would say, “I don’t see it. I don’t see it making a difference? Where is it? How is it?” The challenge for any democratically elected government of any colour at any time is: How do you get what you want to do through to making a difference in society? The delivery mechanisms are not doing the business. Now, how much of that is down to government having the initiatives and making ideas and putting our money into it and how much of it is not down to government but to society, where the mechanisms are not working? We now have a situation where you and I own nearly 70% of one bank and just under half of another bank, and yet those banks are not lending and putting money into the business economy in the way that they should be, and at some point somebody somewhere has to be big and brave and say, “You will”. I think the community and the electorate want to see that. I, for one, think the Government was absolutely right to put the money in. None of us wanted to have to do it but I see why they did it. Why do they not make a difference?

Q9 Mr Clapham: To sum up, Chairman: Lord Jones, you are saying that the initiatives are good but it is the delivery mechanism.

Lord Jones of Birmingham: Yes.

Chairman: There is lots of what you have said that I would like to take you up on, but we must move on to other areas. Lindsay wants to come in.

Q10 Mr Hoyle: Interestingly, and quite rightly—I cannot disagree with what you have been saying: we are both passionate about British manufacturing and obviously recognise the housing problems in this country—if we are going to stimulate the economy, we have to get house-building going, which is the quickest way to get the wheels of manufacturing turning. Do you share my concern that we have local authorities sitting on money that does not belong to them? It is Section 106 money which has been given by developers that could be used for social housing, for building community centres, railway stations, whatever. In my own council we have £3.5 million for social housing and £9 million for other schemes which is Section 106 money that they are not spending. We believe there could be up to £4 billion

sat in accounts around the country that local authorities are sat on, that they are not spending, and that would be a real drive. Do you agree with me that we should be bringing in and spending this money?

Lord Jones of Birmingham: And factually they are statutorily allowed to, are they not?

Q11 Mr Hoyle: Yes. They are meant to have spent it. They cannot spend it on anything else, so it is sat there.

Lord Jones of Birmingham: It is not the bit that they are not allowed to spend.

Q12 Mr Hoyle: No. But there is no point having interest.

Lord Jones of Birmingham: No, quite.

Q13 Mr Hoyle: I know some of them have put money in Iceland, but . . .

Lord Jones of Birmingham: I completely agree with you. I think one of the ways out of this, linked in with trading our way out of it, is, also, investing our way out of it domestically, in the infrastructure. It is not just about creating employment as you build whatever you build, a school, an airport, a road or a house, but it is also that you are making your economy more productive in the medium to long term, because business enjoys better transport, better facilities, education and all of that. There is a double win-win here: it is a short-term job creator and it is a long-term productivity enhancer. But the local authorities have to have the leadership to do it. Of course one of the problems with this is that it is long term, is it not? A democratically elected local politician, or, indeed, a senior cabinet minister, probably is not going to see the benefit inside the time to the next election of whatever it is they are. Politicians are not known as people who are quite happy to take risk and then let someone else enjoy reward. It was Harry Truman who said “It’s remarkable what you can achieve when you don’t care who takes the credit,” and at the moment we could do with more of that. But there is one aspect that we have to change—and local authorities could do a lot here, as could central government, and indeed, may I say, as could media and other vested interests, and environmentalists come to mind—and that is the planning regime of the nation.

Q14 Chairman: Wait a minute.

Lord Jones of Birmingham: It is no good you and I criticising local authorities and them turning round and saying, “But I’ve got a planning regime that will not—

Q15 Chairman: We need to move on to the main subject.

Lord Jones of Birmingham: And if the great crested newt, by the way, is so rare in this country, why is it in every building site in the land? That is what I want to know.

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Q16 Mr Hoyle: There is some good news out there. If we take Optare, the bus builder, because of the bus passes and older people going on them they are taking lots of people on and the manufacturing of buses has taken off in the North West. The second is the hundreds of new apprentices that BAE Systems have taken on in the North West. That is second to none. So there is some good news within industry, and we are seeing growth in the North West.

Lord Jones of Birmingham: If BAE Systems are doing something big in the North West, I bet you there will be loads of small businesses that are doing better and exporting. In each of the regions in this country I can take you to small businesses doing fabulous stuff in the Gulf, in China, in India, and still doing it today and making money. Do I see that as the first item on the BBC? No way. I would love to take Robert Peston to some quality and successful businesses.

Chairman: Let us move on.

Q17 Mr Hoyle: I take it he is off your Christmas card list.

Lord Jones of Birmingham: No, he is not actually. I would send him one, but I would send him one made in Britain and say, "Come with me on a journey to success".

Q18 Mr Oaten: Do you blame him?

Lord Jones of Birmingham: Do I blame him a bit?

Q19 Mr Oaten: Yes.

Lord Jones of Birmingham: I do not blame him a lot, but I blame him a bit, yes. If you took a page of newsprint—and everything else is equal and you have one final bit to fill—and you had a good news story and a bad news story about this recession and everything else is equal, I reckon he and a lot of his colleagues would choose the bad news story. By the way, I do not think at the end of the day I blame them, on the basis that they will say, "Bad news sells. And bad news sells better than good news. Don't blame me," they will say, "blame the reader and the guy who buys the print". There is an element of truth in that and perhaps we have only ourselves to blame.

Q20 Chairman: The headline on your own story in *The Daily Mail* a week ago was: "Gordon Brown says that he will create 100,000 jobs. One in four will be shelf-stackers". It was a slightly unfair summary of your article but it was the way your article could easily be interpreted.

Lord Jones of Birmingham: I write an article about my findings around the country on where the jobs are being created. That is a true statistic but it is not the thrust of the article. But, you know, we live in the real world. It is no good bleating about it; we have to go and do something about it.

Q21 Chairman: It is a bit last chance saloon stuff, is it not? You said, "Unless the Government takes bold steps right now to preserve jobs, skills and factories, we could blight an entire generation with long-term unemployment".

Lord Jones of Birmingham: Yes.

Q22 Chairman: You think the stakes are quite high.

Lord Jones of Birmingham: I do. I do not know if you saw that programme a week today. There is a chap called Colin, he is 19 years old, and he has just been made redundant by Nissan up in the North East. He did everything that people like you and I would expect: school, training programme at a quality, long-term investing Japanese company, and he hits 19 and, rightly, for proper reasons, no blame on Nissan, they make him redundant. His father has been unemployed for 10 years. He comes from a family, as many of his friends' families will be, of long-term unemployment. Is it not better to say: Colin, you make a bit of a sacrifice; Nissan, you make a bit of a sacrifice; and you and I, Chairman, our taxes will make a bit of a sacrifice? Then, when the upturn comes and people are buying the quality stuff that Nissan make around the world, Colin's job is not only preserved, his skills are preserved, and the guy is not going to be what he is in danger of being, another statistic of long-term unemployment in the North East. Is that not a better investment of my money than, frankly, in six months time paying £2,500 to an employer to get him back into work when he should not have been going out in the first place?

Q23 Chairman: There is a policy precedent in the UK for it, I believe. This kind of policy has been followed in the past in this country.

Lord Jones of Birmingham: I think it was followed in the 1981 recession.

Q24 Chairman: Yes, it was.

Lord Jones of Birmingham: I was only a glint in my daddy's eye then, Chairman! No, I was not—I was a lawyer in Birmingham then.

Q25 Chairman: You were indeed. Let us move on to the main subject. You were a minister for 16 glorious months—which does not sound very long to some of us, but, equally, you and I know it is quite a long time for a minister in any department of state.

Lord Jones of Birmingham: 45 overseas visits in that time.

Q26 Chairman: Yes, I have a list of them at the back of my brief. You have expressed your views about the Civil Service to another select committee earlier on, but what difference do you think you make in those 16 months? What did you achieve?

Lord Jones of Birmingham: In no order of priority. An uplift in the morale of UKTI. I wanted them to strut their stuff a bit more around Whitehall, and to see themselves with a little bit more of the arrogance that the Foreign Office and the Treasury tend to do, because at the end of the day they are as important as any of them, because without the UKTIs of this world then it is more difficult for companies to create wealth. If they do not create it, they do not pay tax. If they do not pay tax, you do not get schools and hospitals. It is not rocket science.

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Q27 Chairman: So morale. Does it help to say: “I was amazed how many people, frankly, deserved the sack . . .” Does it help to say that kind of thing in terms of people’s morale?

Lord Jones of Birmingham: I actually did not say that.

Q28 Chairman: It is a direct quote.

Lord Jones of Birmingham: No, I actually did not say that. I know it is quoted. I actually said that I was amazed how many people “it was not possible to sack”. And it is different. But can I just say that my remarks were not entirely tailored to UKTI.

Q29 Chairman: Ah! UKTI is exempt from this general critique.

Lord Jones of Birmingham: No, no. There would be people there who, in a perfect world, you would have moved on in a different way from the way they are moved on in the Civil Service. But the one thing was the lift in morale and to get them to understand that they mattered far more in government than they felt they did. Linked to that, it came as something of a surprise to the Department of Business & Enterprise when I announced that I wanted to go and put my office physically in the department that I was in charge of, because no other minister had done that before, they had all been up at the Department of Business. One civil servant said, “Why do you want to do that?” and I said, “Because if we are going to change the way they do this and we going to get the morale up, then the boss should be in amongst them with his sleeves rolled up”. They said, “No, if you want them, they will come to you”. That, to me, was not the way you lead and it was not the way you try to effect change.

Q30 Chairman: To be fair, you were a dedicated trade minister. Previous ministers had had other jobs.

Lord Jones of Birmingham: Certainly.

Q31 Chairman: You did not.

Lord Jones of Birmingham: Sure.

Q32 Chairman: You had the luxury of being just the minister.

Lord Jones of Birmingham: The Prime Minister asked me to do the job differently and he kept his word to me on the way that I did it and I kept my word to him in doing it.

Q33 Chairman: You have talked about morale, but you did say in another quote I have from your appearance before the Public Administration Committee, “. . . the job could be done with half as many”.

Lord Jones of Birmingham: I did definitely say that.

Q34 Chairman: Was that about UKTI as well?

Lord Jones of Birmingham: I think if you change the system of government in the way that initiatives and policies are delivered, then it would be possible to

deliver on policy with half as many. I picked half, but I am not saying half, it is just a term—but substantially fewer people.

Q35 Chairman: Are you saying that if we are to get this country exporting out of recession, you could do it with fewer people?

Lord Jones of Birmingham: Not if you had the current system. You would need to change the Foreign Office as well. You could not just do it on UKTI. The one thing I saw as a happy difference between when I started at the CBI in 2000 and when I was UKTI minister in 2007–08 was how more business attuned and wealth-creating attuned the Foreign Office had become, very much more in tune with promoting British goods, services, companies around the world. I thought that was fabulous to see, it was a happy thing to see. You asked me what else. Because of the nature of the way that we run our political system, (a) you had, as you say Chairman, my predecessors trying to do another job as well, and (b) they tend to be democratically elected and they tend to sit in the House of Commons and they have to be there. That is entirely inconsistent with being able to be overseas banging the drum and promoting Britain—which is what I did—and it is extremely difficult to do both the job of a political career, wanting advancement, wanting to be in the beltway, wanting to be seen around doing the job in Westminster, and also being in some far-flung market for British business. The job was done differently by me in that respect, and I think it would be fair to say that the posts around the world and the businesses that I promoted thought that that job was done reasonably well. I do not say that to criticise my predecessors because they (a) had other responsibilities and (b) were having to be back to vote.

Q36 Chairman: This is an important point, because this Committee has expressed concern at this in the past. This is not an attack on the current Prime Minister by colleagues; it is a problem for all prime ministers. Presidents, like the President of France, find it easier to tour the world and fly the flag. The system makes that easier for them.

Lord Jones of Birmingham: I am glad you said this, because it could be levelled at any prime minister of this country. If you are up against Sarkozy, if you are up against Bush, as it was in my case—now it would be after Obama, if you are up against Merkel—and these are quality countries with quality companies wanting the support of the boss of the country—it is easier for them to travel than it is a British prime minister. The system in this country militates against promoting the ability for this country to trade its way out of its current problems.

Q37 Chairman: So a high profile trade minister would help.

Lord Jones of Birmingham: Yes.

Q38 Chairman: When you went, you were not immediately replaced.

Lord Jones of Birmingham: No.

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Q39 Chairman: Lord Mandelson first of all said he would do the job himself.

Lord Jones of Birmingham: Yes.

Q40 Chairman: And he has been to India, I think, on one successful trip this year, but now you have been replaced. Mervyn Davies is there.

Lord Jones of Birmingham: I am thrilled to bits. He comes with the credentials of having chaired one of only two banks—HSBC being the other—what a surprise that I have said that—that are more globally aspected of the British banking system and that have more successfully weathered this crisis in a better way, and so he is coming with a degree of street cred. Secondly, he is a real live, business-engaged person. Thirdly, because he is in the Lords he is going to have more time to go and do the job. I think it was an inspired choice. I am thrilled to bits and he will have all the support in the world from me.

Q41 Chairman: Is your conclusion that the trade minister should always be in the Lords?

Lord Jones of Birmingham: When I said about the civil servants and “half” and everything else—of course it was taken out of context, but I said it and I will stand by it—it is if you have the current system. If you have the current system of policy delivery and if you have the current system of ministerial representation, then I do believe you need a minister for trade promotion—not trade policy, that is different, but trade promotion—who, frankly, can be spared from what you would call the normal duties in Westminster, to get out around the world and sell your nation. As we speak, that person is going to have more time if they are in the Lords. But if you had a different system, you might do two things: you might be able to do it differently and also have a different level of support.

Q42 Chairman: Changing the system implies a rather radical restructuring of our democratic process to achieve a very unusual object.

Lord Jones of Birmingham: For sure.

Q43 Chairman: It could be done more simply. This Committee previously has recommended that the whips simply have an understanding that the trade minister will not be called back for important votes. It could be done very easily if the willingness was there to do it.

Lord Jones of Birmingham: You could have some form of electronic voting with—

Q44 Chairman: No, do not go there. You surely are misunderstanding the process.

Lord Jones of Birmingham: I am so sorry.

Chairman: That is going well beyond.

Mr Hoyle: It is very hard when you are not a democrat.

Q45 Chairman: Yes. He is an autocrat, we know that.

Lord Jones of Birmingham: By the way, you say I am not a democrat. I am. The trouble is I am disenfranchised: I do not get a vote any more.

Q46 Mr Hoyle: Quite right too.

Lord Jones of Birmingham: I am not saying it is wrong. I am merely telling you—

Q47 Chairman: He gets lots of votes in the House of Lords.

Lord Jones of Birmingham: Could I say one other thing, because you did level one point at me, Chairman, and I would like to deal with it. UKTI as currently constituted is doing a very, very good job. It is following its five-year plan. Its people have, I hope, got their tails up and realise—

Q48 Chairman: Mick is going to ask you in more detail later—

Lord Jones of Birmingham: But I would not want you for one minute to put the words in my mouth that I think half of them should be sacked. That is not what I said.

Q49 Chairman: I have one specific question on UKTI. You have said there are too many civil servants but you have said that UKTI provides stunning value for the taxpayer.

Lord Jones of Birmingham: I do.

Q50 Chairman: And you still believe it provides stunning value for the taxpayer.

Lord Jones of Birmingham: I do.

Q51 Mr Hoyle: So the answer is: sack half the Foreign Office and increase the number in UKTI.

Lord Jones of Birmingham: Or change the accent of what the Foreign Office do a little bit more. If I may say something else, it is not just the Foreign Office. Our higher education system can be sold around the world better, so why do we not have promotional sales people in the Department of Education? Our environmental engineering companies in the country are first class. They are doing some fabulous stuff in China and in India and in Latin America, making money for the country. It is enlightened self-interest. Why do we not have trade promotion people at the Department of Environment? Energy is another one. It should not just be put into a box called “Trade Promotion UK and a bit of Foreign Office, thank you very much”. The whole ability for this nation to trade itself out of its current problems is something the entire government department, Civil Service, regions and countries in the UK should espouse and praise, not, “Oh, it’s over there, we’ll let those people do it. What are they called? UKTI. They can do it”. It should be a common purpose of the Government.

Q52 Mr Hoyle: Fewer mandarins/more experts.

Lord Jones of Birmingham: Yes. Fewer mandarins/more experts, but more important than both of those, more people on the ground in the country doing the business.

Q53 Mr Clapham: Promoting trade and branding the UK is very important and the DTI reference tended to be a brand for the British trade. Do you

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feel that changing to that terrible acronym “DBERR” had a detrimental impact to the branding of UK business abroad?

Lord Jones of Birmingham: I do not think DTI was seen abroad in the same way as you and I would have seen it here, actually. I do not think that was the brand that was recognised. I think the brand UKTI was beginning to get recognised, but that was early as well. That is very new. That is only five/six years. I think the Foreign Office would be the brand overseas, and the companies themselves. There are some amazingly big companies that are associated with Britain. DTI was certainly seen at home. When the name was changed—I will put my hand up here—I was asked my opinion before it was announced, what did I think, and I wanted the word “business” in it and I wanted the word “enterprise” in it. I did not have the final say—nor should I, that should be for other people far more important than me—but I was pleased to see that the word “industry” went, because “industry”, to me, conjures up ideas of dirty factories and cobblestones and things that kids do not want to do—the old cliché of a teacher saying, “Work hard and you will end up in a place like this” and all that stuff. I think you and I would agree that our vision of manufacturing is that it is quality, clean, innovative. It is business. I am glad that industry went. I wish “trade” had been kept for all the reasons we are discussing. It would be wrong of me just to say that I thought BERR was completely wrong. The words “business” and “enterprise” I was very pleased to see.

Chairman: We will ask some questions about the structure in which you operate in BERR, because you are still playing a role for the Government now, and then move on to questions of UKTI.

Q54 Mr Oaten: You talk passionately about what you think needs to be done and you talk passionately and proudly about your period as a trade minister. Do you miss it? Do you regret not being in that post at the moment?

Lord Jones of Birmingham: No. I miss the people sometimes because they are first-class people with a wish to do the job. Interestingly, I miss the ability to stand up overseas—I am proud of my country—and sell it, but the business ambassadorial role, which we might discuss in a minute, gives me that opportunity. I do not miss thinking, when I say things, “I’m going to have Number 10’s press office on the phone in about 30 seconds” when I sit down. I do not miss that.

Q55 Chairman: What were they asking you about, the press office at Number 10?

Lord Jones of Birmingham: Usually?

Q56 Chairman: Yes.

Lord Jones of Birmingham: Well, because I did not have a political career and I had no political ambition, it enabled me, of course, to do the job in a different way, positively. It also meant I spoke my mind a little bit more than most would, so that is an interesting time. I do not miss the red boxes on a

Saturday morning, no. But I would miss it desperately if I did not still have the chance to bang the drum for the country.

Q57 Mr Oaten: You are doing that at the moment through two roles, as far as I can understand. I am a bit confused about them, but you have the National Economic Council.

Lord Jones of Birmingham: No, I have not.

Q58 Mr Oaten: You are not on the National Economic Council.

Lord Jones of Birmingham: No. Do you know, perhaps this could go on whatever record this is for ever. On the day when that reshuffle came about, October 4, the Prime Minister formed the National Economic Council. I think the Prime Minister chairs it, but the idea was that Lord Mandelson came in—

Q59 Mr Oaten: It is a full Cabinet Committee in its own right.

Lord Jones of Birmingham: Sure. That was one thing, the National Economic Council. Then another thing was this group of 17 Business Ambassadors for UKTI.

Q60 Mr Oaten: Is this the Business Council?

Lord Jones of Birmingham: No.

Q61 Mr Oaten: Because you are on that as well, are you not?

Lord Jones of Birmingham: No.

Q62 Mr Oaten: You are not on the Business Council?

Lord Jones of Birmingham: No. All right, let us go back one. You had the Business Council which was created when the Prime Minister became Prime Minister.

Q63 Chairman: You were on it then. When it was created, you were on it.

Lord Jones of Birmingham: I was on it then, yes. My successor is on it. That is the Business Advisory Council. It meets in Number 10—well, I do not know whether it does these days, but it did meet in Number 10 about every quarter, and it was a group of CEOs and chairmen from the private sector, with quite a few Cabinet ministers from different strands of government. And that may be going on, I do not know. You then had a National Economic Council created on the reshuffle in October. Lord Mandelson was obviously going to play a major part in it, and I think that was to advise the Government on the current economic problems. Thirdly, you had a group of I think 17, it might be 18, UK Business Ambassadors, not one a part of government, all of them from the private sector, mainly CEOs of major companies. The job there is, as many times a year as they can give—and I think you will find probably a couple of times a year each—when they are in an overseas visit, because they are all global traders, to give some time and some inspiration and energy to the UKTI initiative that is happening in that country. So it is not a group which meets in London

or anything else; it is a group that does its disparate things around the world to promote this nation and its trade.

Q64 Mr Oaten: So are you freelancing a little bit there, or is there some sense of co-ordination?

Lord Jones of Birmingham: There is a guy called Jack Chartris who is a full-time employee in UKTI who was in charge of co-ordinating it and it reports in to Sir Andrew Cahn and through him to Lord Davies. That is the idea. But it does not meet as a group. It does its work out in the field of the world. When that all got put into a press release on the day that it all happened, on October 4, it came out that I was a UK Business Ambassador—which I became—on the National Economic Council—which I certainly am not, never was, do not intend to be and was not asked. I still get introduced sometimes in speeches and on radio and stuff as a “UK Business Ambassador on the National Economic Council” and I think, “I’m not, I’m not, I’m not”. So if I have this chance to put that right, I am sure that everybody, from Number 10 to me, will be very pleased. On the work of the two, the Business Council and the National Economic Council, you will have to ask others than me. I do not know. The UK Business Ambassadors are doing quite a good job around the world.

Mr Oaten: Given your role that you are doing as an ambassador, I am surprised that you do not know a little bit more about what the Business Council is doing and whether in fact it has met or not. It seems to have quite a lot profile.

Q65 Chairman: There is the Business Council and the National Economic Council and it is quite confusing.

Lord Jones of Birmingham: Sure. The Business Council has been in place since Gordon Brown became Prime Minister. It met about every quarter and it had about four or five Cabinet ministers on it and then loads from the business community.

Q66 Mr Oaten: The Richard Bransons of this world, and Sir Stuart Rose.

Lord Jones of Birmingham: Tony Hayward from BP, Jean-Paul Garnier from GSK, that sort of person.

Q67 Mr Oaten: Are you aware of it doing anything in the last 12 months or so?

Lord Jones of Birmingham: I would not know since I left in October, because I do not know what has happened. It was meeting every quarter before then because I went to them. But that was very much business attuned. What does business need? It was chaired by Lord Davies, then Mervyn Davies. It was about what does business need from this government? What it is doing now, I truly do not know. The National Economic Council was a creation of Lord Mandelson’s arrival in government and I have had no part with that whatsoever. But they are meeting committees, they are things that meet. Business Ambassadors never meet. Their job is to go and do it overseas. They are doing their job, frankly, if they are in an overseas market and they

give 24 hours of their time over there for free—totally for free—and banging the drum for Britain in, presumably, a particular sector—because if you have an oil guy, he can talk about oil and that sort of stuff.

Q68 Chairman: The National Economic Council is a straightforward Cabinet Committee. It was spun as being something rather bigger than that when it was launched.

Lord Jones of Birmingham: I do not know.

Q69 Chairman: But it has no relation to the ambassadors at all.

Lord Jones of Birmingham: No relation to the ambassadors at all. I am not saying it is only government, I do not know who is on it, but it is certainly not the ambassadors.

Q70 Chairman: There are 17 ambassadors. Why 17? I know several of the ambassadors are bankers you have been so pejorative about. Is that the right number of ambassadors? Why 17?

Lord Jones of Birmingham: Why not 18 or 16 for sure, but you need credible mass because they are not all going to do the same number of visits, are they? I have already done one to the Gulf, I am doing one to Eastern Europe in a few weeks, I am doing one to India that I have got planned and one to the United States in the autumn—so I will be doing, what, four a year. If you are the global CEO of one of the biggest manufactures on earth, if you are Sir John Rose, I would not have thought you would be doing four a year when you have a big company to run, but you hopefully could do one. You need quite a few to do it.

Q71 Mr Oaten: How do you decide where you are going?

Lord Jones of Birmingham: It is a three-way process. A post will say to UKTI, “We would love a visit from Fred”—whoever Fred may be. Secondly UKTI will say, “We could do with some clout and presence in . . .” as a market. Thirdly—and this is the bit that I think will be difficult to pull off but will be good—one of the ambassadors themselves would say, “I’m going in my ordinary course of business to such and such a place, do you want me to do anything while I am there?” Those three things together will maximise the effort. This is unpaid. These guys and girls do not get paid for this. You see, Chairman, there is something which I do believe in, and I would not have given everything up I do to do the job back in 2007 if I did not—the French do this well, the Japanese do this well, the Americans do this well, we have never done it before—and that is to take people from the private sector and get them to come in for a period of time to . . . I will not say “to help the country”, it sounds so jingoistic, but to do something for your country and then go back out again. That ability to do this we have never done. It is new and it is different. That is why I am thrilled to bits that Mervyn Davies took over from me because he comes from business and not from a political career.

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Q72 Chairman: Are these British Business Ambassadors a very good idea or a moderately good idea?

Lord Jones of Birmingham: I think they are an excellent idea but the word “excellent” should be judged with the benefit of hindsight.

Q73 Chairman: Only three of them are manufacturers, as far as I can see, on your list, and you are only a solicitor!

Lord Jones of Birmingham: Actually I am still a solicitor. I do not think I can practice. I would not be let loose on the public.

Q74 Chairman: You have talked about the importance of higher education as an opportunity.

Lord Jones of Birmingham: Yes.

Q75 Chairman: Three of them are provosts or vice-chancellors of universities, so it is quite a high ratio.

Lord Jones of Birmingham: Good. That is good.

Q76 Chairman: You think that is good.

Lord Jones of Birmingham: Yes. We have to understand that the higher education in this country is second in the world to America and is one of our major overseas currency opportunities.

Q77 Chairman: Every inquiry this Committee does overseas normally comes to that conclusion as well.

Lord Jones of Birmingham: It is absolutely amazing.

Q78 Chairman: Is the balance right: only three manufacturers and three higher education? Is that the right balance?

Lord Jones of Birmingham: One of the problems . . . Is that the right word? One of the issues would be that some of the quality manufacturers in this country are not what my mum would call British companies. I do not think personally that matters a damn, because as far as I am concerned, if they employ people in this country, they pay corporation tax in this country, they add to the public realm in this nation. I could not care, frankly, whether they are Indian or Japanese or American or German, but a lot of people would say that they should be “British” companies. If they have to play to that sentiment, then you will find a lot of CEOs and a lot of companies coming from overseas investors in manufacturing—and perhaps that is a reason that they did not appear in that list.

Q79 Chairman: What weight should this Committee attach to the role of Business Ambassadors in helping the country export out of recession? How important are they in the great scheme of things? Should we be encouraging them and calling for them to be expanded, made more important and given greater prominence, or should we just be noting them as a useful and modest contribution?

Lord Jones of Birmingham: With the necessary rider that you are of course talking about volunteers who at a stroke could stop it—and that is a very important point, because they are under no duty or obligation to do it and therefore we have to respect

that they are doing this for noble reasons—I think that this is a role where this Committee could make some useful contribution in terms of inquiring as to who is doing what, inquiring as to what did they do and where did they find problems in doing it, and where was it a bit of a success. If it was made clear that you would be asking those questions one year out, say, I think people in the year would apply themselves to the task a little more.

Q80 Chairman: You have just written the recommendation for our report, I think.

Lord Jones of Birmingham: But I repeat: they are volunteers, and they are busy, busy men and women.

Q81 Chairman: There is one other volunteer around we have not mentioned, the Duke of York, who does a lot of work.

Lord Jones of Birmingham: Yes.

Q82 Chairman: How did you assess the contribution that he made?

Lord Jones of Birmingham: I should declare an interest, which is that I am—

Q83 Mr Hoyle: His caddy.

Lord Jones of Birmingham: His caddy! Do you know, I have never picked up a golf club.

Q84 Mr Hoyle: Well, you would not—you carry them.

Lord Jones of Birmingham: Either as a player or as a caddy. That is one sport I do not do. I am continuing to be an adviser to him, unpaid, but nevertheless you should note my reply in the light of that as being an interest that I have. I did it before I was in government and I am doing it again.

Q85 Chairman: Let us have the answer to the question, please.

Lord Jones of Birmingham: The upside of his job as special representative to UKTI is in a particular market. He takes a brief extremely well and when he is on that job he works incredibly hard. Regardless of what you will ever read in a newspaper, those two facts are true. Get the right market, with the right people for him to talk to, he makes a substantial difference actually to particular companies’ ability to sell into that market and invest in that market. If you treat it as, “Well, he’s just a member of the Royal Family and we will send him anywhere and really he is going to do the Royal Family stuff and not the business accentuated stuff”, do not be surprised if he does not come back with the result. When it has been properly done and properly directed—and one of the other things you asked me was how I made a difference, and UKTI while I was there did accentuate what he did and focus it and put it into the right place—it works. If you just say, “Go and do your Royal Family bit over there, sir”, do not be surprised if it is not business focused.

Q86 Chairman: I am quite impressed with the work he does—very impressed, actually—but I do sense sometimes some jealousy in the Civil Service and the

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sense that they do not have the control they would like, by definition, with a member of the Royal Family.

Lord Jones of Birmingham: You could say that, Chairman; I could not possibly comment.

Chairman: Thank you very much.

Q87 Mr Hoyle: As you give advice to the Duke of York, I wonder if you could advise him that the next time he buys his daughter a car, he buys British and not BMW.

Chairman: No, no, no.

Q88 Mr Hoyle: That was stolen.

Chairman: We are in very dangerous territory.

Q89 Mr Hoyle: Because you know about using British cars.

Lord Jones of Birmingham: As you may imagine from me, Mr Hoyle, point noted.

Mr Hoyle: Thank you.

Chairman: Well done.

Mr Hoyle: What is wrong with that?

Chairman: Very good. We do not want to criticise the Royal Family.

Q90 Mr Hoyle: It was not a criticism; it was advice.

Lord Jones of Birmingham: By the way BMW do have a fabulous engine plant in Birmingham.

Mr Hoyle: Yes, but this one got stolen a bit too easily.

Q91 Mr Clapham: Looking at UKTI and hearing what you have said about UKTI, bearing in mind that the strategy *Prosperity in a Changing World* was set back in 2006, before the economic change, identifying six themes relating to five particular sectors, given that there has been a dramatic economic change is there a need, do you feel, for UKTI to redefine the strategy?

Lord Jones of Birmingham: I would not, because it has been such a success, having been bought into. I should have no credit for this at all, this is Sir Andrew Cahn pure and simple. He made a success of getting them to buy into it. When I arrived, it had already been in place a year and it was amazing to see how they bought into it. The last thing you do if you are trying to lead something in difficult times is chop and change. You really do lead something by keeping your head down, keeping your troops with you, going in the direction they have been told to go, and you go over the top first with them. On that basis, I would not change it at all. If this Government can find enough of your money and my money to do all the stuff it is doing in the financial sector at the moment, I would like to think it could find more money to beef up, to put more power behind—in overseas markets, not at home, not here, but in overseas markets—to put more people behind the whole drive of the five-year strategy, so that those sectors will come out of this better than we went in. That means trade our way out of it. Borrowing is deferred taxation. Let no one be in any doubt about what borrowing is. Government borrowing has to be repaid out of your and my money. I would like to see

some of that going to putting more into UKTI at this time, not less. It is a bit like a business: in times of recession, you put more effort into your sales team, you put more effort into your marketing team, because without your sales you go bust. I would like to see that, so I would not change the strategy, I would put more into it. They have done this joint venture, for want of a better word, with HSBC as UKTI. It had nothing to do with me. I was told about it the day I was going to join, so it is nothing to do with me at all. That is about getting smaller companies around the country educated and trained in the way of international trade, holding seminars and teach-ins around Britain to say, “This is how you trade internationally, these are the markets, this is what you do, this is what you would watch for” and then helping UKTI and the world in saying, “We will support trade missions, we will make sure you have some qualified expert people with you,” to get the country trading its way out of it. HSBC is doing that with UKTI. I do not know this, but I would not be surprised if over a period of time UKTI will do that with other things in other sectors and get that moving. The idea of five or six sectors being the fulcrum of how the nation goes forward, I think is a very good idea.

Q92 Mr Clapham: Do you feel at this point in time there is a need perhaps to refocus or certainly to bring more investment to research and development so that, given the change that is likely to come next year, we are going to be in a position to exploit the export market?

Lord Jones of Birmingham: Yes, is the short answer. I am pleased you have raised it because, at times of less money about and more worries about business, the two vulnerabilities are training and R&D. They are the two that finance directors chop first. If people think training is expensive, try ignorance. In terms of R&D, if we have restructured our economy over the last 20 years into value-added and innovation and away from making things which sell only on price, commodities—which we have done—and if as a nation we are attracted to inward investment at the value-added end of what we do, if you do not constantly research and develop your next products you are dead, you are finished. I think as a nation we have always put enough into research. Blue sky research universities and businesses is very good in this country. You will not read that in a newspaper, because it is good news. Why would you? In terms of development, the D bit of R&D, I do not think we are good enough as a country. We tend to research it here and develop it in other markets, and the sad thing is that you manufacture where you develop, you do not manufacture where you research. If you get the trend of research-development-manufacture, manufacture and development blends together and we are not so good at that. So more effort, more stimulus—maybe more money, but it is more about attitude and stimulus—at the development end of R&D. I think this nation could invest there quite profitably.

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Q93 Mr Clapham: Just looking at one of those sectors, which is energy, we see that one of the features that is going to remain after we come through this recession is that we are going to have high energy prices. Cheap energy has gone. Given the kind of situation there is now, do you feel there is perhaps a real need for us to be investing in the green technologies, in order to be able to reduce our dependency on those high energy prices.

Lord Jones of Birmingham: I think there are three reasons we should be doing it, and in no order. One is that we are quite good at it and the world is going to move that way, so why do we not make a win-win out of it and sell our technology expertise around the world? I remember going to Wuhan, quite a small city in China, only eight million people, the size of London, in a province called Hu Bei, which has 60 million people, the size of Britain. They have big pollution issues, and there was a wonderful company from Kidderminster, a small business, selling some wonderful environmental engineering stuff to help clean up their water. A huge export of success, right in the teeth of a recession. First, it is because we are quite good at it. Second, as a mix, if we have nuclear in the equation, if we have sustainable in the equation, and the use of fossil fuel continued but in a cleaner way—which of its own is a technological advance—then you are not so reliant on some rather, shall we say, unstable parts of the world who choose to use energy as a power broking mechanism. On that basis, for the nation's sovereignty, if you like, I think it is important. Third, there is the genuinely held belief by so many people that this is the only planet we have got and we ought to be doing something about that too.

Q94 Mr Clapham: Given your wide experience of dealing with British industry abroad, what would you say are the greatest challenges faced by British industry abroad?

Lord Jones of Birmingham: Generally, you mean, not just environmentally.

Q95 Mr Clapham: Generally.

Lord Jones of Birmingham: Every day they come up against companies from their rival nations of the developed world whose governments support them more, put more money behind their promotions, whose politicians are more behind the business equation than ours—of all parties—are. Secondly, a challenge which the entire developed world meets every day is that the developing world, especially the BRIC economies, are commoditising innovation every day, so your value-added is a win-win of being able to say, "I'm selling this on innovation and value-added" if the price is not as important. If it is a commodity where the price is everything, go and get it done in Vietnam or India or whatever. Every five years or so that innovation product has been commoditised and it is now being done over there, so you constantly have to re-invent and re-develop value-added products, goods and services in the developed world because everything else is shifting that way. When you have got a billion Indians, of whom 800 million still work on the land, you have

got the population of the European Union and America put together that is working on the land in India and is yet to be industrialised. When you have got something like a third of the Chinese population still on under two dollars a day, this is going to go on for your grandchildren's generation, and so the biggest challenge for British business overseas is how do you constantly sell on something more than price? If you are at the rarefied end,—Rolls-Royce aero engines come to mind; fabulous product—fine, but you cannot employ everybody in Britain, and so how do you do it so that you have enough economic activity at the value-added end in your country? If I were giving evidence as a German business person to a German politician I would be saying exactly the same, and American and French and Australian and Canadian.

Q96 Mr Clapham: Do they do it better?

Lord Jones of Birmingham: In terms of promotion around the world from a structured government point of view the best in class is probably Team Canada and it might be Singapore. UKTI does it better than the Americans or the French or the Germans.

Q97 Chairman: It is export promotion generally?

Lord Jones of Birmingham: Export promotion, yes, but, in terms of this mix of business and the public realm together that I was talking about earlier, we do not do it well.

Q98 Mr Clapham: So, just to clarify on that question of support given to business abroad, our main competitors: the Germans, the French, *et cetera*, do they give better support to business products?

Lord Jones of Birmingham: Yes, they do. I can give you two examples. One would be trade fairs, exhibitions, where it is about small business. It is about a small business having two things: money and confidence. The ability to go where you have never been before is a pretty frightening thing when you are a three-man band from Britain. This is not a UKTI critique because UKTI has only got one pot of money and it can only spread it so thinly so far. It is about how much is given to UKTI in the first place. We do not put anywhere near enough behind that. The Germans do. The second one is export credit guarantee. One CEO of a big manufacturing exporter said to me, "I use ECGD to market-test. If ECGD will cover me I know it does not need insurance", whereas if you were the French or the Germans you would be behind all your big exporters.

Q99 Chairman: I do not want to interrupt your flow but there is just one thing you said which was quite interesting. Canada is a federal system with very competitive states and Germany is very much federal; the *länder* are very competitive. We quite often get anecdotal criticism here that one of the things that undermines UKTI is the RDAs competing with each other which sometimes confuses those markets. Do you think that criticism is fair or not from your experience?

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Lord Jones of Birmingham: I think it has got a lot better. You asked me at the start whether I thought I might have made a difference at the time I was there. Because I was from somewhere north of Watford, because I had been in at the formation of the RDAs back in 1999, I understood them, I knew them, I had worked hard with them at the CBI. There was an element of mutual trust between me and the RDAs and I think the relationship got a lot better when I was there and I think it will endure, and there was a lot less of you went to the Detroit Motor Show and every RDA was there separately with UKTI. What a waste of public money that was. That has now come down to just two or three. It is far more focused. It could be better still but it is far more focused. Similarly, I have never understood why Scottish Enterprise always had to have a separate stand everywhere. It was fine if it was Scottish taxpayers' money but not when it was off my budget. That is also getting better, I think. I think there is a bit more will to pull the boat in the same direction. The Länder do not do it nearly half as much as the RDAs did, and Team Canada was very much a federal drive. I always said to UKTI, "You want to watch Team Canada and see where you can do it like them in certain areas". Singapore was different because Singapore came from a completely different walk of life in so many ways.

Chairman: I am sorry to interrupt, but that is useful; thank you.

Q100 Mr Clapham: That is an interesting point, working with the RDAs. As you say, it has become much more focused. In terms of UKTI's target markets, they identified in their strategy ten target markets. Do you feel that they need adjusting or are you satisfied that those are the markets which we should be concerned with?

Lord Jones of Birmingham: They chose ten, did they not, but then about a year or so ago they went to 16 of the emerging markets? Do you remember?

Q101 Mr Clapham: I am just looking at the brief. I have got my brief here.

Lord Jones of Birmingham: They had ten, which would include America. For all the accent we put on everywhere else, America is still our biggest trading partner and still our biggest inward investor, so you ignore America at your peril. Of the ten, you are right: they were everything, but we also chose 16 emerging markets we could focus stuff on.

Q102 Chairman: Given the list of the ten emerging markets we have got here, it would be interesting to have your view on the value of the ten—China, India, Russia, Brazil, Indonesia, Mexico, Ukraine, Saudi Arabia, Turkey, the UAE.

Lord Jones of Birmingham: And your question is?

Q103 Chairman: Are those the right ten?

Lord Jones of Birmingham: If you are having ten, that is the right ten. The question should be, is ten enough? One thing I would like to see, and I am not going to second-guess Sir Andrew; he might well have done it, is that you should keep that under

constant review and see where you need to be putting more or less of your money. Also, is ten enough? A very good example of this would be that Indonesia, for instance, is a market that is not really on our radar screen as a country. If you said to small businesses in Manchester, "Tell me some exporting markets you think you could go at", a country with 160 million Muslims is not somewhere where they think of and yet it is teeming with people who are getting richer every day and who would love to buy our goods and services. If you said, "How about Mexico?", they would go, "Oh, yes, we know about that. It's below America and I know where it is". You have got a big job to do to get certain markets with huge potential onto the radar screen of the British business population.

Q104 Mr Clapham: Are we doing enough to do that, to get across to British business the kinds of markets that we ought to be having a crack at?

Lord Jones of Birmingham: One of my jobs at HSBC is to make sure that smaller businesses in Britain get an understanding of that. I have got to get round Britain doing that and I would hope that some of my rival bankers do the same. This should be something that we should all be doing. Are we doing enough as a country? No; we should be doing more. UKTI, I would say, are doing as much as they possibly can with the resource they have got, but what I would like to see is them having more resource.

Q105 Chairman: As a link into Lindsay's question, one other UKTI question struck us as very important: the degree of controversy around the merger of the defence export sales organisations in UKTI. Some people said that this was a marvellous opportunity to upskill our defence export operation; others said it was a symptom of embarrassment, the fact that we sold armaments at all as a nation and it was time to shut them off. What was the reason for the merger and has it worked?

Lord Jones of Birmingham: First, it is against a background where I believe defence manufacturing is one of the great strategic and hugely important sectors of this country. We are one of those nations that has a reputation for standing up and being counted in the name of freedom. I do not want to argue about was Iraq right? What about Afghanistan? I do not mean that. I just mean that we are a nation that does stand up and get counted in many areas. To do it and do it well you need an indigenous defence manufacturing base. Secondly, if you develop it and do it well you can sell that expertise around the world. If anybody who is against us making weapons in this country thinks that this world is going to be safer by Britain not doing it, they are mad. All that will happen is that countries that you really wish were not doing it will start doing it. Therefore, if you follow the premise that we have a huge employer, a big taxpayer, a sector which supports democratic freedom and a sector which hopefully crowds out some rather nasty countries that would do it if we did not, then it follows that you need to give it government support. Our democratically-elected politicians may find it

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unpopular and embarrassing to say so, but the Government of the day has to get behind it and it needs an organisation to promote it. That organisation, especially in the field of arms sales, should be over-transparent. It should super-please in the areas of transparency and accountability, and it is a field where other countries are not transparent and accountable. I think we should be an exemplar in how to do that, and I am not passing judgment over whether we have in the past or not. I am merely saying that is what we should be doing. On that basis you need an organisation. It probably makes sense that you put that organisation in amongst the organisation that is there to promote the rest of your sales and promotion and marketing of what we have in goods and services rather than something that is over there, and so to bring it inside the UKTI tent I think was the right thing to do. It has peculiarities which we have to be sensitive to. One is that your best salesmen and saleswomen for that are not you and I; your best salesmen and saleswomen are the men and women in uniform. They are the best and the people who buy this stuff in other countries listen to the men and women in uniform more than they will listen to me, so you will need to be sensitive to the fact that it is slightly different in that respect. Secondly, it is probably the only sector, with the possible exclusion of higher education, where government sells to government and where the private sector are agents of government as opposed to principals. Therefore, when government sells to government you have all the issues, good and bad, that come with that. Is it different? Yes. Do I think those differences mean that you would not put it within UKTI? No. I would have it within UKTI. I think that was a right decision, but it was done too quickly, it was done without notice and it was done in a way that was not sensitive enough to the men and women in uniform and those who make the stuff upon which we depend as a nation not only for our security but also our wealth and our taxes and our schools and hospitals. However, is the end result where I would like it to be? Yes.

Q106 Chairman: That means big problems in the process. Industry was completely unaware of the potential. It just happened out of the blue. You are saying that has caused interim difficulties but they are being overcome and the idea is basically a sound one?

Lord Jones of Birmingham: I was amazed, given the lack of notice and the lack of consultation and the immediacy of the implementation of the decision, at how well those who were affected by it got on with it, probably not happily at the time but they got on with it, and I think the end result is probably where a lot of people would have liked it to be, but on the way through there were a fair few sensitivities trampled upon.

Q107 Mr Hoyle: I represent a region that is very dependant on defence manufacture.

Lord Jones of Birmingham: Sure. You make the Typhoon, do you not?

Q108 Mr Hoyle: Absolutely; we make the Typhoon, and we have got missile technology as well, but, of course, with that goes a lot of government investment of taxpayers' money. Do you think we do enough in technology transfer for the investment that we place in defence?

Lord Jones of Birmingham: Do you mean transfer to—?

Q109 Mr Hoyle: Into other sectors, civilian sectors.

Lord Jones of Birmingham: Factually do we do enough? No. I think we could do a lot more. I think there is one huge impediment, which is that, of course, our biggest partner in all respects of defence manufacturing is the Americans. The problem you have got—

Q110 Mr Hoyle: Except on Eurofighter. They are not even involved.

Lord Jones of Birmingham: Well, quite, but—

Q111 Mr Hoyle: And the missile technology is not American either?

Lord Jones of Birmingham: But America is our biggest partner in defence technology and the issue you have there is that they so often have huge impediments on technology transfer of any sort. It is easy for you and I to sit in a room like this and say there ought to be more.

Q112 Mr Hoyle: But we could do more. The big question is, which car plant is going to close in the UK?

Lord Jones of Birmingham: You are asking me?

Q113 Mr Hoyle: We have heard statements from the unions that a car plant is about to close.

Lord Jones of Birmingham: You had better ask the unions then, Chairman.

Q114 Mr Hoyle: So you have no intimation?

Lord Jones of Birmingham: I have none. I am not hiding from you. I genuinely do not know. My fervent wish is that none does.

Q115 Mr Hoyle: So you think it could be kite-flying?

Lord Jones of Birmingham: I would think there is an element of it. I would not have thought it was all of it, to be fair. I do not think Tony Woodley is irresponsible in that respect. He might be playing to his audience a little bit but I think he is probably speaking his mind in his true and genuine belief, to be honest. As you may imagine, Mr Woodley does not ring me up and consult with me very often.

Q116 Mr Hoyle: I am surprised at that.

Lord Jones of Birmingham: In fact, delete “very often”; insert “ever”.

Q117 Mr Hoyle: I do not think he plays golf either, so you are all right.

Lord Jones of Birmingham: We might meet on the non-golf course then.

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Q118 Mr Hoyle: In the case of the UK should we be doing more to promote its manufacturing industries, what sectors should be sustained through intervention through the recession, and how should the Government intervene without “picking winners”? That is a big question for you.

Lord Jones of Birmingham: I am a critic of this Government not subsidising skilled people to stay in and connected with the skilled manufacturing jobs.

Q119 Mr Hoyle: There is some of that going on. I think you are being a little bit disingenuous on that because there are cases where the Government, through the RDAs, has been investing skills in companies to help support them during that downturn.

Lord Jones of Birmingham: I do not doubt you. What I am saying is that if that is accurate then I really would love to hear that.

Q120 Mr Hoyle: I think we could do a lot more, and I think it is the part that we ought to be doing.

Lord Jones of Birmingham: I would love to hear about that because that would be good news, but if Lord Mandelson is sitting there saying, “Digby, that is all very well and good, but can you please explain to me how I pick the ones that are not going to go bust from the ones that are?” and all that stuff, in other words, pick the winners, I think he has got a valid point. I think it is really difficult. If you come from the Government’s heritage of the last time there was a labour administration, when you did have the baling out of British Leyland and all that went with it and the nationalisation of shipbuilding and steelworks and all the rest of it, you are going to have a heritage of this time round not wanting to be seen to be doing it. I understand fully the obstacles to doing it, but that in a way does not mean that it is not right to do it on occasion. We all forget this but the biggest investor in British Leyland was Margaret Thatcher. In intervening and picking winners and failing, I would remind Mrs Thatcher of De Lorean. Doing this is not just something which Labour Governments do. This is something that Governments of both sides did. I do understand how democratically elected politicians who want to be re-elected do not start trying to walk into the lion’s den and picking winners, but what could we be doing more on manufacturing? Above all else, I think, we have to invest more of private sector and public sector money in all the means to create value-added innovation. That is what manufacturing is about. It is adding value to raw materials and people’s time and how you put the two together and make six or seven. That is manufacturing. If you do not put more investment now into skilling people, getting your kids on board with the ideas so that they start thinking of careers in it, getting local governments understanding and politicians understanding this is not a milch cow that you can just constantly tax and regulate and presume it will always be here, because it is also the most mobile of our sectors. It is very difficult for Asda to make money from an Asda store in Birmingham and some of it in another country. You cannot do it. You can move a factory. I know

nothing about this but I read in the newspapers that there is a big row going on in the Government at the moment about, “Let us make sure there is less regulation”, and some parts of Government say, “No, we will have more”. I tell you: manufacturers will just go. They will go and do it somewhere else. We really cannot afford that to happen, so what should we be doing more? Making the business environment more easy for manufacturers to invest in this country and not in another country.

Q121 Mr Hoyle: It is interesting what you stated about Leyland but it is the same people that are coming back again—Jaguar, part of Leyland, LDV vans, part of Leyland.

Lord Jones of Birmingham: I think that is a coincidence.

Q122 Mr Hoyle: Leyland Trucks, part of Leyland.

Lord Jones of Birmingham: A coincidence.

Q123 Mr Hoyle: What we are seeing is that all the ones are suffering the same problems because they suffer the most because of the downturn. The first thing you do not buy is a replacement car or a replacement van or a replacement truck. My view is that the Government can do more and it is something that we had to remind you of when you were busy. I know you told something different in the *Daily Mail*, but when you came to this Committee you were happy riding round in a Japanese-built car with—

Lord Jones of Birmingham: I was not happy. You know I was not. Do not put words in my mouth, Mr Hoyle. I was very unhappy.

Q124 Mr Hoyle: You did not even know that you were riding—

Lord Jones of Birmingham: I thought it was made in Swindon.

Q125 Mr Hoyle: Exactly, so we corrected you and—

Lord Jones of Birmingham: And I went out and got a Jaguar.

Q126 Mr Hoyle: Quite rightly, but the point I am making—

Lord Jones of Birmingham: Made in Liverpool.

Q127 Mr Hoyle: So it should be.

Lord Jones of Birmingham: I know. Do not say I was happily driving round. I was not.

Q128 Mr Hoyle: Quite right, but what I am saying is you were busy riding round as a minister in a Japanese car with not one British job and not one British component.

Lord Jones of Birmingham: Spot on.

Q129 Mr Hoyle: Do you think—this is the point I am getting to—the same with the vans in Southampton and LDV vans in Birmingham? Do you think we can do more at the moment through procurement? I think it is always better to buy British manufactured cars and vans and vehicles

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because not only is it good for you to be seen in a British-built vehicle but also people recognise that it must be a good vehicle because if it is good enough for a minister it is good enough for the rest of us. Do you think we can do more through procurement to support British manufacturing?

Lord Jones of Birmingham: Absolutely, yes. What amazes me, and I say this with huge respect to the green lobby, is when you see the contribution to CO₂ emissions from the moment a Prius starts to be built in Japan to when it is driving a Cabinet minister around here and you see what you could do with a two-litre diesel baby Jaguar made in Liverpool, there is less carbon put into the environment in the whole equation by the small car in Liverpool. A ten-year old Ford Focus or whatever pollutes the environment far more than a modern Range Rover, but can you get that concept into people's minds? No. What we have to have at this time is a procurement process for the nation just supporting quality manufacturers. I was in Birmingham driving an Austin Allegro, so I was the one. I do understand that in the old days when a lot of British manufacturers did not make good stuff procurement on that basis was not only protectionist; it also was uncompetitive and, frankly, did the taxpayer down. Today in certain sectors we are first equal in a world of firsts at many things and we ought to be supporting it, yes.

Q130 Mr Hoyle: Absolutely. What I would suggest is, and I do not know whether you would agree, is that we ought to have a minister responsible for government procurement that would go right across departments because some departments do not seem to understand the importance of how you can use procurement,—of course, we have to work within the European law, although we are talking about companies which are outside Europe so it does not exist—somebody who would sit in the Cabinet office, look across and say, “Right; we have got the procurement here”. It may be paper clips this week but it could be trucks next week or aircraft the week after, but somebody takes responsibility to ensure that British companies know about it, and get all the right promotion and all the right support.

Lord Jones of Birmingham: My sympathies are entirely with you. Whether that person would thank you for the job is another matter.

Q131 Mr Hoyle: I think you might come back on that.

Lord Jones of Birmingham: I think it would be a good idea. One of the problems you have in the European Union at times like this is that I cannot really believe that if I were a French businessman and you were a French MP we would be having the same conversation.

Q132 Mr Hoyle: No, because I like the same playing field that they use.

Lord Jones of Birmingham: They are subject to the same procurement rules as we are.

Mr Hoyle: Yes, and somehow they seem to get the rules right. They put the French car industry first.

Q133 Chairman: I think you are agreeing with each other at some length, so I think we should move on.

Lord Jones of Birmingham: We are having a manufacturing love-in, Chairman.

Q134 Mr Hoyle: I will just give you another quick example where I think cross-government does not quite work out. We have put an army unit on contract that is now manufactured in China. It is now coming up this year and we have got British companies tendering for it. Part of it was that it was lost by about a million pounds over the five years on an over-£50 million contract, but what is never taken into account is the loss of the 50 jobs that went with it last time and the amount of national insurance and tax that they had been putting into the economy and the profits from that company. Do you think somehow we ought to look at that?

Lord Jones of Birmingham: Absolutely; for sure. I think the problem you have, and my sentiment is with you, is that you must make sure that the act of competition delivers the best value for money for the taxpayer. What frustrates me is when people are not comparing apples with apples and then do Britain down. Often, if you compared apples with apples, Britain would win. That is what worries me.

Mr Hoyle: A state-owned factory tendering is going to win. What I would say to you is that from the defence point of view they have saved a million pounds but the loss to the Treasury through national insurance and tax was never taken into the equation.

Chairman: I think you are starting to agree with each other again.

Q135 Mr Hoyle: So do you think it is something we can begin to look at?

Lord Jones of Birmingham: Yes, it is.

Chairman: That will do.

Q136 Mr Hoyle: Of course, it is about supporting British manufacturing. I am pleased that you have touched on the energy markets as well and the hope that we can move forward. Is there any other message that you think we ought to be putting in our report that would support British manufacturing on something you have not mentioned yet?

Lord Jones of Birmingham: Yes. I would also use the procurement exercise to improve the skills base because what is wrong with a local authority saying, “I like your prices, I like the quality. How do you skill your people?” They bring into the equation, rightly, about the private sector as employers of ethnic minorities and all of that, and I have got no problem with it, but why are we not also saying, “I will buy your stuff if you train your people. I want to come and see how you train them”. If the future of our manufacturing base is on how good the skills base is we will endure this recession. I want the big buyers of domestic manufacturing goods, which is basically the public sector in all its forms, including central government and the army and whatever, saying, “I want to come and see whether you have got any illiterates in your workforce. I want to see whether you are training well enough. How is your supply chain about training?”, and using the

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procurement process as an impetus to improve the skills base of the nation. Why not? There are a lot of politicians who are very quick to say to the private sector, “We insist that you employ so many of this part of society and so many of that part of society”. There is nothing wrong with that, fine, but—hang about. Let us invest in tomorrow’s people to deliver the goods so we pay our way in the world. If we do not pay our way in the world we are finished.

Q137 Mr Hoyle: I have a final quick question with a straightforward answer, I believe. I can see the benefits for UK manufacturing coming from the pound being weaker and that all those component companies that went into Europe are now looking to come back to the UK. Do you think there are opportunities the Government should seize there to support that?

Lord Jones of Birmingham: Yes. I believe the currency issue is cyclical. If we had had this conversation a year ago it would have been two dollars to the pound, so it is cyclical. It would be a dereliction of duty if, whilst we have the cycle in our favour in exports, we were not doing more about it.

Q138 Miss Kirkbride: I wanted to pick up on a couple of things that have come up so far. We started today by saying that we face the worst economic outlook since the Second World War, and clearly there are a number of our big exporting companies, one of which you are an ambassador for, who are in a spot of bother at the moment because of the world environment. If you were in Government now what advice would you be giving to Peter Mandelson about their various requests? What should the Government do?

Lord Jones of Birmingham: Without a shadow of a doubt make sure these initiatives are making a difference on the ground in the morning more than anything else. You have had your five minutes of initiative blitz. You have had all the news conferences. You have produced your strategy; fine. Just explain to me why there is a small business in Birmingham or Manchester or Newcastle right now which frankly would not know there was any difference. It is not getting through to the coalface. It is not making a difference on the shop floor. It is not there and you have got banks who are still not lending money, and until that changes I do not really want to see another initiative other than the one about what we were talking about, making sure that skilled people stay in work. Other than that I do not want to see any more. I just want to see the one thing declared actually make a difference. Above all else, please, Government, do not just announce it, spin it up, say, “I am doing something”, and then assume the system will deliver it, because it is not delivering it. I tell you: I should think every single small business—or big business—which perchance will watch this will sit here saying, “Well done. That is exactly the issue”. It is just not making a difference on the ground.

Q139 Chairman: I have to say I put this to the Prime Minister in the Liaison Committee last week and he said no, it was, so I am grateful for your endorsement.

Lord Jones of Birmingham: I support the initiatives. This is not an anti-Government thing. It is about the delivery.

Q140 Miss Kirkbride: So what has been announced already would be enough to be working for Jaguar, to take a specific example?

Lord Jones of Birmingham: If there were sufficient credit in the system. It is a big one—if there were sufficient credit in the system. It is easy to say quickly, “Let us get the goods in market and have people being able to borrow money so they buy a Jaguar”. That has taken five seconds to say. That is a huge ask. Is that sufficient? Yes, in many ways, but it is a big thing. Secondly, if we are going to carry on asking companies like Jaguar to green up what they make—and there is nothing wrong with that but it is expensive—then direct, proportionate, taxpayers’ help there is a good thing. Third is preservation of the skills base.

Q141 Miss Kirkbride: What about someone like LDV that has come out this last week as a potential cause for concern? Its MD on the radio this morning said that it had not made a profit in the last four years and yet clearly it will be looking for taxpayer insurance for any loans that it takes out. What would your take be on that?

Lord Jones of Birmingham: I think this is very difficult.

Q142 Miss Kirkbride: But you are sitting on Mandy’s shoulders giving him advice.

Lord Jones of Birmingham: As you may imagine, I do answer the question, do I not? I have got a reputation for that, and I will not duck it. It is difficult because I am a Brummie. They have been making vans there for as long as I have been alive. It is difficult because there are good, decent people who are in this predicament through no fault of their own. However, there is a difference in downturns and recessions between two types of business. There are those who fall victim to this cyclical nature of economies that go into recession because either what they make or the way they make it or where they make it is no longer in tune with where society has moved to. I have in mind Woolworth’s. I think Woolworth’s is a classic example. I say this with huge sensitivity to the 27,000 people who worked there and anybody saying, “You would not be saying it if it was you”; I do understand the issue, but nevertheless Woolie’s is caught by an economic downturn of a cyclical nature and perhaps LDV is partly caught in that. That is different from this type of recession, ie, starving the business environment of liquidity so they do not go and buy a JCB, they do not go and buy a Jaguar, they do not go and buy a Nissan or whatever. That is not the same as the other type and there are two different victims in this recession: those who are caught only because of the banking crisis and those who would have been caught in a

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downturn anyway. It makes not a jot of difference, does it, to the poor soul who is made redundant in either case who cannot pay his or her mortgage in the morning? It makes not a jot of difference to the taxpayer who has to look after that person in the safety net of state benefit, but it is a different way of analysing what you would do. I will criticise the Government if they are not getting behind the ones which are first-class products and are there only because of the financial crisis. It is more difficult to criticise the Government for not doing something about those that are caught in the normal cycle of an economy.

Q143 Miss Kirkbride: In terms of the way those two separate categories are handled, to go back a little bit on what we have said, it is really for the initiatives that have already been taken in terms of loan guarantees to become effective and then for that assessment to be made not by government ministers but by the banks which must resume their lending and the decision they then take is fine and the Government should not get involved?

Lord Jones of Birmingham: Are you saying that with relevance to LDV or generally?

Q144 Miss Kirkbride: LDV.

Lord Jones of Birmingham: No, I do not think that is applicable to LDV at all. Of course, it is applicable partly to LDV, but no, you should not be looking at these government initiatives and saying that application of all those in the morning would solve LDV.

Chairman: I do not think that is what she said.

Q145 Miss Kirkbride: No. I did not explain myself correctly. What I am saying is that, subject to the Government's initiatives working and the credit getting through, the assessment of that insurance-backed credit by the Government should be made by the banks.

Lord Jones of Birmingham: Oh, right, so in other words—

Q146 Miss Kirkbride: Or these companies.

Lord Jones of Birmingham: And the banks will do their usual task of picking winners as opposed to the Government?

Q147 Miss Kirkbride: Yes.

Lord Jones of Birmingham: Yes.

Q148 Miss Kirkbride: And then *que sera*.

Lord Jones of Birmingham: Yes, but as long as the banks are doing their job. I get called by a building company down in the south west and they want to borrow £20,000 from a bank with "Scotland" in its name, so you have got a 50/50 chance of guessing the right one. He has got a letter and it basically says, "Here it is and after two years it will have cost you £23,000 to borrow it". Why do they not just take two lines to say, "I do not want to lend you the money"?

Q149 Chairman: Yes, but hang on. You did declare your interest at the beginning, the fact that you are working for a bank. I have to say my understanding is that all banks are going to be doing the same thing. I am picking on the ones that are state owned and have names.

Lord Jones of Birmingham: Except—

Q150 Chairman: HSBC is doing the same thing.

Lord Jones of Birmingham: Chairman, I am not going to comment on that. What I am merely saying is that you as a taxpayer have no say over what Standard Chartered or HSBC say. You do have an involvement in the other two.

Q151 Chairman: Except, by definition, they are the banks in the biggest trouble and therefore have to rebuild their capital whereas the most prudent, and we will take HSBC, has got more liberty which it is not using.

Lord Jones of Birmingham: Quite right; I agree with you, but you were asking me who would decide—

Q152 Miss Kirkbride: Who is going to decide, yes.

Lord Jones of Birmingham: Your question was, "Would you leave it to the banks?"

Q153 Chairman: Yes.

Lord Jones of Birmingham: I am answering you, yes, if the banks did the job. If you are a small business down in Taunton and you are told in a letter, "You can have your £20,000 but it will cost you £23,000", you might as well just say, "I do not want to lend you the money". The banks in that case, all other things being equal, stack it up, make sure it is right, are not doing their job. The reason, Chairman, I chose that was not a cheap jibe at rivals of the bank that pay my wages. It was because the Government has a stake in those and not any other.

Chairman: Actually, the bank that is causing most difficulty to small business anecdotally is one you have not even mentioned today.

Q154 Miss Kirkbride: What I was meant to be asking you about was training policy. In earlier exchanges you had with Mr Hoyle I did not disagree with what you were saying about trying to back Britain more particularly when it comes to procurement but I wonder how you reconcile that little love-in with the Buy America programme that we have had from Obama, which, of course, has caused quite a lot of shock waves around the world.

Lord Jones of Birmingham: You know I come to this Committee as an inveterate free trader. I do not support tariffs, I do not support a Buy America programme.

Q155 Miss Kirkbride: What would be the difference be?

Lord Jones of Birmingham: I am about to explain. I would not support putting into legislation a Buy British programme, no matter how much I would find that frustrating, because we cannot really go round to the French and the Germans and Americans and say, "Why are you protecting

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yourselves?”, if we are doing it too. I think our love-in was actually about the sentiment to procurement where we do not even give ourselves a chance. We do not even compare apples with apples. We put our companies up against different procurement processes in different countries or in this country where they are not even competing on a level playing field. I would not support protectionist measures in the short term, let alone in the long term. In the short term it would not be in our interests as a nation because we are such a free trading nation and we want to pay our way in the world by trading round the world. You cannot do that if you protect your home market in an unfair way, but in the sentiment of procurement we really do not give ourselves even a level playing field on which to operate and I think that is where the love-in was.

Miss Kirkbride: As I say, as much as I have a lot of sympathy with your love-in, a true free trader would not allow what Mr Hoyle said, which is to say that you take into account the taxes paid in one country. You say wherever the goods are made the cheapest that is the place where you buy.

Q156 Mr Hoyle: That is not what I said.

Lord Jones of Birmingham: Do you think it is right that a Cabinet minister in this country goes round in a car made in Japan, not, notice, a Japanese car, because I think there is nothing wrong with him going round in a Japanese car made in Britain, nothing wrong with that at all, but do you think it is right? Just answer me that.

Miss Kirkbride: It is competition, is it not? I feel I should point out that we are asking you the questions.

Mr Hoyle: I want to clarify whether I have been used.

Miss Kirkbride: But the point is that in proper free trade you would buy the goods and services which are made where they are done most cheaply in the world and are the most designed for that kind of production, and therefore you increase the purchasing power of the country that is buying those goods and services so that they can produce more. You do not take into account the whole macro view of it all. You just do it straightforwardly on where the cheapest things are made. You buy them even if they have come from Japan because of the benefits that would ensue. You do not take into account the more holistic view of the loss of tax and income and jobseekers’ allowance that would be created by buying there, which is what Mr Hoyle did say.

Chairman: Mr Hoyle wants to clarify what he actually said.

Miss Kirkbride: Let him clarify what he said. What did you say?

Mr Hoyle: What you are not doing is comparing where I started from. We are on about a state-owned factory in China which is completely at an advantage because it is owned by the country so therefore how do you end up putting it in China when you would not even be able to sell—

Chairman: We must not be protective.

Mr Hoyle: Obviously, a state-owned factory has a complete advantage when it is going to do work for the UK. The point on the Japanese was that it is not cheaper, far from it, and the fact is that it has done all “It’s green” in the valuation and the fact is, as we have said, that it has got a bigger carbon footprint than British built cars because it has been shipped round the world.

Miss Kirkbride: You have made the point, so what things should be taken into account?

Chairman: Can I from the Chair point out that that you are not a free trader because you think a British minister should drive a British-made car? That is a perfectly reasonable view to hold but it means you are not a free trader.

Mr Hoyle: I will answer it.

Chairman: No. It is a perfectly reasonable view and I have got a lot of emotional sympathy with it, but it means you are not a free trader.

Mark Oaten: A pick-and-mix free trader.

Mr Hoyle: Woolworth’s is, essentially.

Miss Kirkbride: To go back to where we have been.

Q157 Mr Hoyle: A free trade alliance.

Lord Jones of Birmingham: Ah—ping! You seem to be saying that most free traders would find a convenient place where they are not. Is that what you are saying?

Q158 Chairman: If you think a British minister should drive a British car you are not a free trader.

Lord Jones of Birmingham: I believe that if my wages are paid by the British taxpayer and paid by people who risk their livelihoods and invest in Britain the minister or a civil servant provided with a car should be supporting the people who pay their wages. If there is an area where that car encounters no competition, for instance, to my knowledge I do not think Britain makes a people carrier, clearly that is different, but where you can and within the realms of competition then I believe that someone who relies on the taxpayer for their wherewithal should be supporting those taxpayers’ jobs. You are telling me that conflicts with genuine free trade?

Q159 Miss Kirkbride: I think it gets very difficult.

Lord Jones of Birmingham: I could go into the early hours arguing with you on that.

Q160 Chairman: We do not want to get too bogged down with this but I think it is the beginning of a slippery slope. President Sarkozy uses exactly the same argument to justify subsidies to French car makers with French taxpayers’ money, to justify explicitly protectionist measures in his subsidy package. The French and German governments use scrappage allowances because they know they will go for German cars; the Germans buy German cars. These are all protectionist measures and you are beginning on the slippery slope. You are giving them permission by saying British ministers, which I would agree with you about, should drive British cars. That is the trouble. The battle to protect free trade is difficult because we all make little compromises to suit domestic audiences.

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Lord Jones of Birmingham: I think it is a valid point.

Q161 Miss Kirkbride: Are we compromising on that one then?

Lord Jones of Birmingham: I think he has made a valid point.

Q162 Miss Kirkbride: So Obama is very naughty but we will still buy British from the British Government as long as it is not put in legislation? Is that a rough summary of what it is all about?

Lord Jones of Birmingham: By the way, the President of the United States of America, from, I think, the middle of this year—when you see him wave as he gets on to his helicopter on the White House lawn, that helicopter will be made in Somerset.

Q163 Chairman: They may rescind the contract, actually. They are not so sure. They are looking at it again because they are unhappy about it.

Lord Jones of Birmingham: There you are: protectionist again. Do not upset me on this Monday afternoon, Chairman.

Q164 Miss Kirkbride: So if we have a bit of difficulty when it comes to goods and services and free trade—

Lord Jones of Birmingham: You do.

Q165 Miss Kirkbride: Between us, I would say.

Lord Jones of Birmingham: Do not “we” us.

Miss Kirkbride: “We” in terms of reconciling how—

Mark Oaten: You are both Bromsgrove.

Q166 Miss Kirkbride: Yes, exactly, but I mean “we” in terms of reconciling what emotionally we might like to do with a policy that would be fair and reasonable with regard to free trade. What about when it comes to British jobs for British workers?

Lord Jones of Birmingham: I should think the Prime Minister—and I have not spoken to him about it so this is just a personal view—regrets the day he said it. One of the things that this country has excelled at over hundreds of years, not the last five or ten but hundreds of years, is getting quality people, skilled people, from all over the world to, yes, okay, enrich us socially and culturally but really to add to the GDP of the country. We have done it for hundreds of years incredibly well. We have even got a royal family that every time we run out of people we have gone off to Europe and got another lot. We have done it for hundreds of years, so I think, rightly, that if there are unemployed construction workers in Britain who think, “Two years down in the Gulf, two years in eastern Europe is what I’ll do because I can’t get a job here”, the *Auf Wiedersehen Pet* argument, I think that is a good thing, but it hardly becomes us to turn round and say to others, “You can’t come here and do the same thing”. What I would say is welcome to competition because some of you might remember in 2006, just after I finished at the CBI, I took the *Dispatches* cameras on a tour and made a programme about Polish workers in Britain. This was at a time when you could not get a plumber for love nor money. I remember there finding out so often that people were saying, “Oh, these Poles have

nicked our jobs”, and with the camera there I used to challenge them. I would say, “You do the job then”. “I’m not doing that job”. “Why not?”. One guy said, “I’ve got to get up early”. Another guy said, “They don’t pay enough”. I do not blame the Polish workers for coming here, and I know the argument is that in the refineries and all that it was not Poles but the concept is the same. Please do not tell me that if we can get a more productive nature from people who are prepared to come here and work for a wage—and I hope there is no abuse; I do not want breaching of minimum wage; I do not want breaching of any health and safety or employment regulations; that is despicable, I do not want that, but if it is purely competition—then at the end of the day we have a history of welcoming people here to work hard, bring their skills and deliver for this country. It will be one of the elements by which we get ourselves out of this. I would love to take this opportunity in public to say this, Chairman. If we allow protectionism, and we have agreed a compromise on one or two areas, to get hold of the major nations of this world you will find nationalism follows very quickly behind it, and the moment you get nationalism you get extreme parties playing to populism and it will be the easiest thing in the world to get people who are worried about their jobs, worried about their future, to turn on certain ethnic minorities in this country, and indeed sometimes not even minorities. I would just say to us all that we have to kill that at birth, strangle it at birth, because I do not think it is too emotive to say look what happened when the 1930s went that way.

Q167 Miss Kirkbride: Okay, so we are clear about workers.

Lord Jones of Birmingham: But not buying a British motor car.

Q168 Miss Kirkbride: What about your general view of the protectionist sentiment that is rising around the world, whether it is coming from America or whether it is the French up to their usual tricks? Are you concerned that in the present political climate we are going to have some difficulties on this front?

Lord Jones of Birmingham: We have always had difficulties as a nation preaching the free trade gospel around the world. On balance, if you look at it over a cycle, our free trade stance, I agree, is bent at the edges but it has made this country richer. It is very difficult to sell that story to someone who has just lost their job and your democratically elected politician has to explain that he or she has just voted for them to lose their job. That is a pretty difficult call in a democracy, I fully understand that, but over a cycle you tend to make more money as a country if you are free trade. At this moment we are seeing a challenge to democratic capitalism, are we not, and when that happens the different voices that come to challenge that do not all come from people who are inherently nasty or anything else. A lot of them come from people who are just very worried, very insecure. It is a very difficult path to walk to keep the free trade mantra going but if this nation does not have a world

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that by and large is free trading we will never pay our way in the world and we certainly will not trade our way out of this.

Q169 Chairman: This has been how I knew it would be, a wide-ranging session, perhaps a little more wide-ranging even than I had expected, but nevertheless a helpful one. The principal purpose of it was to draw on your time as a minister and to understand what changes, if any, you think need to be made to the public policy environment that surrounds our export promotion effort. That was the principal purpose: to make sure we can trade out of a recession and make use of a weakened sterling, for example. Is there anything—and this is a dangerous question to ask Digby Jones—you have not had an opportunity to say in that specific context that you would like to put on the record before we draw the session to a conclusion?

Lord Jones of Birmingham: I would hope that as the Government of the nation—and this is not about a Labour Government or a Tory Government or a Liberal Government; it is nothing like that at all—faces the next 15 years of pulling in one's horns and raising taxation, and both of those two things are going to have to happen whoever is in charge because of the nature of the national debt, I just hope that they do not say, "We have got to cut things so that means less on trade promotion, fewer nurses, fewer teachers, fewer policemen". By all means start looking at the back office, all those sorts of things of which I spoke in a former committee. By all means look at streamlining systems, look at changing the way that you produce public services for sure, but please do not cut at the coalface. That goes for a teacher, it goes for a policeman and it goes for a nurse. I want to see in the same breath as those important people in our society those who work in the trade promotion and investment promotion side of this nation. We have to see them, whether they are

working on the ground in an emerging market or whether they are working in a regional country of the UK getting businesses to do it. They are as important to this country as a nurse and a teacher and a policeman because if they do not do the job and businesses do not earn the money they will not pay the taxes and you will not get any nurses and teachers and policemen. More than anything else, therefore, I would ask,—and I have got representatives of all three parties here—when the call comes (and it will) to cut services and raise taxation, please put the work of UKTI up there with the work of a teacher.

Q170 Chairman: And you would say that broadly the UKTI structure and model is working quite well? It could be improved, everything needs to be improved, but you would not change the basic model?

Lord Jones of Birmingham: I would not. I would put more resource into it, especially on the ground in overseas markets, especially into other sectors than they are allowed to do because of the money at their disposal. I would not change it. The ability to get people to follow an understood vision and be led forward happened before I or Andrew Cahn. It happened with me there. I understand, although it is second-hand, that Lord Davies is doing exactly the same. What we should do is not chop and change and have people going forward. There will be some places in the world where they could do with a few more people. By the way, if that means that you are going to say, "Those people can come but they have to come off a head count in London", change the system. There is nothing wrong with that, but do not just cut people at the coalface.

Q171 Chairman: Thank you very much indeed. We are very grateful for your time.

Lord Jones of Birmingham: My pleasure.

Tuesday 14 July 2009

Members present

Peter Luff, in the Chair

Mr Adrian Bailey
Mr Michael Clapham
Miss Julie Kirkbride

Mr Mark Oaten
Lembit Öpik
Mr Anthony Wright

Witnesses: **Lord Davies of Abersoch CBE**, a Member of the House of Lords, Minister for Trade, Investment and Business, **Sir Andrew Cahn**, Chief Executive, UKTI, **Mr Patrick Crawford**, Chief Executive, ECGD and **Ms Claire Durkin**, Director, Europe and International Trade Directorate, Department for Business, Innovation & Skills; and **Mr Gareth Thomas MP**, Minister of State for International Development, Department for International Development, gave evidence.

Q172 Chairman: Welcome to this second evidence session for our inquiry into exporting out of recession. We are very grateful to have you, Lord Davies, before us for the first time. I think we have Lords minister left in the team before we have got the full set, but I am very grateful to you. I am also very grateful to you, Gareth, for coming. When Gareth Thomas heard about this evidence session he asked if he could come, which is a very healthy sign which we are very grateful for, thank you, and we all appreciate that because there are some issues about the overlap we are very anxious to explore. Having said that welcome, could I just ask the team to introduce themselves.

Ms Durkin: Claire Durkin. I am Head of both BIS and DfID trading development policy.

Sir Andrew Cahn: I am Andrew Cahn. I am Chief Executive of UK Trade and Investment.

Mr Crawford: I am Patrick Crawford, Chief Executive of the Export Credit Guarantee Department.

Q173 Chairman: Thank you. My first question has to go to Gareth Thomas but, Lord Davies, please chip in as well as you want to. At a previous reshuffle—not the one we have just had but the one before—much was made of the fact that trade policy and trade issues would now be the shared responsibility with DfID; and until this last reshuffle Gareth Thomas was a minister in both departments. Now you are back again “just” being a minister in DfID and no longer shared. Does this suggest the Government has had a rethink about the relationship between trade policy and international development questions?

Mr Thomas: I do not think it does. As Peter Mandelson explained to the Committee last week, I think it reflects some of the broader issues about the nature of the reshuffle. The Trade Policy Unit is still very much a joint department across the two government departments. Claire Durkin in that sense straddles both departments. Before the Trade Policy Unit was created there were a number of ministers who had responsibility for trade policy work. I think I have had responsibility for trade policy in one shape or form for the six years I have been a minister. I do not see a fundamental change. Mervyn and I have already met; we are clear where each of us and where each department will lead in

terms of trade and trade policy questions; but I think we will take a broadly pragmatic approach. Both of us have a longstanding interest in development. Both of us have worked with UK business so are conscious of the different interests in terms of trade policy there. I do not think it represents a fundamental change of direction.

Q174 Chairman: Speaking personally, I still have reservations about having large numbers of ministers in the Lords. This Committee has some sympathy for the idea the trade promotion minister in particular should be in the Lords for reasons we will probably explore later. One of the advantages for me of the old arrangement was that when we had Question Time for the Department before the House Gareth Thomas could come and answer for trade questions on the floor of the House with an authority. We have lost a lead trade minister now; he is just in the Lords now. Who is going to answer the trade policy questions on the floor of the House of Commons?

Mr Thomas: With respect, there have been a number of departments at one stage or another on which trade questions have come up. Treasury questions have seen trade issues raised; business questions have seen trade questions raised; DfID questions have seen trade questions raised; and PMQs too. Essentially ministers from each of those departments will have to answer trade questions at different points in time. That was true of the old regime, just as it was true of the regime before that.

Q175 Chairman: Up to a point. Lord Davies, you have the over-arching responsibility here: we do not have a *quid pro quo* in the Commons so that we can interrogate these very important questions.

Lord Davies of Abersoch: I think some of the trade issues naturally fall into the business area, so they will be for me; and others, to do with developing markets, fall into Gareth’s. It will require us to work together as a team. I think having two ministers is an advantage, not a disadvantage. I think we have a common goal, which is getting Doha Agreement and getting open markets.

Q176 Chairman: We will talk about those as issues later on.

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Mr Thomas: Chairman, if I could just add. I think at the very first development questions I had to appear at as a minister I was asked a fairly complex question about the difference between the amber box, the green box and the blue box by the then chair of the International Development Select Committee. I raise it in a sense to demonstrate the point that both of us have just made, that questions on trade policy come up at a series of Question Times.

Q177 Chairman: Who will answer on trade questions at Business, Innovation and Skills Question Time on trade matters?

Lord Davies of Abersoch: In the House of Lords I will, and in the House of Commons Gareth.

Q178 Chairman: He cannot; he is not a minister in the right department.

Lord Davies of Abersoch: I am sorry, on trade policy I thought you said.

Q179 Chairman: On trade policy. Questions about UKTI and so on, that we ask at Business, Innovation and Skills questions, who will answer in the Commons?

Lord Davies of Abersoch: Ian Lucas has been covering a number of the business issues in the House of Commons. Pat McFadden as the equivalent of Peter Mandelson is covering all of the Department's issues in the House of Commons.

Q180 Chairman: He is a busy man. We are used to having a Trade Minister in the Commons. Gareth Thomas *was* that man but we seem to have lost something in this new arrangement?

Lord Davies of Abersoch: I think we have to be careful here. I think in trade generally it is not just trade policy and a wider issue of trade promotion; I think it is important as Trade Minister that I am involved in trade policy as well as trade promotion.

Q181 Chairman: Your predecessor took a different view, of course!

Lord Davies of Abersoch: I know. I think it is important also that we realise how complex the issues are as regards developing markets; that is why a partnership with Gareth is very important.

Mr Thomas: I am touched by the sense of loss you feel of me at questions!

Q182 Chairman: It is genuine!

Mr Thomas: In a sense the area of trade policy has gained two ministers with a long-standing interest in trade policy questions. It is certainly true that Digby did some of the work in terms of having conversations with a number of key ministers where he was pushing the trade promotion agenda as well. I am sure if needs be from time to time, if I am in a particular country where there are UK interests to argue then I will happily do that at that time if that is what is necessary. UK ministers in general when they are abroad often raise a series of issues beyond necessarily just their departmental brief.

Q183 Chairman: How are you going to ensure effective communication across three departments? Claire Durkin may be partly the answer to that question. I have heard criticism made of UKTI, for example, not criticism of the organisation but of the reporting structures it has, that it has two masters; now trade policy has three masters—without the commonality of the minister there used to be—Foreign Office, BIS and DfID; and also a whole host of other government departments too are often touched by trade policy. Are we going to get proper joined-up government communication?

Mr Thomas: On trade policy there continues to be a Cabinet committee that when necessary can meet to resolve trade policy questions. I have no doubt that, as hopefully the Doha Round gathers further momentum, there will be a need for that trade policy and that trade committee to meet. We have a joint Trade Policy Unit; it is partly Claire's responsibility to ensure that coordination at official level across government. In the end, as you will have seen from the statement on the G8 yesterday, on the biggest trade policy issue of all, the Doha Round, the Prime Minister takes a very close personal interest; and he will, through the Number 10 machinery, help to continue to ensure joined-up government operations on this.

Lord Davies of Abersoch: I think another example of coordinated effort really is in the last few days we have got leading corporations involved in Africa coming together, together with the Foreign Office, with Gareth, with myself, looking at trade with Africa; and I think huge advantage in having all of the departments involved and all ministers involved, and a great attendance from the corporate sector, and we have got full attendance from the ministerial groups; so I think we have to work as a team.

Q184 Chairman: Can I ask you about the question of the split loyalty of UKTI reporting to two departments. Does that pose any challenges or do you think it is inevitable?

Lord Davies of Abersoch: Obviously a lot of people have asked me—I am six months into government—as to whether it is a plus or a minus. I think that if you are the trade minister you work very closely with the ambassadors; you work very closely with the Foreign Secretary, and with Peter Ricketts; so I think it is a huge advantage because, at the end of the day, UKTI has its own organisation but we also have the ambassadors. We need to work as a team and I think it is a huge advantage reporting to both.

Sir Andrew Cahn: If you go back to 1999, Sir Richard Wilson did his report and recommended this dual structure. I think at the time some people thought it was a bit of a fudge but actually in practice it has worked extremely well. What it gives us is we are plugged into the Foreign Office network and it focuses the Foreign Office's mind on commercial compency, on trade promotion in a way that perhaps it was not focused before. I think it has brought the Foreign Office very much into the field and made them committed to it. Yet we also have for the Trade Department a full commitment, and we

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have the home perspective. Actually the coordination would say, “Having a single minister, currently Lord Davies who straddles the two departments, means we get good coordination”. I have looked at lots of examples around the world and lots of countries do it in different ways; I think ours stands up to scrutiny and compares with the best.

Q185 Chairman: We should thank you publicly for your stewardship of the Department as Acting Permanent Secretary for a while as well; for how many months?

Sir Andrew Cahn: Two—very short!

Q186 Miss Kirkbride: You said you were going to be responsible for trade policy as well as trade promotion. Bearing in mind that that is an EU competence and that we have an EU Commissioner in charge of trade policy, I was wondering what influence you would bring to bear on that issue?

Lord Davies of Abersoch: One of the changes I think is happening in governments around the world, and is certainly happening here, is that we do need on matters of trade and business generally people with expertise who have had international experience of trade, as I have, to be inserted and injected into government. I think that experience of living in Asia and working with governments across the world will be a strength; and it enables me and Gareth to work closely together and obviously liaise with the EU, and obviously also start pushing even more aggressively the argument for open market and Doha.

Mr Thomas: Perhaps Miss Kirkbride I could add, we have in terms of the EU drawn up a wish list in terms of priorities for trade policy negotiations in terms of free trade agreements with a number of allies in the EU, and are obviously seeking to influence the Commission, not only the Trade Commissioner whom both of us have had conversations with, but also the presidency and other Member States. We do not simply sit back and in a sense allow the EU to do trade to us; as Mervyn has alluded to, we seek to actively go out and persuade the EU to take the line that we take; we seek to explain British business concerns; we seek to explain the development concerns that we have about particular trade policy questions, and encourage the Commission as far as we can do to pursue the UK interest.

Miss Kirkbride: How much of your time do you think you will be giving to trade promotion, because obviously your predecessor gave it a great amount of time?

Chairman: Not too much on that, please.

Q187 Miss Kirkbride: In your written submission the Committee notes that one of the new support measures for business is a series of ministerial meetings to identify policies that might affect UK trade competition. I wonder if you could tell us any ideas and views you have had arising from those meetings that might boost conditions?

Lord Davies of Abersoch: I think inevitably my role is making sure that I have got the pulse of UK corporates, SMEs and large corporations; so I have got to travel across the UK, which I have been doing; and working with the regional ministers, working with the Department and making sure that I truly understand what is going on, in the SME sector particularly. An example of that is we have had probably about 300 small businesses into 10 Downing Street for a discussion in the last two weeks, entrepreneurs and exporters, understanding what their issues are and what their concerns are. Additionally, I have done 17 overseas visits to 14 countries since I took the job; so it is a blend of international travel and really helping exporters and attracting inward investors; and at the same time travelling across the UK.

Q188 Miss Kirkbride: From your meetings with SMEs and everything else, is there anything in particular that has arisen which you think we could be doing better? Bearing in mind the Government’s policy to try and trade our way out of our present economic difficulties, what is it we are going to do better and more of in the future to make matters better than they are now?

Lord Davies of Abersoch: I think the whole series of initiatives we put in place—and I will not go through the list but they have been extensive—which are about giving real help now to consumers and businesses. I think there are still some challenges out there. The banks have been stabilised and have got lending targets. The challenges I think now are that we have got a global recession going on; we have got challenges in so many different markets; on the other hand, there are pockets of real growth in the world and we have got to make sure we are helping businesses get that export market. I think through a whole series of measures in UKTI, but also governmental initiatives, we have helped business. I think there are still some challenges out there, trade credit being one of the big ones, seed corn capital for young business—and that is why the Science Innovation Fund, which was launched last week, is a good move—but basically we have still got some challenges out there. I think what we are doing is putting a series of government initiatives but also working very closely with the RDAs. I had dinner with the RDAs last week, all of them in Derby, and then Andrew spent the day with them. I think it is all about getting closer to the businesses and making sure that the banks are helping; and making sure that our initiatives are working.

Q189 Miss Kirkbride: There is one issue I would like to take up with you which a constituent drew to my attention last night. It is quite complicated so I will not go into it now, but he has an SME and he is having real trouble getting his goods shipped. The particular line he was upset with was the Maersk line but he said it was a wider issue of SMEs not getting access to containerised shipping at the times they want, whereas the big boys of course with the bulk contracts had got this all sorted out; but for him the

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lack of flexibility and some specific issues with regard to the way we operate shipping policy, versus the way other people do, was causing his business real difficulties in that he could not ship his goods on time. Have you had this raised with you at all?

Lord Davies of Abersoch: I have not but the best thing is for them to write to me and I will take that up.

Q190 Miss Kirkbride: I certainly will

Lord Davies of Abersoch: I think the most common issues for SMEs—and, as I have said, I have met hundreds of them in the last few weeks—is around trade credit, short-term insurance and I think it is also about confidence. We need exporters and small businesses to have the confidence to reach out to international markets. I think that is very much part of the promotion we are doing in UKTI. I will take that up if they write in.

Q191 Miss Kirkbride: I am sure those issues are true, but if it gets down to a simple level of not being about to book your space on the ship—

Lord Davies of Abersoch: Claire might have a response, but with that particular one if they write to me I will take it up.

Q192 Miss Kirkbride: I just wondered whether Claire or Sir Andrew had come across this, and you are aware of other people being concerned about this access?

Ms Durkin: I am very interested in this, if I may say so, Chairman. We are preparing for the pre-Budget Report a study on doing business with the borders, where the spirit is that we have an action plan to make sure it is a lot easier for us practically to do real business at our borders so we are as competitive as anyone else in the world. We have been out to consultation and the reason I am very interested is that we have not had this raised, and it is obviously a very real issue. If you could send it in I promise we will explore it at the different ports to compare performance and see if there is something concrete we can actually do.

Miss Kirkbride: I certainly will. You will get it later this afternoon!

Q193 Chairman: Could I just push you on one issue here to do with trade promotion. In UKTI's submission dated 28 April, paragraph 6.20 talks of the meetings you are going to have, Lord Davies, or are having with ministerial colleagues across government "to raise the specific concerns of international and UK-based businesses where current or proposed regulation and/or legislation will have a potentially detrimental impact on UK competitiveness as a place to invest in . . .". I entirely agree with that and welcome that initiative. "It is vital", the note says, "that ministers and policymakers. . . understand the potential impact of proposed policy changes on businesses' ability to compete in global markets". The spirit of that I can

only say is absolutely right. Can you give me an example if any specific outcomes of those meetings identified particular problems?

Lord Davies of Abersoch: I am a member of the National Economic Council, the NEC, which is meeting at least once a week really and it takes problems, and a good one is visas which has been very topical recently. A lot of businesses have raised that as an issue, so I have taken that up and had a meeting with Phil Woolas and just pushed it with the Home Office, so we are looking at that. I will not go into the whole list but there are a series of matters that are raised and either I would go and talk to the ministers involved, or I would go and raise it at the NEC. Issues to do with export help; issues to do with banks; there is a whole series of issues that get raised at the NEC and individually with ministers; visas has been the most recent one.

Q194 Chairman: We will want to return to the visa question a little bit later on, in one specific context.

Mr Thomas: Chairman, I wonder if I could take you back to the border trade policy issue and give you another example to back up what Mervyn said, and that is: increasingly the relationship between developed countries, in terms of increasing market access, is about trying to reduce non-tariff barriers; so trying to get agreement on the type of regulation, the standards that British business or European business has to adhere to, to be accepted in other markets. For example, in the US or in Japan, say, accountancy standards that UK accountants have to adhere to we would want accepted in the US; and that standards that lawyers have to adhere to we would also want to have accepted both in the US and Japan. Through the European Union's transatlantic economic dialogue with the US—a bit of jargon for which I apologise—we have made progress in terms of accountancy standards; and through similar dialogues we have made progress on access to lawyers into Japanese markets. I would not want to overstate the level of that additional access we have secured, but it is that type of regulatory discussion with developed countries which we want to continue developing.

Q195 Chairman: I understand that, but the implication of your evidence was that it was barriers that were erected by the British Government accidentally to export activity, like aspects of visa regime?

Lord Davies of Abersoch: We have got to constantly be aware of any legislation we bring in that we are not putting more and more obstacles in the way of business. That is why I work very closely with the Better Regulation Executive; and that is why—particularly with the burden for SMEs—we have to make sure it is not too heavy. On the other hand, we have got to introduce certain laws, so it is making sure that the balance is right. I think at the moment there is a good dialogue on regulation with the Better Regulation Executive.

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Q196 Mr Bailey: This issue of trade promotion, I am a fairly simple soul and we have had discussion on trade policy and trade promotion. In my own innocent way I would have assumed that trade policy was trade promotion, banging the drum for Britain. Could you just explain how you would distinguish between the two and how you see your role within that distinction?

Lord Davies of Abersoch: I think at the world level, the architecture for the world, the discussions on climate change, financial architecture and trade, we need the world to come together and have an agreement on open markets and the Doha Agreement. As far as I am concerned—I am also a simple person—I think that is very, very important for continuing to take people out of poverty and for global growth. We are in a competitive marketplace so separately the UK needs to compete for inward investment, and we need to help exporters. So UKTI's role, and Andrew may want to add something, is to attract inward investment; and clearly we are doing well on that—an 11% increase last year and still absolutely the leader in Europe; so FDI is continuing to grow here; but at the same time we have had huge recession going on and we have to make sure we are helping businesses of all shapes and sizes across all the sectors. We have got a UKTI system of helping over 21,000 companies, and we have got that approach which is helping businesses but, at the same time, we need to be selling our story internationally, so we have got international offices and we are working very closely with the RDAs. I think trade promotion is very different from trade policy.

Sir Andrew Cahn: I think the simplest way of distinguishing the two is that trade policy is creating the conditions within which trade happens. Countries negotiate, the European Union negotiates and Britain, of course, is the most open trading nation I know of and we press always for opening borders and opening trade. UK trade and investment seeks to take advantage of those open trade borders to help British companies to export as effectively, and indeed inwards investors to export, globalised companies to export from these shores. We very much are a service delivery organisation helping British companies and international companies based here; whereas Claire and her team, working to Lord Davies and Mr Thomas, are a policy department trying to create the conditions in which we as a service department can take advantage.

Q197 Mr Bailey: I think that is quite a helpful clarification. Lord Jones previously saw his role very much, as he said himself, banging the drum for Britain, a trade promotion element of the job description; and also pointed out that it was really necessary to have somebody carrying out that role relatively free from all the encumbrances of Westminster duties. Do you see your role differently? Do you feel that if you do that that hinders your ability to represent Britain more effectively abroad?

Lord Davies of Abersoch: No, not really. I think Lord Digby had his own view on this. I am six months in and, as I said earlier, I have travelled extensively in the UK and internationally and I already have, and so does the Department, huge contacts around the world. We have to continue banging the drum for Britain. I agree with Digby, I think one of the things I have learnt in the six months is that Britain has a hugely diverse economy, wonderful entrepreneurial activity going on across a series of sectors; we are the sixth largest manufacturing nation in the world; we are still a very open market and attractive; and I think it is very important that we sell that story internationally because the media will not; so I think it is very important that UKTI and other government agencies do that. I see that very much as part of my role. On the other hand, we are in a very changing world situation and I think we have to accept that organisations like ECGD, which I am responsible for, have to adapt, and so does UKTI. The reality is that UKTI's focus over the last few years has changed because the markets have changed. My experience of UKTI in six months is that it does a great job. It produces £16 for every £1 invested; it is very focused and adding a great amount of value to the economy; but—and there is a “but”—we have to make sure we are banging the drum for the UK and that is exactly what we are doing. I think the Business Ambassadors Network is really beginning to kick in; they have done a huge range of visits internationally. There is still a question as to whether we could do more on attracting foreign direct investment into the UK. We have done very well; we are number one in Europe, second only to the US worldwide; but I still believe that maybe we could do more. I am having a look at ways in which we might do that.

Q198 Mr Bailey: I want to deal with Business Ambassadors in a moment, but if I could just pursue this line of inquiry a little more. Obviously as a member of the Upper Chamber you do not have, if you like, the day-to-day accountability to electors which is incredibly time-consuming.

Lord Davies of Abersoch: I feel that I do!

Q199 Mr Bailey: Maybe! Do you feel that the role of trade promotion is more easily done by a member of the Upper Chamber because there are fewer Westminster duties? You may not agree with that last statement!

Lord Davies of Abersoch: I will get Gareth to add to that. My experience is that we do not just need one ex-business person doing this role; we need business ambassadors. We also need the CBI; we need the Institute of Directors; we need the Chambers of Commerce; the RDAs. Everybody has a part to play in promoting Britain and British excellence. We have got a knowledge-based economy and we have got fantastic things going on. I was proud to talk to the SMEs at the Queen's Award Ceremony last night with 190 companies—it made you proud to be British. We have got to make sure that right across industry, right across all the chambers, right across

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every piece of the corporate sector, we are selling the UK. I think as the Trade Minister I see trade promotion as a key aspect of my job and that is why I am spending so much time travelling.

Q200 Mr Bailey: I believe, like this Committee, you made a recent trip to the UAE?

Lord Davies of Abersoch: Yes.

Q201 Mr Bailey: Could you give us some sort of feedback on how you felt you were successful in promoting trade there? Did you have any problems by virtue of the fact that you had an anchor in Westminster?

Lord Davies of Abersoch: I think exports to the Gulf increased 25% last year. There is no doubt with the Gulf generally—I have spent many years going to the Middle East—there are huge opportunities for the UK. I was in Abu Dhabi last week—I think we agreed a series of measures on how we can improve cross-border trade with Abu Dhabi. We are implementing those measures—Edward Oakden, the Ambassador and myself—in the coming weeks; but it is right across the Middle East. Trade has grown significantly; they feature amongst our high growth, high potential markets in the UKTI list; and I think we have got to make sure we take advantage of the outstanding relationships that we have right across the region. Yes, good progress on my visit; Lord Mandelson has also been visiting the region; but we need to make sure we continue the focus on the Middle East and UAE in particular. I saw the Saudis two weeks ago so, yes.

Q202 Mr Wright: On the UAE you describe it as one of the exciting markets that there is, but there is a lack of awareness out there. How are you going to respond to the lack of awareness that there is with businesses about the opportunities in the UAE?

Lord Davies of Abersoch: You say there is “a lack of awareness”, I think it is growing. I think what we need to do is—Abu Dhabi is a good example—we are going to have an Abu Dhabi week in October; we are going to bring the seniors from business over; we are going to work with the CBI *et cetera* to make sure that small businesses understand the potential. We are going to do that in a series of road shows across the Middle East. I think we do have to raise awareness. What you find is that small businesses are gradually realising the opportunities in the Middle East. What we are doing in UKTI is showcasing success stories. I am a big believer that you have to showcase companies, big and small, that have done well in the region.

Sir Andrew Cahn: Perhaps I may simply add that we have added significant numbers of staff in UAE, in Qatar and in Saudi. Two years ago we decided those were high priority markets and we shifted staff there, so there is increased resource gone in. Also we have got a regional hub in Dubai. For three years now we have had a very successful regional event for the whole of the Gulf region based in Dubai, and we have particularly brought SMEs there. While I agree with you that there is still more opportunity there; it

is still a growth region; it is growing and there are a lot of opportunities; the trick is to introduce new British companies to the region and persuade them to stay the course, because in the Gulf short-termism does not work. You have to go there and you have to make long-term partnerships and then trade flows. I think our greatest challenge is, first of all, to persuade new exporters that it is worth the trouble, and then to help them and guide them through those early years when the returns are not as good as they might be in the later years when the returns can be excellent.

Lord Davies of Abersoch: I think there are about a thousand British companies that are doing business very successfully in the Gulf. I think my other focus, and the focus of UKTI, and the Business Ambassadors, has got to be continuing the relationship so we attract foreign direct investment into the UK—a big opportunity for us.

Q203 Mr Bailey: Before I go on to Business Ambassadors, on the trip that the select committee made it was put to us, and fairly strongly I think, that there was perhaps a feeling that in the past the British Government had not really cultivated its relations with the Middle East as it might have done; and that the one thing that you could do which was of huge benefit in making both the UAE and Saudi Arabia feel important and engaged with the country was for a prime ministerial visit, or at least the most senior minister. No disrespect to yourself, whom I reckon has unparalleled experience at this, how do you see your role in encouraging the Prime Minister and Lord Mandelson to carry out this role? What is your assessment of the added value it would give to the work that you are doing?

Lord Davies of Abersoch: I think it is a great point. There is no doubt that the prime ministerial visits are very important, and obviously the Prime Minister has visited the region in the last few months and Lord Mandelson has visited. We need a continuous stream of ministerial visits and the more senior the better. I am working with Number 10 on a series of things to do with the Middle East; and I am working very closely obviously with Lord Mandelson. Funnily enough, I had a discussion in it this morning as to how we are going to organise this next visit. As part of the ministerial coordination of visits, which I am very involved in, the Middle East does need continuity, it does need senior calling, and we also need to make sure, which we are doing, that when the leaders are over in the UK, as they are very often, that we are seeing them, which we are doing.

Mr Thomas: Mr Bailey, one of the other things we can do in terms of encouraging British business to have confidence to invest in the Middle East is through the negotiation of investment, promotion and protection agreements, which help to give confidence to British investors that their capital investment in other countries will have a higher level of protection than if the agreement is not there. The Middle East is one of the key areas which the Trade Policy Unit is targeting for agreement.

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Q204 Chairman: Before we move on, could I just come in on that point briefly. This is one of the old chestnuts—the Committee travels around different countries and we talk to ambassadors and high commissioners and representatives of the British business community and they say, “A British Prime Minister”, not just this one but *the* generic British Prime Minister, “cannot make as many visits to markets as the French President or the German Chancellor, because they are tied up in the day-to-day business of the Commons; and we have a huge competitive disadvantage”, they say, “because the effective head of state”, the head of government in our case, “cannot commit the time to trade promotion that other countries, our competitors can”. Do you feel that is the scale of disadvantage that the British business community, and the Foreign Office, seems to believe it is?

Lord Davies of Abersoch: I am not going to recommend a constitutional reform! The Prime Minister is visiting extensively.

Q205 Chairman: He is very constrained. He went to India for two days and one of them was a Sunday, which was limited.

Lord Davies of Abersoch: I think he is travelling extensively. I think everybody needs to do it. I think the Duke of York’s role is understated. I think he does fantastic things for business. I know he has got his critics in the media, but if you saw the letters that I get from businesses on the work that he does, he does a great job for British business. I think it is not just the Prime Minister; I think it is a collection of individuals, including the Foreign Secretary; but I would also say with the ambassadors themselves their role has changed over the last few years, and they have become hugely important for us as ambassadors, not just on foreign policy but on business.

Q206 Chairman: What we have also heard is that it is very important that people who are seen to have the ear of the Prime Minister travel. In the Gulf we had a lot of praise for you, Lord Davies, personally because you have a high reputation in the Gulf, you are known historically in that region and they felt you were the next best thing—even better probably! In India Lord Mandelson enjoys a similar status, to be fair. He is perceived to be a very high profile character who is known to like India, take an interest in India and he gets a high profile in the Indian media here in the UK. We do have a disadvantage against Sarkozy and French presidents which we can counter in different ways.

Lord Davies of Abersoch: Yes, we need leaders in every industry, as we said earlier on, to help us.

Q207 Chairman: Competitors do that too.

Lord Davies of Abersoch: I think it is not just the Duke of York, the Prime Minister, the Foreign Secretary or other ministers; you have seen Ed Miliband doing a series of visits on renewables and pushing the whole agenda, very much business-related.

Q208 Chairman: The CII, the Confederation of Indian Industry, were here recently and they made their usual complaint that senior leaders of British business were not prepared to make the time to meet them; they met at a junior level of the organisation not a senior level, and there is a lack of engagement in the British business sector in doing this high level stuff.

Lord Davies of Abersoch: We received them; I saw the FICC; I am off to India in September; I was there three weeks ago. There is no doubt that with a market of the potential that India has for us and the historical links there is so much more that we can do with India.

Q209 Chairman: I want to talk about the principle, the level of engagement. You are saying British business must do its bit?

Lord Davies of Abersoch: We need British business to be more engaged on cross-border trade with India. I am pushing it very hard with the CBI. I spoke to the CBI international group about it. I am speaking to business leaders and we need more engagement.

Q210 Mr Oaten: The point about the Duke of York and the Royal Family is very well made—incredible assets which many other of our competitors do not have. I wondered to what extent you work with them, you brief them, and to what extent you actually demand of the Royal Family to get involved? How close is the coordination you have with them on this? Are there a set of individuals out there that you would like to get involved in helping to go and sell the UK; and do you practically go out and seek them and try and get them on board for this?

Lord Davies of Abersoch: Basically, on India I met with Patricia Hewitt, the new chairperson of the India-Britain Business Council, 10 days ago and the whole conversation was about how do we raise the level of engagement? So we have got a plan and we are working on that. I do work and meet regularly with the Duke of York and we have a travel schedule. I had him meet 10 high performers out of UKTI about 10 days ago; it was a really good meeting where he wanted to know what else he could be doing to help business; he has subsequently written to us and asked for ideas from each of the 10. They also had great feedback from him on what else we should be doing. It is constant dialogue and I think that is very important, because if there was not that would be bad—but there is.

Sir Andrew Cahn: We agree before the year starts a budget with the Duke’s household. We discuss with him in great detail what trips he should make; we agree them. I am a member of the Royal Visits Committee which agrees the programme of visits overseas for the Duke of York; and we are now in discussions with the Duke of York’s office about how to evaluate what he does.

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Q211 Mr Oaten: This is part-funded then?

Sir Andrew Cahn: We fund it. We do not fund his air travel; we fund the other parts of the visit. The Duke of York also does some visits on behalf of the Foreign Office which we do not fund; those are non-trade related. His trade promotion visits we fund; we task; we evaluate. We work very closely with the Duke's office.

Chairman: I would also pay my own tribute to the Duke's work as well.

Q212 Mr Bailey: You have several times mentioned in a complimentary vein the British Ambassador's Network launched in October last year. Could you briefly summarise just the initiatives it has taken so far, where it has been to and what it has done?

Lord Davies of Abersoch: Inevitably these are busy individuals who have their own careers and jobs *et cetera*—18 of them. I think generally we have got a couple of people who work on helping them in UKTI. We were having a discussion about it with the executive team of UKTI yesterday. We are talking to business and academic individuals who have got a wide range of experience, and what we try and get them to do, and there are great examples, is give talks and promote business. I think that individuals like Paul Skinner, Malcolm Grant and Terence Conran have done a great job in selling the story. As always, as with all things, we are learning as we go along. It has been going some time; they have done over 40 engagements in 15 countries, but I need more from them: and if that is reported and that becomes the headline out of this that is great; because we need them to do more to help us; because the more the merrier really. It is working well and we are learning many lessons as we go along.

Q213 Mr Bailey: I am interested in looking at the individuals involved. Obviously business and education are highly represented there. When we were in the UAE we were told there were huge opportunities in education, which is obviously served through this network, but also health. I would not pretend to know the individual competences of all the members there, but it would seem to me on looking at them that we are light in terms of the health service and, if you like, the health sector in general. Given the potential for developing health services throughout the world, do you not feel that is an issue that might be addressed?

Lord Davies of Abersoch: I absolutely agree. I think with health, the NHS, we have got outstanding excellence and innovation that Paul Drayson and Lord Darzi were talking about at a launch yesterday. I think there is more that we can do to work with the NHS. I was one of the keynote speakers with Lord Darzi at the NHS Forum that was held recently, which had about 5,000 attendees; so I think we need to export that excellence and I think there is more that we can do. I think the same is true on education. I think we are doing a good job. I met with David Greenaway, the new Vice-Chancellor of Nottingham

University, about 10 days ago to look at creative ways that we can do more on education. The reality is, however, it is already a big export for us.

Q214 Chairman: I want to return to that in more detail later on.

Lord Davies of Abersoch: There is more that we can do but there are two sectors and they are important; we are giving them priority in UKTI; and I think we have got marketing strategies for various aspects; so we have a life sciences, marketing strategy; and I think we really do need to sell our NHS capability more.

Q215 Mr Bailey: I would just finish by emphasising that point, because I do feel that in education the Ambassadors Network does reflect the importance of this and the progress that we are making on it. I am not sure that it reflects the potential that there is within the Health Service and the providers' industry that we have here.

Lord Davies of Abersoch: I agree; I think we should look at it. I chair a university in North Wales, Bangor. It is not just the foreign students coming into the universities; we have excellence in the sector and we need to make sure that we are marketing it.

Chairman: I do emphasise Adrian's point. There is no-one in the Business Ambassadors Network who does life sciences, which is surprising given the importance of life sciences to the UK economy and the potential as well.

Q216 Mr Wright: On UKTI, when we had Lord Jones before us he made a very good case for more resources that were needed for UKTI. The 2009 Budget announced that there was £10 million of the £750 million strategic Investment Fund particularly earmarked for UKTI to spend on promoting UK sector expertise both in the UK and abroad. How much is this in comparison to what is currently spent?

Lord Davies of Abersoch: It is always a bonus on discovering you are getting more money. It does not happen very often, I am told, so I took that as a welcome sign that everybody realised the strategic importance of UKTI. Let me reassure you that the £10 million will be very, very carefully spent. Andrew can give you a bit more detail. Clearly for some high value events we have allocated already some money towards those high value events and Andrew can talk about those in more detail. I think that is one aspect. I think what we do not want to do is spend the money on extra staff. I think it is much more important that we go for high value events and initiatives.

Sir Andrew Cahn: We were given £10 million and that certainly was extremely welcome, and we took it as a sign of confidence in UKTI, but it is only for two years: it is £5 million this financial year and £5 million for next financial year. The first thing we wanted to ensure was that we did not set up a scheme which would fall off a cliff in two years' time. We tried to find activities which will have a real impact on British exporters and inward investors during the

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recession and as we come out of it, but which we can stop in two years' time. That is why we are promoting particular events. One example is we believe one of the sectors where Britain is particularly strong—in fact globally leading—is the security sector: it is growing; it is growing rapidly; there is still a huge demand; and we thought we could do better for the sector. We are going to try and create a sort of Farnborough event—Farnborough is for the aerospace and we want the equivalent for the security sector; and we are going to try and create that in two years so that by the third year it is self-funding and self-sustaining. That is a good example of what we are trying to do. We are going to try and set up a Global Britons Network; that is tapping in to the thousands of people around the world—business people and people doing other things—who are Britons living overseas but are friendly and want to help Britain; and also to those who are foreigners who are alumni of our universities or our schools and who are friendly to us. Again, we think we should be able to set that network up and make it largely self-sustaining in two years. Lastly, I am going to be doing some marketing to try and encourage British companies who are not exporting to export—those SMEs in particular who are finding the recession really challenging and who could benefit from markets overseas which are still growing. We are having a marketing campaign to try and help them and target them.

Q217 Mr Wright: I am pleased with that last question because just recently I had the pleasure to open an extension of a local business which is exporting across the world at which the eastern region and UKTI representatives were there. One of the things that came out of that was the fact that your representatives were saying those businesses did not understand UKTI and did not know that they existed. From that particular point of view, I am hosting a business breakfast later this year with the assistance of UKTI about exporting our way out of recession so local businesses, SMEs, understand it. That is a problem in itself. Whilst I understand that this money is going out to promote so people can visit trade shows *et cetera* and so forth as they have done in the past, is not the job as well of UKTI to actually get out there into those localities to explain to the small businesses, who are not aware of the opportunities abroad, to actually go forward? I understand, Lord Davies, you cannot visit every corner of the UK. Perhaps sometimes when you are talking about a region like the eastern region, it is a massive region in terms of area but there are niche markets in certain places which really have not been impacted by UKTI?

Lord Davies of Abersoch: I do not think we should be defensive about this at all; it is a hugely difficult task to cover over four million SMEs, whether you are an RDA or UKTI. I think there is closer and closer partnership, which was evidenced at the dinner the other night in Derby, with UKTI and the RDAs. We had to spread the message through our regional offices and through the RDAs that small

businesses can export and can do it without having to travel the world searching for markets. I think one of the challenges for small businesses is that we have to bring these markets, as far afield as places like Algeria and others I have been to, to the companies. We need to find better ways continuously of bringing opportunities to small companies, and that is exactly what we are doing. I think it is a good opportunity to mention Alan Sugar, whom I saw for the first time in a ministerial capacity yesterday. I think that is one thing that Sir Alan can do, which is to basically go round and do workshops with Business Link and with small businesses selling the virtues of exporting. I think that is exactly how we are going to use him.

Q218 Mr Wright: Do you then consider that the RDAs should be the vehicle to give more promotion? In terms of how the UKTI's ability can go there, whose responsibility would that be?

Lord Davies of Abersoch: UKTI has to bring the international markets to the corporate sector. At the end of the day we also have to work in partnership with the RDAs.

Q219 Mr Wright: Can you just explain to us what the Fiscal Compass Programme is and what it has accomplished since it was launched?

Lord Davies of Abersoch: It is basically an attempt to give corporates access to the spending programmes. Governments across the world are spending huge amounts in the fiscal stimulus. I think we have had over 200 enquiries from companies that want advice and access to some of the fiscal stimulus programmes around the world. Launched in March; early days; but so far so good. I think the target is to get about a thousand companies by March of next year so, so far, encouraging.

Q220 Mr Wright: Where would you consider the priority markets that we should be concentrating on?

Lord Davies of Abersoch: Inevitably places like China—where I am off to in about 10 days, and we have done a huge amount on getting access and really understanding how the Chinese are spending money; the US; markets like Saudi. There are a few of them we have prioritised and are working with those companies.

Q221 Chairman: I get confused—I really do—about UKTI's country priorities. You just named the US which in the submission to the Committee was not on the list; China was, of course, together with 16 others; and now we have France, Spain and places added to the list as the Fiscal Compass Programme. I get really confused. There seem to be all kinds of different priorities which emerge from time to time, and actually when you pin it down I am not sure whether it shifts the whole amount of resource around the world anyhow, where you define the resource and those priorities.

Lord Davies of Abersoch: I think we categorise 17 high growth markets. The criteria for those was market size, potential for growth, political and

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economic importance and the strength of their scientific and research base. We match the profiles against our UK capabilities. We have those 17 markets; and then separately we also have a sector approach in UKTI, because you need industry experience; but one should never forget that the UK trades with the US in a huge way. When you look at foreign direct investment into the UK about 35% of all the projects are still coming from the US. The danger is that we put all our eggs into some high growth markets but forget the euro and the US. I think we have got a clear strategy to focus and develop business and trade with the high growth markets; but at the same time we need to make sure that we are not losing touch and contact with the US.

Q222 Chairman: It is an impossible task. You have got to keep everyone happy. That is the trouble. Everyone wants a different priority from you so they have got priority for us?

Lord Davies of Abersoch: No, I think we are very clear: we have got 17 high growth markets, but at the same time we have got to make sure we do not ignore the big markets that are giving us a huge amount of trade and foreign direct investment today.

Sir Andrew Cahn: We have staff in 98 markets around the world, and many of them are very small but they provide an essential service to British companies. We decided on the 17 high growth markets back in 2006 because, as Lord Davies said, we did a pretty solid piece of modelling and decided those were the key growth markets for the future; and we transferred staff from other markets round the world to there. They are priority in the sense that we put new resource in there. America remains, as Lord Davies says, absolutely key to us and it will continue to be the main source for foreign direct investment. It continues to be, after Europe, the main attractive market for our exporters. It is a huge priority but we are not shifting new resource into America. The key issue for us is how much resource do we put into Europe? We currently have, for historical reasons, a very large amount of resource in Europe. Many of our exporters want us to keep that resource there; but if we are to help our exporters explore new markets and get into the growth markets of the future we have got to look to those markets and not just to Europe. It is, of course, trading things off, but we do have a clear set of priorities as to where we shift our new resource to.

Q223 Chairman: We are going to go to France and Italy to see the operations there quite soon to assess whether we think that is making an appropriate contribution. You do have 2,400 staff at HQ and 1,300 overseas, is that right? Not at HQ but in the UK?

Sir Andrew Cahn: No, we have 2,400 staff altogether. We have 1,400 staff overseas, and we have about 700 staff in headquarters; we have about 400 in the regions. The staff in headquarters, quite a lot of them are frontline staff. As you know, we now are responsible for defence and security, and the large majority of the defence and security staff are based

in London but travel a great deal and are overseas a lot. Indeed, quite a lot of my other headquarters staff do that.

Q224 Chairman: We are not going to ask you about defence and security because that seems to be going very well. So we are not going to ask you questions about that but we should touch wood indeed, Lord Davies! We were very grateful to the response to our letter about Saudi Arabia. We came back very, very impressed by the UKTI operation in Saudi Arabia. I had constituency experience of it, doing fantastic work for a constituency company, and yet we saw a hopelessly overworked group there and we were grateful for the letter you sent us. When we do go around the place, I am concerned quite often that I see UKTI staff having to meet Treasury requirements to recoup income and spending all their time doing OMIS reports which are deskbound jobs which anyone could do; it does not have to be the added value that a government employee can bring to the post. They are losing opportunities to go out and network and really build value. Are you really getting the best out of overseas staff?

Lord Davies of Abersoch: It is interesting and we are chuckling because I asked the very same question yesterday with the execs. What has charging done; is it adding enough? The reality is that the response has been very robust from everybody within UKTI. It has helped make it more of a performance culture; it has helped people realise the cost of what they are producing. We had a very robust debate yesterday, and I think that the team believe that this is not the time to increase charges and put a burden on corporates; but we are producing, what, £3 million or £4 million of revenue and I know it is a small amount but it has had a profound impact on the culture and made people realise the value of their services. The team is very keen to maintain it.

Q225 Chairman: I think you are being told what they think you want to hear. I do not think you are being told the truth.

Lord Davies of Abersoch: No, it is the other way round.

Q226 Chairman: We have talked to UKTI staff on the ground and they complain time and time again about the deskbound nature of their jobs because of the OMIS report system and they wish they did not have to do it. They said it could be subcontracted to people elsewhere in the market who could do the job just as well, and they are not providing the added value for UK exporters they think they could if they were freed from these ridiculous shackles. They may tell you something different but they tell something else behind your back.

Lord Davies of Abersoch: Look, I think in any business, any walk of life, you have got to have accountability; you have got to have clear reporting. What I have found in six months in UKTI is that there are very clear performance guidelines, very clear reporting. Yes, we can always improve the

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paperwork around the reporting; but I think UKTI is producing great value—£16 for every £1 invested; I think the staff do a great job.

Q227 Chairman: Agreed.

Lord Davies of Abersoch: So I think the charging has improved the performance culture.

Q228 Chairman: I think this is something I want to challenge you on quite firmly; because I am quite clear your staff privately do not think that. The OMIS reports in particular are an extraordinary burden on them,

Sir Andrew Cahn: The OMIS reports are highly valued by our customers. They add great value to British exporting. I heard you say that it could be done by the private sector. In many posts overseas there is nobody else to do this work. What the OMIS report is built upon is exactly the networking and the knowledge of the local markets that our local staff have.

Q229 Chairman: We heard that OMIS reports were locking people at their desks and stopping them develop the local knowledge and networking so essential to inform them.

Sir Andrew Cahn: I would argue that is overstated. However, I was trying to offer you one crumb of comfort, which is that we do have one different model which we are using in China, where we use the China-Britain Business Council as a contractor; they do much of this work and the idea is indeed to leave our own staff free to do more government to government work, networking and so on. That is an interesting experiment; it has proved quite successful; and we will see how far we can move. I think in most markets it really is not possible to set up an organisation like the CBBC to do it; and there are not private sector contractors on the ground.

Lord Davies of Abersoch: Hopefully, every time you visit somewhere and you get that sort of feedback you will give it to me and I will have a look at it.

Chairman: Sometimes they tell us things they do not want attributed, of course, that is the trouble!

Q230 Mr Oaten: I do want to talk about the RDAs which you have mentioned quite a few times this morning as having a key role in the whole process. You also keep talking about banging the drum for the UK and the importance of selling the UK. Is there not, bluntly, a contradiction in those two statements? In that every time you use and have an RDA they are not banging the drum for the UK, they are banging the drum for the West Midlands, Scotland, Wales, wherever their own vested interest is? Are we not losing a great opportunity here in that this incredible UK brand that we should be out there fighting for is being diluted by the RDAs all doing their own separate thing?

Lord Davies of Abersoch: I think on international promotion that is UKTI's job. Trade promotion that is what we do. I think a while ago there was a danger that the RDAs might have duplicated what we had and started opening offices everywhere. I think the

Arthur D. Little report was very clear that that was not happening; that they were coordinated. So I think our role in trade promotion is very clear. When I had just arrived into the job one of the first questions I had is: is the competition between the RDAs somehow devaluing the proposition for inward investors? I do not think it is. I think they have to be careful—a bit of competition between the regions I think is healthy, providing they overall come together and are coordinated, and I think that is happening more and more. I think inevitably there is a bit of competition but, as I said, I think that is healthy.

Q231 Mr Oaten: Do you really want that competition played out in public in a conference in the middle of Asia somewhere, because that is what has been happening?

Lord Davies of Abersoch: No. I will give you a good example of how we are addressing that. On China I wanted, together with the team, to make sure that we really brought everyone together and so I called a meeting of the CBI, the Institute of Directors, trade associations, the RDAs, got them all in a room and agreed a clear strategy for China and how we are going to tackle that market. I think in certain key markets we do need to bring the RDAs together; but it is not just the RDAs; it is the Chambers of Commerce; it is the CBI; because the danger is that everybody does something slightly different. In that regard I think one of my challenges, one of the Department's challenges, is to really bring together information about the depth and diversity of the British economy, so that every ambassador, every MP and every business person has got that level of data. We are putting that together as we speak. I think we are getting better on co-ordination and on the key markets we are bringing everyone together.

Q232 Mark Oaten: Would there come a point where you would intervene and say to two or three RDAs, "Listen, you are not welcome. We do not want three of you there. You have to decide that maybe this is a country where the West Midlands, for example, has the expertise and the lead and you should be there and it is not a place for one of the other RDAs"?

Lord Davies of Abersoch: On international activity I think they tend to work it out and have a good working relationship between each other. I do not think there is huge argy-bargy between them.

Q233 Mark Oaten: Are you concerned about the overseas offices issue or do you think that is being tackled?

Lord Davies of Abersoch: No, I think that is being tackled. If that expansion of international offices had carried on in a huge way, duplicating costs, I think that would have been a problem, yes. There is no evidence that that is happening and in fact, when you look at the co-ordination internationally, it is very good.

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Q234 Mark Oaten: You mentioned that you have got 1,000 or so staff working in 98 countries, is it, that you are in?

Sir Andrew Cahn: We are in 98 countries, 1,300 staff.

Q235 Mark Oaten: Does that include in that figure those that are also there from the RDAs or is that on top?

Sir Andrew Cahn: No, it does not. The RDA offices, and these are very small offices; it is usually one person or two, and indeed with one person very often a locally engaged person who is doing other things, are, of course, focusing on inward investment. They are not focusing on trade promotion. We do the trade promotion; our staff do that. The overseas offices of the RDAs are there to attract inward investment to their particular region, but in fact the RDAs are looking at these offices now quite critically and I think we will find, very much as Lord Davies said, that it is not that they are expanding; indeed, they are even beginning to contract. The other thing I would say is that, following the Arthur D Little report, we have worked very closely with the RDAs to improve co-ordination because what Little said was that it is not that all the critics are wrong. It is not bad; there is not significant duplication, but they did propose a whole series of changes we could make to improve co-ordination and ensure that there was not duplication in the future. We have done that, we have had some pilot projects with the RDAs. They are completed. We are now doing that elsewhere. I am reasonably confident that we work very closely with the RDAs and we get efficient use of public money.

Lord Davies of Abersoch: And that includes the devolved administrations.

Q236 Mark Oaten: I was just about to ask. Is there a separate case to be made in Scotland?

Lord Davies of Abersoch: They do a bit of trade promotion. At the dinner the other night we talked about how do we make sure that we are all together as one and we had a great discussion. What we need to do more of with the RDAs, and I do bang the drum—I am going to sound like Digby now—on this issue, is that we really do need to showcase British success, whether it is life sciences, whether it is healthcare, whether it is pharmaceuticals, creative industries, you name it. We had a great discussion with the RDAs last week about how we bring these success stories together and sell them. I think that is quite a challenge.

Q237 Chairman: I will bring Mark in again in a second on education but before we do that can I just ask one other question on the RDAs? I have heard criticism in the past of regional export trade promotion visits organised by RDAs on a cross-sectoral basis. What I hear from the industry bodies is that the outward missions that work are the ones based on sectors, not regions, which are focused on a particular industry. I think you are making progress again in co-ordinating this but it does seem to me

that that is a very strong message that I have heard across a wide range of industry sectors, “Please don’t let the RDAs do regional export trade promotion visits”. Do you agree with that analysis and, if you do, is the situation getting better?

Lord Davies of Abersoch: I do; I am a big believer in sectoral experience and speciality, and we have got that in UKTI. We have sector boards, advisory boards. I meet with them regularly now with the sector chairmen and in fact all the chairmen together. I think you need that industry focus and I am taking an ICT, a technology group, to China in two weeks’ time. I think that is very important for promoting business, so I agree with you.

Q238 Chairman: But are the RDAs doing the regional promotion now?

Lord Davies of Abersoch: They are doing it more and more as a sectoral approach with us.

Chairman: Just as I have encouraged what you said about the attempt to co-ordinate their overseas activity more generally in answers to Mark Oaten, I am very encouraged by what you have just told me about that too and I think it is very important to keep that process going.

Q239 Mr Wright: You mentioned, Lord Davies, that you are going to China and are taking an ICT group. How do you pick that group? How do you pick the business or the individuals that you take?

Lord Davies of Abersoch: I am not sure exactly the names of the people coming with me but I looked at the programme yesterday. UKTI offices will have spoken to the regional offices about who has got an interest in which business; they would know from their own database. UKTI obviously has a huge database of exporters, and we have talked to the CBI. We would work with those sorts of organisations to make sure that we do it together. It is the other way round as well. The Chinese technology and mobile industry came over; the minister of technology was over and brought half a dozen companies two weeks ago. In conjunction with other ministers and industry groups I hosted a get-together and then they toured various parts of the UK, eight companies, looking at British excellence in mobile and ICT.

Q240 Mr Wright: I would be interested to see the list of the companies that are represented on that and the geographical spread because I have this theory that invariably, when you do something with the regions, they will probably go for the easy fix. For instance, in the eastern region they will probably go to Cambridge because it is recognised as a centre of excellence. My SMEs are on the periphery. One particular company is right at the top of their particular market in electronics but they will probably be left at the extremities because it is easier to go to Cambridge where you have got hundreds of companies that will probably fit those criteria.

Lord Davies of Abersoch: It is a good example. On a visit that I did (I have been to Cambridge) there were, I think, 50 or 60 companies that were invited

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from across the region for a discussion about some of the challenges they were having. It is never perfect but I do think we tap into SMEs right across all the regions. Inevitably, some of the meetings are held in the big centres.

Q241 Chairman: I have just one other question before Mark comes in about trade promotion, the thorny question of trade fairs, trade shows, exhibitions. Your trade show access programme has increased the number of grants for which an individual company can apply. Has the budget gone up as well?

Sir Andrew Cahn: The budget is the same. What we did was relax the conditions. We had introduced a limit to the number of times a particular company could get a grant, and that was a sensible thing to do because there were some companies who were, if you like, living on grants for years and years, and what we wanted to do was introduce a company to a trade show, help them get there and then help them get on their own feet. We relaxed the conditions because, the external world being tougher and colder, fewer companies were coming forward. We wanted to track more companies and I think we decided that perhaps we had tightened the screw a little bit too much. We listened to what the approved trade organisations, the ATOs, said to us and they argued that conditions should be relaxed, so we did that.

Q242 Chairman: Do you test the effectiveness of participation in trade shows? We have heard criticism again from ambassadors that some British companies sit on the stool and just wait for them to come to them, whereas others research the market, do a good job, go out and meet people, use the excuse of a platform to penetrate a market.

Lord Davies of Abersoch: Absolutely. We have our pin system which evaluates all of our activities, including trade shows. I think trade shows get some pretty good—

Q243 Chairman: So if a company uses a trade show well they are more likely to get another grant than the company which does a trade show badly?

Lord Davies of Abersoch: No. If a company is eligible it is eligible. It is a good question and I do not think I have a very good answer for you. What we certainly do do is try and follow up on where we see things have not worked properly and try and change things. If a company is eligible for a grant it would be quite difficult to say no, they could not have it. What we might do is try and give them additional advice. For example, when you go to trade shows the key thing is the preparation. Usually you need to get an OMIS—dare I say that from your earlier remarks, but if you get an OMIS at the same time as you go to a trade show and you get potential partners to meet when you are over there then you will find that you get much more out of it. If a company has not done well we will try harder next time to help them do that.

Q244 Chairman: I agree absolutely with that.

Lord Davies of Abersoch: The other thing I was going to add is that we are aiming to help over 4,000 businesses participate in shows. What we hear is that the numbers are down; on the other hand people are more serious about doing business. It is a valid question about whether they are really doing a good job once they get there. I had realised the huge value that industry puts on trade shows. That has been a learning curve for me in the job. I visited the mobile show in Barcelona, I visited the air show in Paris, and you realise how much trade is transacted at these shows. I think we need to make sure that we are supporting them, but I agree: we need to make sure that they are using the money effectively.

Chairman: I remember our ambassador in Hungary some years ago when we visited him there said that he was struck by the number of people who complained about the ineffectiveness of trade shows and when he went to check it was they who were being ineffective and using the platform badly. It was not the trade show's fault or UKTI's fault; it was the company's fault. You want to make sure they are not living off grants; they are not the companies you want to be sending to trade shows.

Q245 Mark Oaten: One sector which we do not talk about a great deal but has been very successful in winning international business is the education sector. We have had a quarter of a million overseas students coming in in recent years. Are you concerned that that is under threat because of the new immigration points-based system for overseas students coming into this country, which I hope you are familiar with? If you are familiar with it you will understand that the sector is very concerned. I declare an interest. I worked for a lecturer at Wroxton College that brings a lot of American students over and they are already seeing, as a result of this new regime, a fall in interest from applicants for the next academic year, and this could be damaging when it is quite a useful bit of UK business being done abroad.

Lord Davies of Abersoch: I met with the colleges of further education to discuss this, amongst other things, two weeks ago. In certain cases there are some issues. I have tabled those with the Home Office. I have a meeting coming up on it. I agree with you: nobody should underestimate the importance of education. Foreign students are hugely important to the British economy. I think that is well understood. I hate to do a plug for BIS now but I think there is a huge advantage in having education skills, *et cetera*, with business, and that is very much one of the conversations that is going on in the department at ministerial level. We have to make sure that we continue to attract foreign students. I am well aware of the issues and where there are issues we are tackling them.

Q246 Mark Oaten: Just to probe you a little bit more, I could not quite understand whether you have had the meeting with the Home Office.

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Lord Davies of Abersoch: I have. I am having another one.

Q247 Mark Oaten: Can you give me a flavour of what representations you are making to them about this?

Lord Davies of Abersoch: The flavour has been that there have been a few instances where the processing of the applications has not been up to the standard they would like and we have corrected those. The Home Office are very aware.

Q248 Mark Oaten: It is a little bit more than a processing issue, is it not? As I understand it, they have been asking students to demonstrate that they have got the cash up front and sometimes present the cash up front in advance of a year's worth of study. Does not the fact that they have to be marked and registered and assessed in every single lesson that they take part in to demonstrate that they are genuine students, even though that can involve sometimes 70 lectures and being assessed on every single one of those lectures strike you as being a ridiculous burden?

Sir Andrew Cahn: Perhaps I could come in here. There is no doubt that the new points-based system and the various arrangements surrounding it have led early on to an increased number of rejection of applications by students for visas. Quite clearly there was a problem. We have made representations and Lord Davies has, as he said. I have also had a number of meetings with the UK Borders Agency, including with Lin Homer, the Chief Executive, who has been very responsive to the points we have made. I know also that Lord Mandelson, who is after all responsible for this area, is making representations at a higher level. I had yesterday evening a conversation with our ambassador in Beijing who was very exercised by this. He was very concerned early on that the number of Chinese students who were being rejected was very high. He intervened. He worked very closely with the UKBA staff. That is rectified. That position in China has changed and we do not have a problem in China. There are some pockets of difficulty, I understand, around the world. I think there are still problems getting the system working perfectly, it is not wholly bedded down, but the really difficult issues early on, and there was a very high rate of rejections, have been sorted out.

Lord Davies of Abersoch: And we have been very involved in it.

Mark Oaten: I will let it rest at that point but with the responsibility we have in this sector I think we will probably want to check it again.

Q249 Chairman: We will.

Lord Davies of Abersoch: Absolutely.

Q250 Chairman: Can I just add a couple of questions to that? There is no doubt that the USA lost a lot of ground after 9/11 when it closed its borders effectively, and British universities did very well in that period of time to pick up the students who would have gone to the States. We cannot afford

messages to go out that we are turning into the States; we just cannot afford it. The damage will already to an extent have been done in markets, but the real test comes in August. That is the high processing time for these applications so I hope your optimism is proved right come August.

Lord Davies of Abersoch: I think it will be.

Q251 Chairman: Can I just put another thought in your mind? The outsourcing of visa operations away from consulate staff into semi-commercial operations often makes it more difficult for ambassadors and high commissioners to intervene if there is a problem with a visa. I think it is a particular problem in some of the far eastern markets and it is also a problem for business travel as well, where a businessman is not getting a visa and the ambassador finds it now more difficult to sort out the dilemma.

Lord Davies of Abersoch: It is not my area of specialism but clearly any comments you have got directly on that I will take away.

Mark Oaten: As long as we revisit it.

Q252 Chairman: Can I ask a more general question about education, before I pass on to Tony, on the opportunities for British universities overseas? When this Committee looked at this, having come back from India where it emerged, it was a major requisite of the Indian Government that we got more engaged. We saw a certain coolness, I think, in the higher education sector from some big names to get involved. That seems to have changed quite a lot in the last three or four years. I sense that British universities are now quite fully engaged in overseas markets and are probably going about as fast as they reasonably can while keeping their eyes on their main task of educating in the UK. Do you share that view or do you think they need to make more progress?

Lord Davies of Abersoch: You will be aware that Lord Mandelson met with vice chancellors recently. I think that was a very good dialogue around some of the issues the universities have got. There is no doubt that some of the universities, Nottingham being a good example with Ningbo and one or two others they have done, have created campuses and have been very successful. There are only a few universities who are able to do that. On the other hand, we should make sure, and we are doing, that we have a constant dialogue going on with the universities. As I said earlier, I am Chair of one of them. I think it is hugely important, the international liaison. The reason I met with Nottingham was to see what else we could be doing in UKTI to help educational establishments and we have now got a sector looking at education in general.

Q253 Chairman: I think Nottingham's ambitions are very large in China. It is quite brave.

Lord Davies of Abersoch: So are some of the other universities'.

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Chairman: There are issues about whether or not they have over-reached themselves. I hope that is a misplaced fear.

Q254 Mr Wright: Can we turn to the subject of Doha? How likely do you think it is that, following the changes in India after the elections, it will result in a conclusion on the Doha trade negotiations and what steps are going to be taken to persuade the US and the EU to make concessions towards India on the subject of agricultural subsidies, which is the main sticking point as far as the round is concerned?

Mr Thomas: I think two things have significantly shifted the levels of optimism about whether we can conclude the round. The first was the G20 summit that took place here in London, where all the countries who were represented signed up to a clear sense that the Doha deal had to be done, and that momentum was carried forward into the G8 talks where members of the Committee will have heard the Prime Minister explaining yesterday that there had been agreement from all the leaders to seek a conclusion to the round by 2010. The other thing that has also shifted the levels of optimism is, as you say, the election in India where there clearly is a determination by the Government in India to be part of the solution in terms of the Doha Round. There is a sense that a lot of the technical work that was necessary on the special safeguard mechanism, which was a key concern for the Indians, has now been done in Geneva and in other capitals. The next obvious moment for that momentum hopefully to continue to grow is the APEC summit this month, but the absolutely pivotal moment will be the run-up to and then discussion at the Pittsburgh summit, the next round of the G20 summit. The Indians are hoping to host a discussion on the Doha Round which was welcomed by G8 leaders and I think is an extremely positive sign about their appetite to do a deal. Pascal Lamy, when I saw him last week, was optimistic that he would be able to bring ministers back to Geneva to do a deal. He thought the earliest would be mid October, more likely a little later in the year, so I think there has been a series of moves which gives us a renewed sense of optimism that a deal on modalities can be done, but there is still a lot of work to do, particularly, I think, in the United States where we are beginning to hear again some of the voices in the United States who are supportive of a deal, but frankly I think we need to do more and we need to hear more supporters, from the White House down to people on the Hill, talking up the benefits for the US as well as the international community more generally of a deal on Doha.

Q255 Mr Wright: In terms of what you said was the commitment following the G20 summit, it is fair to say that ever since the round started in 2001 every international summit has declared exactly the same thing, that they are going to push ahead. What makes this so different? Is it the fact that we have had American elections as well so there may be a change of policy there? Is it the fact that we have had the recent European elections and the elections in India

as well? Is there a change of policy you see that makes this different from what we have seen over the last eight years?

Mr Thomas: Certainly you need to look at the progress that was made in July last year. Pascal Lamy said he thought we had got about 75% of the way towards a deal. The G20 summit that took place in October last year in Washington did provide significant political momentum and revised texts on agriculture and industrial goods access were circulated at the time. What those texts unfortunately did not provide in Pascal Lamy's view was quite enough political momentum in the discussion around those texts to bring ministers back to Geneva. There was then an inevitable hiatus while the American elections took place, while the new American negotiating team were in the process of being appointed, and you have to give time, clearly, for the new White House to begin to think through the issues. That obviously coincided with the Indian elections and our own European elections, so there has unfortunately been a natural hiatus period. I think there is a renewed sense of optimism as a result of the strong messages by the business community at the business summit before the London summit that got delivered to those international leaders, plus the new mood music coming out of Delhi and the determination of Manmohan Singh and the trade minister, now Mr Sharma, who I know Mervyn and Peter have met, but also the fact that the new US administration has signed up, through the sherpa network, through the discussions that Gordon has had with President Obama, to wanting to do a deal on the round. There is clearly a whole series of pieces of work that we still need to do but there is a genuine sense of optimism that we might be able to get a deal done. Mervyn has met the new Indian trade minister.

Lord Davies of Abersoch: I thought the change of mood in India was quite startling. They want to be seen as part of the solution, not the problem, and in my discussions with Anand Sharma there was a real commitment to a deal, and I think that was repeated with Peter Mandelson. I do think that out of every crisis comes an opportunity and out of this financial crisis I think everybody has realised that we are all interconnected, not just financially but trade-wise. We have got to get agreement on trade, we have got to get agreement on financial architecture and climate change and the pressure is on now for the G20 to really deliver something. I am more optimistic now than certainly I have been in the past.

Q256 Mr Wright: So by the end of the year we expect to hear good news that the negotiations have been sound?

Mr Thomas: Mr Wright, in a sense the negotiations are ongoing. The technical level discussions are continuing in Geneva, which is where I was last week. What was striking was the sense that there was more momentum in those technical level discussions. There has also been a series of one-on-one meetings between some of the key countries in the agreement to try and make progress, again, since

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those elections have taken place, so I would not want to understate the discussions that still have to take place but I think genuinely now that elections have taken place there is a sense that we might be approaching another moment when modalities might be agreed.

Q257 Mr Bailey: Can we turn to the EU-India free trade agreement? Lord Mandelson said earlier on this year that he hoped to have one concluded by the end of this year, and indeed that is the original target date. Your previous comment would indicate that there has been a change of approach with the Indian Government post-election with regard to Doha. Would you say that is the same as far as this particular agreement is concerned?

Mr Thomas: What is clear is that the Indians are prioritising Doha at the moment. That is not to say that discussions on the EU-India free trade agreement are not continuing. There is another round of discussions due this month. Our sense from talking to Cathy Ashton, the Trade Commissioner, is that a timescale at the end of this year looks optimistic but I think there is still a very strong appetite within the EU for FTA discussions. We know from discussions with the CII in the past and previous Indian trade ministers that they do want to do a deal with the EU, and we know there is very significant UK business interest in such a deal, but I think the international focus to date has been very much on can we make progress on Doha. As I say, with the change in the US administration, the change in the Indian administration, the focus of the recent summits has been around the Doha negotiations, which is why I say I think there has been more of a focus in Delhi, and certainly in Europe, on the Doha Round as opposed to this particular FTA. Where there has been encouraging progress is on the EU-Korea FTA and we are quite close to a deal between Europe and Korea. We have to wait and see how the progress in the agreement is translated into legal texts before we can make a final judgment. A number of countries have reserved their position on the broad agreement that has been reached until they have seen those legal texts but that does potentially represent significant new opportunities for UK business and European business more generally.

Q258 Mr Bailey: I think you have partly answered my question insofar as India is concerned. Forgive me; I hope it is a fair interpretation of your response that India would regard agreement on Doha as a bigger prize, if you like, than the EU-India FTA, so how likely is it that any deal will be concluded on the EU-India FTA prior to Doha?

Mr Thomas: I would be surprised if it was agreed before the key headlines of a Doha deal were done. I think there is an appetite both within Europe and the international community more generally to see if we can reach agreement in the coming months on Doha. That does not mean to say that the discussions between the EU and India are not going to carry on; they certainly are, and we would see an

EU-India FTA as being complementary to our objectives in terms of the Doha Round. Trade agreements are so complex that it is rash of any minister to be anything other than optimistic about the opportunities for progress. To try and set a specific moment when you think a deal is going to be done is always a risk.

Lord Davies of Abersoch: I think we have to keep the pressure up on reform on telecoms, legal, banking licences, insurance. These are key sectors for British businesses.

Q259 Mr Bailey: So you would still regard it as important to pursue the EU-India FTA even if we did have—and we hope we do have—a successful round of Doha negotiations?

Mr Thomas: Absolutely. We are very clear that we want a Doha agreement to provide a clear set of world trade rules over which can be overlaid a series of further regional trade agreements, and key for the EU is that Peter Mandelson kicked off a new round of FTA discussions when he was Trade Commissioner, of which the Korea one is the one we hope will be signed most quickly. There has been a series of rounds and discussions with the Indians already and so we are making progress on those, but realistically it is likely that we are going to take longer to conclude an EU-India FTA than we are an EU-Korea FTA. As I say, I suspect that such is the focus now on trying to see whether we can reach agreement on the headlines of a Doha trade deal that that is going to mean that the EU-India conversations, whilst they will continue, I suspect will continue into next year rather than the original hope that we might have concluded them by the end of this year.

Q260 Mr Bailey: They are seen as complementary to Doha, not as a substitute for Doha?

Mr Thomas: Absolutely.

Lord Davies of Abersoch: Absolutely.

Q261 Chairman: Do you think Lord Mandelson, if he were speaking in Delhi now, would repeat what he said in Delhi in January, “. . . the downturn does not reduce the value of a bilateral trade deal, it raises it. The EU and India should call the deal what it would be—a confidence-building economic stimulus package—and sign it before the end of the year”. He was speaking before the developments on Doha, I accept, but would he repeat those words now?

Mr Thomas: I think he might use slightly different language in terms of timescale but I think he would still be extremely upbeat about the case for an EU-India FTA. I believe it makes economic sense for India, just as it makes economic sense for the UK and for Europe more generally. I think you do have to get out and make the case as politicians for trade agreements because there are plenty of vested interests who will argue against having a trade agreement and opening up barriers. I would not want to put words into Peter’s mouth but I have absolutely no doubt he will be pushing the case for—

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Q262 Chairman: The reason I say that is that Anand Sharma, to whom you referred to earlier, I met recently. He is extremely pro-Britain. He has a very strong positive attitude and so here is a big opportunity to capitalise on. Doha obviously matters but there is a huge opportunity for UK Plc's interests as well out of the Indian elections.

Lord Davies of Abersoch: Absolutely. India is obviously a strong trading partner for us. We have had Indian businesses investing in the UK and vice versa. I think they do need to open up some of their markets and there is a huge appetite amongst UK plc to invest there, so I think there are huge opportunities and that is why UKTI, working with the Indian Business Council,—and Patricia Hewitt's appointment is a good one—is a big focus.

Q263 Chairman: I like Patricia Hewitt; she is able and she was a talented minister, but should those kinds of organisations be led by politicians? Should they not be led by business people?

Lord Davies of Abersoch: As a senior independent director for BT she had huge experience of India. I remember from my days of working at Standard Chartered that she was a regular visitor from her trade and industry role, so, no, I think she has got a great role and she knows India well.

Q264 Chairman: But I do hear this complaint I repeated from the Indian business side that there is not the same sense of engagement at senior level in British business.

Lord Davies of Abersoch: I think there is always more that British business can do with India but we must not forget that the volume of trade with India is very significant and a very large number of British businesses have large businesses in India.

Mr Thomas: I think, Chairman, that if we can get a deal on the EU-India FTA that will substantially change attitudes even further. As Mervyn says, there is progress, but clearly an FTA would help.

Q265 Chairman: One last question from me. We have talked about the opportunities of places like India but there are threats at present in the global trading environment from protectionism and I want to address this with you. Successive governments, and this one, to its great credit, remain strongly committed to what you describe in the *UK Trade and Development Policy Report* as to “champion open and fair markets”, but that is a bit of a challenge in the current environment, is it not? What do you need to do to champion “open and fair markets” in these difficult times?

Lord Davies of Abersoch: I think you have to name and shame those markets and countries that go protectionist. I was dwelling on that on the way here. Just before coming out I was reading Global Trade Alert's first report (just to show that I am reading this stuff, so I am really a sad person already). I think that protectionism—and it is stating the obvious, we all know—would be horrendous for the global economy. I think the danger in the financial crisis was that certain markets would go very protectionist

and I do not think there is any evidence of that. There has been a temptation to put measures in just to protect your own economy. We have not gone down that route internationally. I think we have to keep on banging the drum and saying that we have to have a Doha agreement and we must not go protectionist.

Mr Thomas: Chairman, I wonder if I can add that we have deliberately used the summits that Gordon has attended as Prime Minister to press the case for countries to continue to keep markets open. In a sense the WTO has been given a very specific brief to watch for creeping protectionism. They have published a series of reports, I think their third came out yesterday, on levels of protectionist measures. We have sought to replicate that international effort, not only through launching Global Trade Alert, which Mervyn has just referred to, but you will have seen, and I think you may have participated in, and forgive me if I am getting this wrong, the first ever UK World Trade Week, which is an idea that we have shamelessly poached from the United States. Their world trade weeks were launched in response to the recession in the 1930s, where their politicians increasingly recognised that protectionism was slowing down the opportunity for the US to recover. We think we need to continue to make the case for open markets and World Trade Week is one of the ways in which we do that, and all the different branches of government have played a role in helping to make sure that there were over 50 events, not only in the UK in the regions but outside of the UK, to make the case for open markets and for continuing to avoid protectionism going forward.

Q266 Chairman: I am going to make a confession. It passed me by entirely but I am sure it did a lot of good work.

Lord Davies of Abersoch: It will not next time.

Q267 Chairman: You mentioned Global Trade Alert. I was going to ask when it was going to be set up. It has been set up. What exactly does it constitute? It is bringing together a network of international think-tanks, is it not?

Mr Thomas: The WTO, with respect to the Secretariat, produce relatively dry commentaries on what is happening in terms of protectionist measures. Global Trade Alert, as you say, is a network of think-tanks, academics and leading economists who can be more voluble in terms of their commentaries on protectionist measures or not, and therefore they throw a sharper spotlight on what is happening internationally in terms of particular protectionist measures. They are a way for the business communities to engage in and highlight measures that are taking place in particular countries. It is a way of going beyond the dry WTO reports and increasing the pressure on countries to resist protectionist responses.

Q268 Chairman: Lord Davies, you said there was a need to name and shame. Can you name and shame someone here today for the Committee?

14 July 2009 Lord Davies of Abersoch CBE, Sir Andrew Cahn, Mr Patrick Crawford, Ms Claire Durkin
and Mr Gareth Thomas MP

Lord Davies of Abersoch: No, I am not going to do that; I will resist that temptation, but what I would say is that we do need business to have a louder voice on this. Now that I am on this side of the political fence I keep on saying to business leaders that they do need to speak with a louder voice everywhere, internationally, in support of a Doha agreement. The more they are pushing for it in the States and everywhere else the closer we will get to a deal.

Q269 Chairman: The thing that alarmed the Committee slightly earlier in the year was that the relaxation of state aid rules in the European Union seemed to be accompanied by protectionist clauses around that relaxation. I will not name and shame anyone but quite a close neighbour seemed to be guilty of this in particular. Is there any evidence of protectionism in European Union countries at a modest, disguised, subliminal level?

Lord Davies of Abersoch: We are going to put you on the spot right now.

Ms Durkin: I know that there is an active debate on whether or not some of the interventions could be seen as straightforward protectionist measures or inadvertent protectionist measures. What we have sought to do is establish that any intervention within Europe is focused and time-limited and with the state aid relaxation we talked about two years and a review of that and drawing back, so while we acknowledge that because of the downturn there are inevitably going to be some actions that would in normal years not be necessary. If they are necessary we will make sure they do not get established and we will review them and very quickly step back.

Mr Thomas: There was concern earlier in the year about a “buy US” policy that appeared to be being promoted. We know that there has been substantial amendment to that policy to keep that approach within World Trade Organisation rules and we have welcomed that.

Q270 Chairman: I am grateful for that. Thank you very much. I do not want Mr Crawford to get away without speaking. That is what I was just deciding.

Lord Davies of Abersoch: I can think of questions for him.

Q271 Chairman: There is a novel idea! Lord Davies, what would you like me to ask Mr Crawford, on the record? Mr Crawford, we were aware of the increased interest in the ECGD’s activities and increased funding. Is there anything that you would like to say to the Committee about the contribution you make to British exporters? It is the softest question you will ever get from a select committee chairman, so enjoy it.

Mr Crawford: First of all I should stress that ECGD has responded to the downturn. Inquiries by exporters have gone up 50%. We supported just under £31.5 billion of new business in the last

financial year to 31 March. We expect that that will double or even more in this financial year. We have played a key role in helping Airbus aircraft exports. We have historically been supporting 17–18% of their deliveries. It is quite likely that we will support double that in this financial year. We have just closed a consultation on a possible new product to confirm the share risk on confirmations by British banks of UK export contracts, which would take us back into the short-term credit area which was privatised in 1991 but is a topic that exporters have been raising concerns about and the Government will be giving its response shortly. We are responding both to increase in demand and suggestions that we should look at new products that we have not hitherto had to supply.

Q272 Chairman: Do you want me to ask him a question, Lord Davies?

Lord Davies of Abersoch: No. I think the problems in the short-term trade credit market, which were alluded to earlier, have caused huge problems, not just in the UK but right across the world. People focus on the banks but the withdrawal of trade credit has been a big challenge for exporters. We are having a look at the letter of credit scheme which Patrick referred to and we are also doing a medium-term review on what else should ECGD be focusing on. We have an open mind and we are going through a consultation, so in the next two or three months we will come up with some ideas.

Q273 Mr Bailey: From my perspective as a representative of an area with a huge number of SMEs, many of them were quite significantly affected by that. Can I just stress that this consultation needs to be concluded very quickly and very productively.

Lord Davies of Abersoch: I think there are two issues. First, the letter of credit scheme, as we say, will be coming out in the next week or so. There is the separate issue of trade credit and the role of the firms. I am meeting with the two COs next week. I have had a series of meetings on this issue. I think trade credit structurally we need to think about from a European and international perspective and that is why it is important that there is this injection of liquidity through the IFC and through other measures on letters of credit because the withdrawal of letter of credit finance around the world has had a huge material impact on trade, and that is why we are addressing it.

Chairman: Can I just say this in public. We take the absence of criticism as a sign of success and we have heard very little criticism of ECGD. Having said that, of course, the flood gates will open and we will have you back in for a separate inquiry, but so far so good. Gentlemen, there are many other things we could have explored but we have done very well in two hours. We are very grateful to you for your time and trouble. Thank you very much indeed.

Tuesday 20 October 2009

Members present

Peter Luff, in the Chair

Mr Adrian Bailey
Mr Brian Binley
Mr Lindsay Hoyle

Lembit Öpik
Mr Anthony Wright

Witnesses: **Mr Adam Marshall**, Director of Policy, British Chambers of Commerce; **Mr Mike Josypenko**, Chairman, Sponsors' Alliance; and **Mr Andy Scott**, Director of International and UK Operations, and **Mr Gary Campkin**, Head of International, CBI, gave evidence.

Q274 Chairman: Gentlemen, thank you very much indeed for coming and thank you very much also for your written evidence which the Committee has greatly appreciated. As I always do, can I begin by asking you to introduce yourselves and your organisations.

Mr Marshall: I am Adam Marshall and I am Director of Policy and External Affairs for the British Chambers of Commerce.

Mr Josypenko: Mike Josypenko, I am Export Services Manager of the British Jewellery Giftware and Finishing Federation and current Chairman of the Sponsors' Alliance.

Q275 Chairman: Could you just explain briefly for the Committee what the Sponsors' Alliance is so that we have it on the record?

Mr Josypenko: Indeed. We are essentially an interest group made up of industry trade associations and chambers of commerce who engage in export promotion activity. Specifically we are generally accredited as an accredited trade organisation with UK Trade Investment. We work with UKTI on various activities, most notably the Tradeshow Access Programme but also in other areas including sector-based activities.

Mr Scott: Andy Scott, Director of International and UK Operations for the CBI.

Mr Campkin: Gary Campkin, Head of the International Group for the CBI.

Q276 Chairman: The focus of this session is very much on export promotion. Our title is "Exporting out of the recession". In that context can I ask you what impact you think the recession has had on the ability of companies to export and what it has done for their hunger to find new opportunities to export?

Mr Scott: Clearly in terms of the impact on companies the last 12 to 18 months has been a period of huge uncertainty. What I think we have been experiencing in the earlier part of this year and the back end of last year was many companies just needing to take stock of what on earth was going on in the market place, first of all, and how on earth they were going to be funded and financed appropriately, so the whole trade finance issue was a key concern for many businesses. Clearly looking forward as we go into the balance of this year and into next year we see a major opportunity for UK recovery as we start to gather pace which will come through from further efforts in the exports market.

Clearly companies have been hit by the very substantial downturn in global trade. We have seen a substantial downturn right across many of the markets and they have been influenced very much by their limited ability in terms of the financing for supporting that activity. It has had a real impact on them. Going forward, when you ask about their appetite, I think businesses will be looking very closely to see how the overall global activities are picking up and they will see opportunities in key markets. There are the twin impacts of sterling being in the current position and on one side of that that increases the competitiveness of UK exports but on the other side of it, at a time when we have been seeing a very substantial global downturn in trade, one needs the market places in the first place. Then the second impact of course is for many companies the impact on their import costs has been increased as a result of the sterling position, so although on the one side there is a plus on the other side there is a negative.

Q277 Chairman: On this question of the hunger of businesses to export I have seen some smaller businesses in my constituency which have not traditionally been exporters suffering a downturn in the domestic market and therefore looking overseas much more aggressively to make good the shortfall, with a great deal of success in one or two cases as well. Mr Marshall is nodding.

Mr Marshall: I think that is the case. There are a lot of small and medium-sized businesses that have seen their domestic markets evaporate and have looked overseas. There is still a problem with SMEs. We did a survey earlier this year which found that only 31% of small and medium-sized businesses surveyed were actually exporting and 58% of those were still doing so reactively, so there is a culture issue here for a lot of SMEs in many parts of the country, and a lot of chambers of commerce are very involved in trying to overcome this particular cultural issue. Exporting is still not the first thing that comes to mind when trying to rescue their businesses in the face of a downturn.

Mr Josypenko: From our point of view, yes, we have noticed an increase, speaking with my trade association hat on, in the number of companies approaching us who are looking at exporting for the first time and the reasoning does seem to be the downturn in the domestic market. I think the concern we have sometimes is that they are actually

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looking for a quick-fix whereas breaking into exports does not tend to be a quick-fix, it is a marathon rather than a sprint so sometimes they may be coming with unrealistic expectations. Interestingly, yes, as Mr Scott said, we have noticed a general downturn. It varies across industry sector. In consumer goods where I am based there has probably been a 15% to 20% downturn in business generally over the last 12 months as a result of the economic situation and that has led to an increase in interest in exporting. The exchange rate situation seems to have driven some people to consider exporting. I think they have taken on board messages that have been put out into the press and elsewhere that the exchange situation makes sterling-based companies more cost-effective. The feedback I have had from my members is that is more relevant and more useful for companies who have been exporting for some time rather than new exporters. Companies that have been exporting for maybe four or five years and done the hard yards and made an inroad into a market are actually seeing a positive benefit because of exchange rates. People who are breaking in for the first time are facing the downside because the costs of breaking into the market have generally gone up because for instance if they go through the tradeshow environment where they are working in overseas tradeshows costs may be incurred in dollars or in euros and those have increased by 10%, 15% or 20% in the last 12 or 18 months. So there is a greater barrier to them actually getting into the market, hopefully a greater reward for them when they get there, but that reward may not come for one or two years.

Q278 Chairman: That is very helpful as a general introduction. I am going to ask some rather general high-level questions. That probably flatters the questions but you know what I mean. So do not answer in too much detail because you will have a chance to break it down into the individual issues later on. In broad terms how well do you think the Government has responded to the impact that the recession has had on companies that export? Do you think it should have done more to support exporters over the last year and could there be more in the next year in broad terms without being too specific about individual programmes?

Mr Scott: I think there are probably two ways to look at that. First of all, I think it is important to recognise that for the vast majority of businesses the export activity which they are engaged in will not necessarily be driven or even supported by individual government programmes. This particularly applies to many of the larger companies and mid-sized companies. We welcome the fact that UKTI has put more of a focus on those but if you think about many of our major exporting sectors, the automotive sector, the aerospace sector, the chemical sector, the drinks sector, those are all absolutely critical sectors for our export performance and what actually most influences them is the broader economic climate, so I think what has been happening over the last 12 to 18 months in terms of trying to first of all underpin and

restore confidence in the financial system is important and then the broader economic climate in the UK is what heavily influences them in terms of their export performance. We can perhaps come later on to a bit more detail about some of the specific UKTI projects.

Q279 Chairman: Do you agree with that, gentlemen?

Mr Marshall: I think the Government is seized of the problem that there is more to do. One thing that we have been very clear about is we think we need a very clear political statement and vision supporting us as an export-led country and export-led economy in the future. The Government has come up with a number of programmes designed to support specific sectors, specific areas where the UK has a competitive advantage but we would like to see a greater political focus on exports specifically.

Q280 Chairman: I was quite struck that in the Institute of Directors' recent suggestion of how to cut £50 billion in public spending one of the few organisations they exempted was UKTI, which I think reinforces the point you have just made. Without commenting on the other aspects of the UKTI's programme do you share that sense that UKTI's operation remains hugely important, particularly to SMEs?

Mr Scott: Yes, we would indeed, absolutely.

Q281 Chairman: A couple of my colleagues will ask about the endless change in strategy that UKTI and its various predecessor bodies have been subjected to over many years, a wearying process of endless reprioritisation and new strategies. We have now got *Prosperity in a Changing World* as UKTI's current five-year strategy, of course written when times were good. Does that strategy need any modification at a strategic level or tactical level in the light of the recession that the world is still experiencing? The difficult times will go on for some time yet?

Mr Marshall: Can I first declare an interest. The BCC delivers two programmes directly on behalf of UKTI and regional chambers of commerce actually deliver UKTI services in both the West Midlands and the North West.

Q282 Chairman: We will return to those delivery mechanisms later on.

Mr Marshall: I want to put that on the record for now before answering. I think there is a question here about when the financial environment changed so drastically that actually was the point to reprioritise and re-organise some of what UKTI was doing rather than the endless bureaucratic and strategic reorganisations that preceded it. We found that in fact the strategy was a little bit inflexible and not updated to deal with the conditions that we were seeing. A couple of examples would be too much focus on the BRIC countries at a time when exports closer to home might have been a better way of focusing resource. There is still an issue with tick-box targets, advisers having to tick off the number of companies contacted rather than what they actually deliver and again not shifting the focus, as others

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have said previously, from first-time exporters to some of those existing exporters who could drive export volumes back up more quickly. All of those were issues we thought could have been responded to more quickly when the market changed so fundamentally.

Mr Josypenko: From our perspective when it became clear 12 months ago that we were heading for some problems, one of the things that we noticed very quickly was that a lot of companies who were participating particularly on the Overseas Tradeshow Programme were looking to either pull out or cut back their expenditure because particularly at that time they were in the eye of the storm and they did not know how bad things were going to get and they did cut back quite extensively. That was certainly the sign right through to the middle of this calendar year. At the time the Sponsors' Alliance called for government to put in an immediate infusion of cash across all sectors, and I think this is perhaps one of the things where we have had concerns that the work that has been done by UKTI has been done towards what it sees as the priority sectors whereas I think the problems occur for all sectors, and, as we said earlier, there is more interest from companies who want to go out to export and that opportunity is equally there in all sectors. What we would have liked to have seen this time last year was more cash going to schemes that actually directly facilitated exporting companies to get out into market places, either to discourage them from pulling their horns in or withdrawing from the market or to encourage them to get out into markets and to continue that expansion at a time when marketing budgets were under a lot of pressure.

Mr Scott: From our point of view both the chambers and the CBI were invited in by Andrew Cahn and his UKTI management board about a year ago to ask that very question: should they be fundamentally reviewing their strategy? Both of our views at the time was that this was certainly not the occasion to do a fundamental review of the strategy. The strategy in terms of overall direction was right when it was set and we believe it is right going forward. Tactically we felt there were two or three areas where it could indeed reinforce activities. We would particularly like to see UKTI—and it has been doing some of this—being more proactive in identifying individual business opportunities in the market rather than necessarily always responding to the individual project base or individual target as set for an individual company and looking much more at emerging opportunities and being more proactive in that. Secondly, I think there is always an issue of lack of awareness amongst many in the business community of the range of support services which UKTI has, so more activity in getting those out into the market place. Then a quite specific one which is where they have been doing some work which is looking at where in some of the stimulus packages there have been in various countries internationally there would be opportunities for UK business to be able to participate and benefit from those stimulus packages, notwithstanding the fact that many of those packages do have some elements that are more

focused on their own indigenous and domestic industries. Those were a number of areas where we felt that there were some specific opportunities where they could perhaps have a more proactive stance as well as supporting the overall strategic direction.

Chairman: That answer leads very neatly on to the questions that Brian Binley wanted to ask you about priority markets.

Q283 Mr Binley: You have only to look at the number of targets and target areas that UKTI is in to maybe think from a business perspective that it is all a bit of a mess, quite frankly. Has UKTI chosen the right priority sectors and markets? Can I ask you how you feel how well it does to balance the need to explore new markets without neglecting long-standing trade relationships with for instance North America and the eurozone?

Mr Josypenko: From our perspective first of all I should have declared an interest earlier on: we are an accredited trade organisation so we work with UKTI to deliver the TAP programme and other initiatives. We tend to deal almost exclusively with SME businesses. In my sector certainly which is consumer goods the markets that we see as important continue to be the mature markets—Europe, North America, the established markets in the Far East. Markets such as India and China are our largest competitors on the international stage. There are opportunities in other BRIC and emerging markets but our members and our customers continue to look for opportunities in established markets. I think there is also an issue if you are encouraging companies to go out and export for the first time, there is no point in prioritising emerging markets like Russia and Brazil where there are enormous obstacles and complexities that no new exporter ought to be faced with. On a personal level, just as a general view, I think there is too much emphasis on the BRIC markets at the expense of the established markets. One of my colleagues on our committee gave me some statistics on Friday which were the latest UK trading flow statistics which show for this year up until August even given the state of the North American market and the European market still something like 61% of UK exports went to North American and European markets. Despite the economic downturn that is still where the volume of business is going.

Mr Marshall: I would certainly agree with that. I would simply add that this goes back to the culture point that I mentioned earlier. So many businesses especially at the smaller and medium-sized end of the market find it easier and more comfortable to begin their exporting life in Europe or in North America. Until we are able to get over that cultural barrier such an intensive focus on risky and emerging markets provides many companies with a lot of difficulty.

Mr Scott: One has to have a degree of sympathy with the challenge that UKTI is trying to address. This is a complex matrix and it is going to be a different solution for different types of companies. The solution for a first-time-to-market, first-time exporting company is going to be a different one to

that for established exporters which we want to encourage to grow their export activities. Perhaps what UKTI do not do as effectively as they could is try to paint a picture of that matrix which is the balance that they have to strike. They have key emerging markets. Sometimes they are referred to as growth markets; sometimes they are referred to as priorities, which can lead to the impression that the US and eurozone are not important markets. They are vitally important markets but they do not necessarily require the same degree and same type of support which is needed if they were going into more difficult and emerging markets. By the same token, I think it is important to recognise that it is not just a geographical focus. It is important to have the sectoral focus as well. The challenge that UKTI have is presenting this matrix in an easily understood way, and perhaps that is the challenge they could be addressing even more effectively.

Q284 Lembit Öpik: To what extent is identifying reliable emerging markets a matter of guesswork or do you think with sufficient research one can fairly reliably identify the right ones to invest in? For example Estonia, which I just happen to know a lot about, is obviously a good place to invest. There are other countries which may look similarly attractive at the start but they are actually going to crash and burn. To what extent is it guesswork?

Mr Josypenko: I will answer that question and I will comment on Andrew's answer. To some extent this depends on the sectors that you are in. The companies within the sectors and the industry bodies within those sectors have a good track record of identifying opportunities. The individual companies and the trade associations in those sectors know, generally speaking, how to assess markets so they can do that. In terms of the more complicated matrix, our view of that is that maybe UKTI should not be trying to dictate a one-size-fits-all matrix. One of the perceptions we have from our members is that UKTI services are overmanaged and overcomplicated and maybe there ought to be more flexibility within their trade promotion programmes to allow industry sectors to match their needs according to the priorities. In our industry nobody would want to do business in the short to medium term with China or India because the opportunities are not there at the moment. They may be in four or five years' time but there is no point in spending money now when you can spend that money in three or four years' time. In other sectors it will be completely different. If you are an infrastructure project, yes, you should be in China already and you should have been there for some time, but that is a matter for the sectors and the industries themselves to identify and work on.

Q285 Lembit Öpik: To conclude on this supplementary, are you suggesting that one potential *modus operandi* would be to have the industrial sectors driving the prioritisation of countries and that those different sectors could be interested in different countries?

Mr Josypenko: Yes. I think at the end of the day what it boils down to in its simplest form is listening to customers. One of my committee members had a discussion with one of his members on Friday, an SME exporter that turns over around £1 million so a reasonably well established exporter in that sector, and he made the comment that UKTI does not listen to exporters. I would caveat that to say that UKTI does an awful lot of good work and I would not want that to be seen as a comment, but at the end of the day any business survives by listening to its customers and aligning itself with what the customers want.

Q286 Mr Binley: That is very helpful. I want to pick up on the comment that UKTI is not listening to its customers in relation to priorities. I have certainly had a comment myself in this respect that UKTI sets its priorities and its focuses without actually talking to its customers enough and getting their input on this whole issue.

Mr Marshall: There is an issue here. I would not phrase it in exactly the same way. The issue is really at the end of the day should UKTI be a strategic organisation or a delivery organisation? We think quite fundamentally that UKTI can do some strategy setting but then when it comes to talking to businesses and finding out what those needs are and getting into those markets, they need to contract out more of their services. We have delivered some of them, the trade associations deliver some of them, et cetera, but it is up to organisations like ours that are much closer to the businesses in question to bring those views in so that UKTI strategy is not remote and not seen as being detached from customers. If there is a strategic reorganisation that will certainly help to address some of the questions that Mike and others have raised.

Mr Scott: I would not go so far as to say that UKTI does not talk to its customers nor do those discussions with customers not have an impact on the shape of their strategy. Again, I come back to my comment about it being a matrix. We do have a focus on what are going to be some key sectors and those sectors will vary depending on individual markets. In arriving at those judgments that is through discussion and consultation with those sectors. Could it be better? It could always be better, but I do feel that their approach to sector prioritisation does come through serious attempts and endeavours to discuss with those particular key sectors where are the most likely opportunities for the different types of business because again it will depend on the state of that business whether it is a first-time exporter or an established business in the market place.

Q287 Mr Binley: You seem to be suggesting that is the most important role in terms of focusing and targeting and so in some ways you are agreeing, are you not, that they are not listening enough?

Mr Scott: We can all listen to our customers more. That is a given. We can also influence how that programme evolves as to whether there are issues which for a particular market because of the way in which that market is evolving raises the priority or

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changes the priority from where it was a year or two years ago. Being close to the customer all the time and understanding that of course is important.

Mr Binley: Two very quick ones before my final question and the first is again pursuing this particular subject: is it the Government telling UKTI what to do and is that to its detriment? Secondly, can I ask if you think all of this massive focusing on priorities at the top is actually getting through on the ground where it matters to your members?

Q288 Chairman: It is clear that for many years the UKTI has had conflicting priorities set for it by the Treasury. Is that process continuing I think is the question?

Mr Marshall: The only point I would want to address from those two questions is whether or not services are getting through to our members. In some cases they are getting through very well. The Passport to Export scheme is a perfect example of one where our members especially first-time exporters, say they are benefiting tremendously from what UKTI are doing. Those who are lucky enough to get access to the Tradeshow Access Programme—

Chairman: We will do those in more detail shortly.

Q289 Mr Binley: My concern is whether the plethora of focuses and priorities at the top is getting through to the coal face in UKTI in the countries where you want them to operate, not how your members think but whether it is getting right down the organisation because change seems to me to be an endemic part of what UKTI is all about at the top. I am just worried that the people at the coal face down below in that organisation find this immensely confusing and do not really latch on to it?

Mr Josypenko: I am not sure whether this is answering your question or not but certainly in our sector, and I think other of our members have in their respective sectors, we have found that the prioritisation actually filters through in terms of resources, particularly in the overseas posts, which reflects on the levels of service, commitment and response that we are able to get in terms of trying to build links, build bridges and develop international trade possibilities, particularly within the established European markets. We have noticed particularly in our sector there has been quite a large turnover in the European posts and every time you lose an experienced person you lose all the knowledge, the contacts and the expertise. In one or two posts that has happened once and we have had a new person in and then six months later they have moved on to another sector, so we have had continual upheaval and a process of re-education and in some cases you are losing that knowledge. Bearing in mind the posts are the eyes and ears of not only UKTI but also of ourselves and our members, that is what is being lost. I do not know whether that answers your question or not.

Q290 Mr Binley: I think that is helpful. The quick turnover thing is certainly a factor worth noting, I am sure.

Mr Scott: I think part of the issue which we do hear about when we talk to some of the individual posts on the ground is the translation of some of those priorities which then in terms of the impact on them come through in specific targets which are set for them and targets which they are required to meet. Targets have a clear role to play but if there is an over-fixation on the target per se without that being in the context of what people on the ground are seeing as the real opportunities then I think that would be and is a danger. We hear some evidence of that and some of our members would be concerned that there is a culture that had become more target-focused on the requirements which they are required to meet in the key targets set for UKTI. I think there has been some recognition of that more recently within UKTI to try to address that but that is a concern which we have heard from both from the posts and indeed from some of our individual members reflecting their contact with the posts.

Mr Josypenko: If I can enlarge on a particular target that the posts get in terms of financial targets in delivering OMIS reports, that is definitely having a tangible impact on our activities and on the impression that is being made on companies. We have many incidences where commercial officers in posts either visit groups at overseas tradeshows or come to the UK—

Chairman: I will cut you short because we want to do this in detail later.

Q291 Mr Binley: My final question relates to a trip we made to Saudi Arabia a short time ago where we were told that there was a lack of clarity about what difference it made to be designated a priority market. Does designating a country a priority market make a noticeable difference to the service your members receive in that country?

Mr Campkin: If you are a priority that has meant that you get as part of the UKTI network more resources. The Committee will be aware of the shift of resources towards the priorities, so from that dynamic, yes, it has meant more resources. But of course shifting resources takes time particularly if you are dealing with people slots, so there is a bit of a lag behind some of this resource shift and having that fed through into the reactive and responsive nature on the ground.

Mr Josypenko: It also has an impact in as much as being nominated as a priority market means there is a tendency for sectors or for individual associations to try and work towards developing business in those markets because it is seen as a priority which then increases the workload and that can have impacts down the line.

Mr Campkin: Chairman, could I make one other point at this juncture. I know it is not the specific remit of this Committee but when one is talking of resources we do have some concerns about the overall resource squeeze on the FCO's network of posts. I would just flag that point up as part of the debate because it is part of the jigsaw that we are looking at quite carefully.

Chairman: That is an important observation.

Q292 Mr Binley: Are you fearful that that process might in fact increase at the very time when that would be almost the most debilitating thing that UKTI could do?

Mr Campkin: I think it is obvious that at a time when public expenditure is going to come under increasing scrutiny there is a real risk, absolutely.

Mr Marshall: In a time when we face public expenditure restrictions we sometimes have to look at other options like local staff who know the local business community better to deliver some of those priorities. I do not want to get too much into the detail here but that is certainly an option.

Q293 Chairman: Can I just test you on one thing you said in your earlier answers which I am interested by and I am wondering if you bring your own sectoral perspectives and membership interests to this rather than UK strategic interests. You talked about the need to put more resources into the EU and less into BRIC countries. Can I put to you the view that a country like India is a huge strategic opportunity for the UK in which it may not be good for the jewellery sector just at present but for most of UK plc there is a huge opportunity where our competitors are taking market share which we will not easily regain in the future. Maintaining a high strategic level of interest in India is crucial. In many markets, as you yourself said, and infrastructure is an example, there is already a huge market and a growing market and also an economy that is growing and has grown throughout the recession (but at lower rates than originally hoped) whereas the EU is a neighbour, it is very close to hand, we go on holiday there, we learn the languages, we are used to being there, and there are lots of private financial advisers and experts who help them get into those markets and your members do not need help so much in the EU, they need help more in the strategic opportunities like India.

Mr Marshall: From the perspective of our membership a lot of small and medium-sized companies do need help to get into even close-by markets like the EU or familiar markets like North America. They still face a cultural psychological barrier to exporting and the first place they want to go is to a market where they feel comfortable, so helping them to get over that initial barrier is one thing. I think the answer is a twin-track approach at the end of the day. You do need to focus on existing and close-by markets whilst at the same time acknowledging those strategic opportunities which I suspect in the BRIC countries will often be more for the larger companies in our membership and some of the companies in Andy's membership as well who will be exploiting those most directly in the short term.

Mr Scott: I agree with that answer with just one caveat in terms of one additional comment. It comes back to a point that I made earlier which is I do think there are different types of support that are required in different markets. The support does not always have to be financial support. Support can be about looking at where there are market access issues where clearly government-to-government issues are

absolutely critical and those are going to be more influential in some of those emerging markets. It is also about striking this balance between what we can do in terms of the short term. There are quick fixes for companies which they might want to be able to look at in 12 to 18 months as well as the strategic "where are we going to be in three to five years' time?" and those key markets are absolutely critical. The final point I would make is again this point about differentiating what is required in different markets. Some of those emerging markets, the BRIC countries and others similar to those, are going to be much more for the established businesses and for a longer term strategic approach, and those larger companies which it is critical to support in those markets do indeed have a key impact in terms of their supply chains where they bring the smaller companies with them, so for many of the SMEs it is not appropriate to be necessarily doing direct export into those emerging markets but it is critically important for them to be supporting into the major international champions who are there and who need a different type of support and that cascades down and brings the SMEs with them.

Q294 Chairman: I am really enjoying this discussion but I think we are taking too leisurely a pace. Unless Mr Josypenko wants to add anything of great importance I would rather move on.

Mr Josypenko: Yes, I take your point, there is never enough money to go round. I think there ought to be a basic level of services and I do feel from our experience that the general level of services across the whole export sector has suffered as a result of prioritisation. I come back really to sectoral choice; the sector will know what sectors are best.

Chairman: You have made that point very well.

Q295 Mr Hoyle: In the case of first-time exporters they have really had the benefit of the Passport to Export scheme. It has been considered highly successful and very useful. Do you think the scheme should be expanded to SMEs who are already exporting who are actually looking for new markets?

Mr Marshall: That is certainly something that we have talked about quite extensively, rebalancing the supports that UKTI offers to first-time exporters and to existing exporters. If we think about the statistics, we have 80,000 export companies out of a corporate population of 4.7 million in this country. A lot of those 80,000 exporters are going to be the ones who in the short term drive up our export volumes, as I said before, so extending successful schemes and learning the lessons of their success and reapplying them to existing exporting companies could be a very helpful thing indeed, especially for the economy in the short term.

Mr Josypenko: If I understand your question correctly, I believe UKTI has introduced in the last few months a service which is intended to fill that gap, Gateway to Global Growth, which I believe is intended to be a post Passport offering for companies that have outgrown the Passport itself. As I understand it, the difference is that there is more of a signposting and mentoring input and less of a

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direct financial benefit to companies, and perhaps that is one of the areas in looking at the future delivery of services where industry associations can play a greater part in helping to deliver services such as that.

Mr Marshall: Just to come back on Gateway to Global Growth specifically, our members have reported quite a bit of confusion about that programme. They say that in different regions of the country there are different levels of financing available or a different offering available. If that is intended to be the follow-on to Passport to Export a lot of members do not feel as if it is living up to that particular description.

Mr Hoyle: It is just another brand, another pot that you have got to bid for, another area that you have got to go into instead of expanding what is already there that people already understand.

Q296 Chairman: Why the regional differences?

Mr Josypenko: It may be that different regions have access to other streams of funding either through the RDAs or perhaps European money. The idea behind Gateway is that people will facilitate whatever needs doing so it may be in certain regions they can draw down on ERDF money rather than UKTI money and put it into a pot. At the end of the day they would probably take the view that it gives benefit to the company and adds to the level of the intervention that they can achieve.

Q297 Mr Hoyle: It is quite interesting that you have said “inconsistent, unreliable and falling”. I think the only word you have missed is “failing”. That is how you describe UKTI’s funding for companies to attend tradeshows and you compare that with other countries and you feel that they are getting better benefit. Can you give us some of the differences where you feel other countries are boosting their export companies and how they are bolstering them? Also what do you think UKTI should copy from them or what should they do?

Mr Marshall: It is a matter of prioritisation at the end of the day. What those of our members who can gain access to it say about the Tradeshow Access Programme is that it helps them a huge amount. They find it a very useful, popular and effective programme. What they also say is they have noticed that its funding has been cut in recent years. That has a demoralising effect on them sometimes when they are seeking to break into these shows or enter particular markets and missions, et cetera, and the lack of UK companies at some recent shows has been noticed. I think what our response would be is that you have a successful programme and if you are in the game of reprioritising existing resources to make them work better this is one where more resource could easily be put.

Q298 Mr Hoyle: That is interesting. That takes me away from where I was going to go. So under the Tradeshow Assistance Programme, if it needs more money, where do you think the budget could be cut in other parts of UKTI to bolster what you believe your members require?

Mr Josypenko: The logical place for that is within the staff and administrative budgets. I guess like many government departments, UKTI is very intensive in staff and overheads costs and it seems to me that the proportion is wrong. The figure I heard most recently is that the amount of UKTI budget that goes to business schemes which directly benefit exporters is in the region of £30 million for the year just passed out of a budget of £320 million. There are other aspects as well.

Q299 Mr Hoyle: I think you are getting a message from behind.

Mr Marshall: I would also add that the OMIS scheme is another area where quite a lot of the staff resource that Mike was referring has been invested.

Q300 Chairman: We want to do OMIS in some detail later.

Mr Josypenko: Another thing within the wide gamut of staff and administrative costs that crops up very regularly in our association is the issue of regional delivery of international services and regional infrastructures. I believe that is something that is going to come up later in the meeting.

Q301 Mr Hoyle: If you have any further thoughts on where you think it might be able to move the money around, rather than just put you on the spot for an instant answer, it may be useful if you could supply that. The other thing I found interesting with your evidence is that you are very concerned that local delivery is being taken away. In fact I think it is the Cornwall, Devon and Somerset area that that has gone now to Serco to deliver export advice. Is that good, bad and what is the effect going to be?

Mr Marshall: I think there is a competitive market for some of the contracts that UKTI awards and that is certainly right at a time when we have to squeeze all the value we possibly can out of the public pound. What I would say is as a skill for my organisation and for chambers of commerce more generally. We are often very effective deliverers of international trade services whether we are talking about market information, training, documentation, et cetera. We have a model going forward which we call a hub and spoke model in particular regions where you have one chamber of commerce that is really good at delivering some of these services and can help chambers in other local areas deliver those services. Edinburgh for example are taking a lead across a big chunk of Scotland and Birmingham are taking a lead across a big chunk of the West Midlands. What that allows us to do is really focus on specialised face-to-face international trade support and ensures that those SMEs, the ones who were having such a hard time getting into export markets in the first place, have a single front door to go through to access these sorts of services, and that is something I think only we can offer. Other organisations which are involved on this patch surely have their own delivery channels but I think that is one that needs further exploration.

Q302 Mr Hoyle: What you are saying is really we should not have accepted the best price; what we should have done is make sure it is the quality that we are buying?

Mr Marshall: Both considerations are important at this particular time.

Q303 Chairman: Mr Marshall has just confessed to me privately in the confessional of this room that the chamber movement is not at its strongest in the South West, is it?

Mr Marshall: No, it is not.

Q304 Mr Hoyle: It has been taken off them for failing?

Mr Marshall: No, we do not have a presence in some parts of the South West, but to go back to your question what I would say is we need both quality and competitive price at this point in time.

Mr Josypenko: We would broaden the issue slightly and look at what services need to be delivered at a regional level. In terms of having a local point-to-point contact and perhaps a one-stop shop for sign-posting to other services, yes, there is a need for local delivery. A lot of the more complicated support mechanisms like the Passport do not necessarily require that same level of geographical proximity and could be dealt with through other channels, perhaps through sectoral involvement and perhaps through industry associations if they were accredited to that level of capability. Once you talk about detailed sector knowledge it can be done on the Internet, on the telephone, on a conference call; you do not need to drive to the guy's house and sit in front of him and look at his documents to give him advice.

Q305 Mr Hoyle: So you are quite comfortable with Serco?

Mr Josypenko: I would always prefer organisations that are delivering advice to be not-for-profit organisations. That is one of the reasons why the industry associations have a strong argument for a greater involvement. My personal view is that any penny that is taken out of the public purse into private profit—

Q306 Mr Hoyle: Somewhere shareholders' pockets are being filled. I quite agree with that. Big bonuses—we are not into that.

Mr Scott: Can I just make one observation on this and say I think the issue is that it is important to look at different options. One can have views as to the merits or otherwise of individual options, but I think the message which your question started with was the right one which is there are various routes through which this delivery can indeed be delivered. It may be the chamber, it may be a trade association or it may be a private sector organisation. That is the issue it is worth holding on to. There is more than one way of doing this and I think it is well worthwhile exploring what those other options are and looking at the competitive merits of those different options. I think that is what we would say.

Mr Hoyle: That is interesting. Thank you for that, Mr Scott, because that ties me into my last question. The evidence we have been given is slightly contrary to what you are saying, or maybe I read it that way. In your evidence as a group it has been stated that the UKTI services that you used to host are now spread amongst a number of other organisations. Why did this happen and how many different organisations do you think should be delivering for you? Is it the fact that there are so many organisations people do not quite know where they are going? Are there too many?

Chairman: That question is really for Mr Marshall.

Q307 Mr Hoyle: Are you at loggerheads with the rest of them, Mr Marshall?

Mr Marshall: Andy has made a very important point here which is this: the private sector and the not-for-profit sector has an important role in delivering these services. I agree with Mike that proximity is important for quite a few of these services so people like ourselves or trade associations can do quite a lot of it. At the end of the day what we do not want is a very inflexible very similar public sector delivery model for these things across various regions of the country. Yes, diversity can be a difficult thing for both businesses and deliverers to deal with but in fact in this day and age, with constrained expenditure and with the value-for-money considerations being primary, we need to live with it and we need to learn to deal with complexity.

Q308 Mr Hoyle: Do you believe there has been a reduction in the quality of service by the plethora of different advisers?

Mr Marshall: I would not like to answer that question. Let me get back to you on that one.

Mr Hoyle: Anybody else want to add anything? If not, I am more than happy.

Q309 Chairman: I am encouraged by this. I do get a sense that the chamber movement in particular is a bit concerned at local level that there is a hidden agenda to drive towards a uniformity of delivery mechanism at local level, probably using a company like Serco, and all three of you have agreed that would not be the right way forward from a business perspective either for the Government or the users of the service. You are nodding.

Mr Scott: Yes, I think you would have to look at the case, what it is that you are requiring to be delivered and judge those options against the spec which is presented, absolutely. It may be a private sector company, it may be a chamber together with a private sector in that sense, or it may be a trade association, but I think it is important to judge the proposals and the options against the original specification as set.

Chairman: Thank you very much, that is very helpful. We will move on to market information services which have featured from time to time in your answers. Lembit Öpik?

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Q310 Lembit Öpik: The Committee has received quite mixed reports about the value of UKTI's Overseas Market Introduction Scheme (OMIS) both in terms of the business usefulness of the reports and also the impact it has had on staff's ability to get out and develop business contacts in those countries. What is your view?

Mr Josypenko: From our perspective within the Sponsors' Alliance and from my personal experience the quality varies. There is a great inconsistency. I had one company phone me up on Friday and he was happy to mention in passing that he had commissioned four OMIS reports years back and he thought they were worse than what he could get himself on the Internet. I have also had instances where members have commissioned OMIS reports to break into new markets and they have sworn by them and they recommend them widely. There is excellence and there is poor quality. To some extent it may well be a reflection of the knowledge base of the staff out in the posts and their understanding of individual sectors. I come back to the point I made before which argues for consistency and good-quality, experienced people with a knowledge of the sectors they are going to be working in.

Q311 Lembit Öpik: So you are saying the inconsistencies come down to the actual quality of the individual staff?

Mr Josypenko: Not necessarily the quality, the knowledge base of the individual staff, but also the value-for-money aspect of it is affected by the target culturally of the need to drive sales. Many of the people we dealt with in post are people that five years ago would have given us as a trade association information for free and are now telling us that we have to commission a £500 or £1,000 OMIS to get relatively straightforward information.

Q312 Chairman: This is a very interesting point. I have seen an OMIS report at last (because they are always commercially confidential and they are quite difficult for us to see) and I was hugely impressed by it. It was a fantastic document from the Saudi Arabian post. Is there any way members of the Committee could see on a commercially confidential basis a good and a bad OMIS, if between the three of you you could find a good and a bad one just to inform our judgment? It would be in confidence to the Committee. It might be something our Clerks can explore with you afterwards.

Mr Scott: I agree absolutely with Mike, clearly the quality of them will vary and it will very much depend upon the knowledge and expertise of the individuals on the ground. There is not a black and white: this is what an OMIS does. OMIS gives you an opportunity to then respond to what the individual customer is looking for and again the strength of that response will be very much dependent upon the knowledge and expertise of the individual. That is one point. The second point perhaps you are also driving at is has the focus on delivering a target number of OMIS reports, irrespective of the separate issue about quality, been to the detriment of their ability to be doing proactive

networking market intelligence? There is a real risk of that because there is a danger that if they are driven by delivering a certain number to meet a certain target that has to be at the expense of something else. The reports themselves might be very good or bad depending on the quality of the individual who is doing them, but clearly we would be looking for and have been arguing consistently that those posts have a key role in terms of the market intelligence, the networking opportunities and the proactive identification of where there are some emerging trends which they can then be cascading back into the business community in the UK.

Mr Marshall: Shifting a big part of a £100 million organisation to chase a £4 million commercial target for the OMIS scheme is the problem both Andy and Mike are referring to and we would certainly agree with that. It is not the sort of business model that will function for UKTI over the longer term so I would agree with the point about variable quality and everything else but it is that chasing of that particular commercial target which we think means that resources are not prioritised as effectively as they could be.

Mr Josypenko: Certainly I know that UKTI places great store on the chargeable element to perhaps discourage frivolous requests for information.

Q313 Chairman: UKTI or the Treasury? A voice from the audience: the Treasury!

Mr Josypenko: I would not like to comment on that. You gentlemen probably know far better than I do. They do place value on the element of charging. I think it does drive them. In terms of distracting them from getting out and meeting people, I would have thought in many cases having an OMIS as a basis to carry out some research is a good way of getting out because in terms of market research and making contacts, one of the best ways of doing that if the opportunity presents is either to get out to a tradeshow in the local market and talk to people there or just go and visit them. I know there is an element of desk work and Internet research involved but it must be possible to delegate that down to a level where it can be done. It does not require high-grade officers to do that. High-grade officers are probably better employed meeting key players and building contacts, whether it is for an OMIS that is in play at the moment or maybe for a future OMIS.

Mr Campkin: One thing I would add is in the latest UKTI report it did state that one of its goals was to progressively increase the level of charging. It has put that on hold given the current economic circumstances but that is an issue that we need to keep under close review because these things are generated from the dynamics of market failure. The private sector and other service providers would not be able to provide reports and information at that sort of cost, so we need to bear that in mind too.

Mr Josypenko: Can I add a point on the element of charging. One of the things that our members have concerns about is what we call "forced" sales of OMIS. Bearing in mind that OMIS as a service is ostensibly about market introduction and market

information, but it is also used as a vehicle where you can simply buy the time and resources of the post, it is frequently used particularly where trade organisations and chambers of commerce are organising trade missions or events out in the market. It is used as a way of charging the organiser for their time or for organisational expenses.

Q314 Lembit Öpik: How does that work? Just explain the process of forced sales?

Mr Josypenko: If an association wants to do a trade mission in a particular market, an important element of that would normally be a briefing in the market and usually a reception or some sort of event, preferably at the Embassy where possible, so the organising body will be asked to commission an OMIS to cover the Embassy's time both for room hire and organisational costs, and quite often they will be asked to commission another OMIS for the formalities of identifying and inviting guests to attend an event. The feedback we have had in many instances is that does not provide very good value for money, but the organiser is quite often in the situation where they feel obliged to do it as part of the process. I had an instance given to me yesterday by one of my members based around an exhibition where they have historically brought in a commercial officer from the local Embassy on the eve of the exhibition to do a sector specific briefing to the companies who are in their group at that exhibition. Five years ago that would have been done free of charge by the commercial officer. Up until recently they charged £250. Now they are charging up to £500 for what is effectively a 20-minute briefing in a room which is already being paid for by the trade association at an exhibition. Effectively the trade association is inviting in the commercial officer to meet those companies to give him sales opportunities to produce OMIS reports and they are being charged a substantial amount of money for 20 minutes' time.

Q315 Lembit Öpik: On the point about price, the UKTI says that they have "improved the performance culture" and that is why they should charge. Explicitly what do you think about this charging process even at the current prices, leaving aside the yet-to-happen increases?

Mr Campkin: The CBI has always supported charging as a filter mechanism and I think our members would feel that a reasonable charge which does not discourage them from doing what they wish to do in terms of market access and export opportunities makes sense. The debate is more to be had around the level and the quality and the value that you get for what you pay.

Mr Josypenko: Generally I would expect—and perhaps this is naive—a post to give a general background overview on the market in relation to the sector as something free of charge, whether it is done as a physical piece of paper or as a briefing or as a report that is accessible on the UKTI website, I think generic information on the market in relation to that sector should be freely available. Market research, call it OMIS, call it whatever, should be

something specific to the company as a vehicle for identifying business partners. Perhaps there is an element of clarifying what the offering is and maybe staging the price levels or staging the offering to meet the demand. It falls between two stools to some extent. People see it as a subsidised service and something they ought to get on board with and they accept that it is probably a cheaper price than if they commissioned a similar report from a commercial organisation. What they get in some cases is poor although, as I say, there are some excellent reports coming out.

Q316 Lembit Öpik: So maybe a graded service with different amounts for different quality of services?

Mr Josypenko: My personal view is that OMIS is something that needs to be looked at almost with a clean sheet of paper. Tinkering with it further just makes things more complicated.

Mr Marshall: I would agree with that. I think businesses value what they pay for. There is no question about that. That is Gary's point from before. When they have seen the steady erosion of what was available to them free of charge towards this charged culture, especially at a time when free or low charge support is very important to them, sends the wrong message, and they also see UKTI gearing up to deliver OMIS rather than to deliver some of its other services, and that also sends the wrong message.

Q317 Lembit Öpik: On the other point you raised, you talked about going out and making contacts, and something that we were told in Abu Dhabi by various business people was that they really wanted the UK to have a bigger presence just there because the local culture meant that those countries, which were doing that and always had a relationship without always sending something at the time, did better than those that did not. Do you have a view on that in the context of what you are saying now about the focus being on OMIS rather than just a networking relationship really on behalf of British industry?

Mr Scott: If your point is does it help in the market to have a more identifiable UK voice/UK presence, UK companies in the marketplace, of course it does, absolutely. You can find many markets where, I think, on the ground people would say, "We'd love to see a greater presence of the UK here from the business community vis-à-vis that which we see from Germany, from France or from wherever else, but I am not sure whether your point was more about what the embassy itself will want."

Q318 Lembit Öpik: I do not want to move too far down the path, but basically there is an opportunity cost to doing OMIS.

Mr Scott: Yes.

Q319 Lembit Öpik: The inference by some of what you have said, not explicitly, is that, if they were not so focused on selling OMIS, they might be more focused on selling Britain and creating a brand image, if you like, for the UK. I just wondered, and

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in simple terms let me put it in the financial context, do you think that it would pay for itself for us to invest in the brand for the UK and divert resources more towards that and less towards selling OMIS, if it were one or the other?

Mr Scott: I think it is a difficult trade-off to make between those two. Again, what we are talking about, just like we were talking about a complex matrix for UKTI driven out of London, it is a complex matrix which you are requiring an embassy to do in a marketplace. Absolutely it is there to be promoting the UK brand in its broadest sense and I do think the real challenge in the current marketplace is to be promoting some of the success stories about the UK out in the marketplace so that people do not have a perception that the UK does not have either strength in certain sectors or that it is all being driven by the financial services sector, and that has been in real troubles over the last 12 months, so I think promoting that brand, if you want to call it that, is an important role. I do not think you can trade it off against an OMIS in that sense.

Mr Josypenko: It may be that, as I said earlier, perhaps the concept of how a market report is delivered needs to be clever and perhaps, if there is a greater involvement from other sectors rather than the UKTI staff, that actually frees up other options, so it may be in some circumstances that there are other local partners in the market that can do fairly straightforward internet or desk-based research and free them up and, if there were a system maybe, that could perhaps work through, say, an organisation like the British Chambers or through the trade associations and maybe there would be some form of credit or voucher given to a company to undertake research through whatever means, and one of those means, where it is appropriate, could be through the posts. In other instances, it would not, and that would perhaps free up the people to get involved in other things.

Mr Marshall: Just on your point on presence though, it does not always need to be an embassy-based FCO/UKTI presence on the ground. I think we do not do enough to take advantage of the network of graduates in the UK sends throughout the world who could be great brand ambassadors for us in the country and very helpful to us in delivering export opportunities in their own markets and their own cultures where they understand the business trade better often than an FCO-posted person would do, and I think that is a specific issue for us. For example, we have a programme, Link to China, where we have a local adviser on the ground rather than send our own people out to do that, and I think that model could be explored far more.

Chairman: I think we are going to look at this a bit later on actually, so we will move on just a little bit.

Q320 Lembit Öpik: It is a fascinating area, by the way, and I look forward to the further debate on that. Just lastly in terms of the research itself, the British Chambers of Commerce basically runs on behalf of UKTI, if I understand it correctly, the Export Marketing Research Scheme, EMRS. What is the difference between OMIS and that?

Mr Marshall: The EMRS scheme, if I understand it correctly and I have been in my post for approximately three months, so give me a bit of leeway on this, is delivered to companies here who are seeking to export, who are looking to export and who are taking their tentative steps into a market, whereas OMIS can be a much more broad-commissioned report about the specific market for an existing or new exporter. The EMRS is a scheme which has been operating with the Chambers for a number of years, about 20 years, and, when it is evaluated, it always comes up high on value for money because I think companies, especially smaller and medium-sized enterprises, get a lot of value out of understanding what these potential markets could be and how they could actually break into them.

Mr Josypenko: It also has a great flexibility, from my understanding, and it is something that is perhaps underused by trade associations because I think that within that scheme there is a facility for trade associations to carry out research on more general projects rather than specific assignments that a company would undertake with a specific aim for their own company to break into a market. Certainly we have a high opinion of the EMRS scheme.

Q321 Lembit Öpik: If it is so good, then why have two separate schemes? Why not just have one?

Mr Josypenko: From my understanding, OMIS is more a sort of initial snapshot. It is an overview of the market at the time you are looking to break in, perhaps to decide if the market is for you and initial research into potential business partners. The EMRS is far more in-depth; you are talking about research of the potential with a notional value of tens of thousands of pounds going into markets in detailed segments.

Mr Marshall: And the EMRS is very company-specific as well, whereas the OMIS generally is not.

Q322 Lembit Öpik: I have used those kinds of arguments to justify stuff like this, but I have never even convinced myself! What lessons can OMIS learn then from the obviously successful EMRS scheme and, if it is so successful, why is less than half of the 2007–08 budget actually spent there? I think there is £1.5 million in the budget and I think £340,000 is actually spent.

Mr Marshall: I think there are some important lessons for OMIS and I think the key one of course is the one, going back to what I said before, around targets. OMIS is a product that gets sold, whereas EMRS is a product that responds more to the needs of individual companies. Now, at a time when we have seen export demand and companies actually retreat in the markets, it is probably understandable that less of the budget would have been spent in a year when we have seen a lot of companies pulling back from potential export markets, but I do expect that that would grow, going forward.

Q323 Mr Bailey: On the Strategic Investment Fund, first of all, Sir Andrew Cahn has announced three priorities. Now, were those priorities effectively

UKTI's perception of what was needed, was there consultation with yourselves and, if there was not or indeed if there was, have you other priorities?

Mr Josypenko: No comment.

Mr Scott: Are you referring there to the extra £10 million that came to the UKTI over two years?

Q324 Mr Bailey: Yes, the £10 million which is prioritised on a trade show for the security sector, the Global Britons Network and a marketing campaign to encourage British exports.

Mr Scott: To the extent that UKTI came to us specifically and said, "We have £5 million each year. How would you wish us to spend that?", it was not actually presented in quite that way, no. Had we been making cases in the run-up to the Budget in which that was announced in terms that it would be valuable for UKTI to have some additional resources to help them in some of their activities, which would include, particularly we had said actually, marketing and promotion, it was then the judgment actually of where UKTI could most effectively devote those activities. Again putting them into context, this is £5 million per year in terms of an overall spend for programmes and operations of £320 million, so we had said that it would be valuable for UKTI to have some additional support to help them in these current times and particularly supporting the activities of getting out there and making people more aware of the services which UKTI has to offer.

Mr Josypenko: Having said I have no comment, I had misunderstood your question. We, Sponsors' Alliance, have been lobbying, as I said earlier, for the Government to put an urgent infusion of funding in across industry sectors, which would have an immediate benefit, and we identified the TAP scheme as an area where it could have an immediate and beneficial effect across sectors. I think any money is good money, but I am not sure whether the specific projects, given that they are going to priority sectors which tend to be reasonably well-financed anyway, perhaps the money can be better spread across a wider spectrum of sectors. One of the things which struck me was, as I say, we were lobbying for the Government to support exporters more strongly with funding and we saw it as an urgent infusion of extra cash to enable small businesses to get out and to protect their markets and to research new markets. The feedback from UKTI seemed to be that they took the £10 million as a sign of confidence in their organisation, so there are different perceptions of what the money was for.

Q325 Mr Bailey: What I am not clear about is that you said that you wanted it invested across the sectors for export promotion, but that does involve some sort of process, some sort of strategy and whatever. Could you be more specific.

Mr Josypenko: Well, I would have hoped that some of that money would at least have come through to the Tradeshow Access Programme where it could actually have filtered fairly quickly. I would imagine that, if, for instance, an announcement had been made in May, for the sake of argument, that £2

million out of £5 million was going to the Tradeshow Access Programme, that could have been implemented within a matter of weeks, so the companies would have been taking that up—

Q326 Mr Bailey: Could you very briefly outline what the Tradeshow Access Programme provides then.

Mr Josypenko: In the form of financial inducement, it facilitates companies actually exhibiting at overseas tradeshows and in an environment, as we said earlier, where companies are either retrenching from markets and cutting down on their tradeshows or looking to exhibit in tradeshows and are perhaps nervous about the cost of doing so. It would have been an immediate leg-up to help both existing and new exporters to keep their presence or to generate a presence in overseas markets, and it could have been activated within a matter of certainly two or three months, I would imagine, so that would have had an immediate effect in supporting businesses.

Q327 Mr Bailey: So effectively it is a subsidy for companies to exhibit at tradeshows?

Mr Josypenko: It is a facilitation or an incentive, it is not a subsidy. It enables new companies to participate in shows. It might also help some companies to continue participating at a show at a time when they are feeling the pressure and having to cancel their participation and effectively pull themselves away from markets that they have been established in for many years.

Q328 Mr Bailey: I am not sure in this context what the difference is between a subsidy and a facilitation, but I am not going to get bogged down in it.

Mr Josypenko: One comment, if I may, is that, having lobbied the Government to put more money in, our organisation did not really receive any input from UKTI or we did not have any opportunity to consult UKTI on what was happening with this money. We did ask what was happening with it, and in fact one of the things we do want to take up with UKTI is that we still have not seen a formal confirmation of exactly where the money is going.

Q329 Mr Bailey: Coming on to the next question, there is some for the establishment of a new tradeshow for the security sector, and it expects this to be self-financing by the end of a two-year period. Basically, do you think this is realistic?

Mr Josypenko: My colleague, Phil, who represents the main trade association for the security industry, was not aware of this on Friday when I emailed him and he had to go away and research it, so I think they certainly were not consulted on that project. Whether it is realistic, you would have to seek out.

Mr Marshall: I think we would have a concern which is that there are so many big shows in the security sector specifically and there already is an established annual agenda of trade fairs and things like that in that particular industry. The question I would raise back to you, I would say, is whether that was the right place to put this small amount of additional resource coming to UKTI. There may have been

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indeed other sectors or other areas which were under-served where that money could have been better spent.

Q330 Mr Bailey: So you say that it is all very well served and that the amount of money is not likely to make things different? Is that a reasonable summary?

Mr Josypenko: We do not know whether it is well served, but it does not seem to be. There seems to be an absence of consultation on these and perhaps that would have been helpful, I think.

Q331 Mr Wright: On that particular point, are you saying, for instance, that that resource would be better earmarked for other tradeshows rather than that one? I know, for instance, that the TSCI is one of the biggest tradeshows for the security industry, including obviously the Forces. Would that be better earmarked for other trades rather than security?

Mr Josypenko: I would not like to make a judgment as to whether it is better served. It would have been nice to have a wider consultation process to have had the opportunity for other sectors to have bid into that. It does seem to have been decided without consultation, certainly without consultation with most trade associations.

Mr Marshall: I think that UKTI, to be fair to them, were caught in a very difficult position here. They were given a small amount of additional money which they were then asked to prioritise very quickly and try to get spent reasonably quickly as well. Had they done a very wide consultation, they might have put little pots of money in a variety of different areas where they would not have been able to have a very big overall impact, or they could have done what they did which was to pick a particular area and focus on it. They have done that and we have our criticisms of that because we do think it is a very well served area already, but I can understand the position that they were in at the time.

Mr Josypenko: If I can come back to the point I made slightly earlier in relation to the TAP programme, my colleague has just reminded me that we are talking about £5 million a year of additional money. The budget for the TAP programme as it stands for this year is only around £8–8½ million, so £1 or £2 million out of that £5 million allocated into the TAP programme would actually have a substantial effect and it would not have been small amounts, but it would have had a substantial effect and it could have filtered through relatively quickly within weeks or months, whereas I do not know anything about this defence tradeshow and I do not know what the timescale is.

Q332 Mr Hoyle: So what you are saying is that, if they had got the money, they would have been able to spend it because no doubt somebody said, “Well, the trouble is, if we had put the money in there, they wouldn’t have been able to use it”?

Mr Josypenko: I have been asking UKTI for more budget for our own TAP programme, asking for just small amounts, £1,000 or £2,000 for individual grants, so £1 million or more in the TAP programme would have had a substantial effect in many sectors.

Q333 Mr Hoyle: So basically the TAP programme could have spent the money?

Mr Josypenko: Yes.

Q334 Mr Bailey: Is two years long enough to make it self-sufficient? Are you able to answer that in the light of what you said previously? You are saying no, okay. Let us go on to the Global Britons Network which, supposedly, will tap into thousands of people around the world, business people and people doing other things who want to help Britain. It sounds a bit airy-fairy to me. Are you aware of any of your members getting involved in this network, and so far have you been able to identify any value from it?

Mr Marshall: No, we are not aware of members who have gotten involved, but, as Chambers of Commerce, we have a recognised brand and we are in cities, towns and countries around the world already, with bilateral chambers of commerce and everything else.

Q335 Chairman: It exists already?

Mr Marshall: It does exist already in a variety of ways and we are running programmes already, such as Link to China, which I mentioned earlier, which would accomplish the goals of this new scheme without setting up something additional, so we do have our concerns about that certainly.

Q336 Mr Bailey: Lastly, it also intends to use it for a marketing campaign to encourage SMEs to export. Now, from my own perspective as a representative of a constituency with many manufacturing SMEs, it would seem to me to be quite sensible. What I really want to know is (a) do you agree, do you think it is making a difference, and (b) how can the Department use this money to get its message across?

Mr Josypenko: This is a copy of the advert which appeared on railways stations in various cities and outside airports.

Mr Bailey: “Take it to the world”.

Q337 Chairman: This is a poster which appeared in rail stations?

Mr Josypenko: On railway stations, outside airports, on the sides of taxis.

Mr Marshall: I think Wakefield Westgate Station is the last place where I saw this very recently and, if you are standing—

Q338 Mr Hoyle: Probably the last place it should be at.

Mr Marshall: Looking at it, you probably would wonder exactly what it was referring to sometimes. I think the serious point I would want to make here is that a lot of businesses in constituencies like yours will know their local Chamber of Commerce as the people that can best help them get into export

markets for the first time, so I think we could deliver a lot more and be of great assistance to UKTI and to others.

Q339 Mr Bailey: And a lot works through trade associations as well obviously.

Mr Josypenko: I hold this up as a frivolous example, but I know they have also advertised in *Business* magazine. My financial controller showed me a feature which appeared in, I am not sure which magazine, but it was geared towards financial control, which would have been more sensible and more relevant because that is more likely to filter through.

Q340 Mr Bailey: How would you do it?

Mr Scott: I would partly answer the point I was going to make anyway. I think we have always argued in our submission in advance of the question that we felt that there was merit in some additional support for UKTI to get greater awareness out of the marketplace with the range of activities which it has available because I think that is a cry we often hear, particularly from small and medium-sized companies that, "I just didn't know that this was a service which was available to me". Now, I think there is a danger that we could all become marketing experts as to what is the best way to do that. Whether we think that is the right way or not, I would not wish to comment, but I think one way which actually is very effective is just physically getting out in front of businesses and explaining what those services are. Now, that can be done through using the multiplier networks, and I think that is actually one of the most effective ways of just physically getting in front of as many SMEs as you can, explaining what those services are, answering their questions which they will legitimately have, such as, "How do I go about doing this? How does this fit with that? How does the whole jigsaw come together?" and that direct interface is actually often one of the most effective ways. Now, that actually costs some money, it costs time, it costs resource and that actually, I think, is partly what we were driving at which was to say that there is a resource issue, and then, if you had some additional funding to enable that to happen, that could be an effective way of getting better awareness out there.

Mr Marshall: I do not think we need to do it differently because we, as Chambers of Commerce, already do quite a lot of this marketing activity. If you think about the hundreds of events that the Chambers run every year on national trades, basically making members aware both of market information that is available through the Chamber network of specific face-to-face services and tailored services that their company can access, et cetera, it is going on a great deal already and it is going on through that single front door that I referred to earlier which any SME would know they can walk through and with confidence get some advice for their business on how to export.

Mr Josypenko: If I can just add a general comment, certainly talking to our members, there is a confusion of who they talk to. A lot of our members,

when they talk particularly in relation to a tradeshow or particular programmes, they tell me they are talking to the DTI, they tell me they are talking to Business Link, and quite often these are people that they spoke to seven years ago and the person is still the same, but they have probably had five or six different business cards in those seven years, but, in their mind, they are talking to—

Chairman: In a way, you will have a chance to expand a little bit when Tony Wright asks his questions, so the summary really is that that £10 million would have been better spent on doing things they are already doing better and more of rather than doing new things. That is the consensus view of the panel, it seems to me. A change of gear now.

Q341 Mr Wright: A change really in the perspective, but also in terms of duplication. We have heard evidence that there is concern over the regional development agencies' overseas marketing actually diluting the UK brand and confusing would-be potential customers. Have you yourselves seen the signs of RDAs competing with each other and indeed with UKTI, and have you got any evidence of duplication of RDAs' work abroad?

Mr Josypenko: There are two elements to this. There are RDAs working to attract foreign investments where, I think, they work as RDAs and they sometimes work in competition with each other. Our perspective in terms of export promotion or trade promotion is that the RDAs themselves are not the people there, generally speaking, but it is the UKTI's regional infrastructures who tend to take the responsibility for international trade promotion on behalf of the RDAs, so they step forward to the plate. Yes, we have seen that quite regularly cropping up where we have seen regional groups at a major international tradeshow, in some cases, not necessarily in competition, but separate from the UK national group with different branding, and I think that is a concern as that does dilute overall UK national efforts. Our view is that a buyer in Texas or in Lusaka does not care whether it is the East of England, but he wants to see the Union Jack, he wants to see the British flag and he does not care if it is the East of England or the North West.

Mr Marshall: I think that is right. I think some of the RDA efforts in various countries were born out of frustration with the FCO-posted UKTI representatives who felt they were not getting enough out of those people, whether it is in Boston or Gwangju or wherever else it might be where we have seen RDAs opening offices, so there can be some level of sympathy for why they went about doing it in the first place, but I think it is undeniable that it does dilute the UK's brand abroad and that there is competition going on and, when we are in an era of tightened resources, that is exactly the sort of competition that makes headlines and exactly the sort of competition which we would like to see rooted out.

Mr Scott: I think there are two aspects to that. On the specific point, yes, we have been hearing these concerns. Our member companies have been telling us, as Mike and Adam have said, that out in the

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marketplace they were seeing confusion, and it is always difficult to know whether that is actually meaning that that is actually diluting effort or not, but certainly there was some confusion, and that has been there for quite some time, ever since RDAs started establishing themselves with physical presences in the variety of cities around the world. I think, to be fair, more recently over the last year or so, partly driven by efforts which UKTI have been co-ordinating, there has been a better cohesion between the RDAs physically on the ground, the UKTI activity and the embassies. There needed to be, but I think there has been, so I think there has been some progress in that and I do not think we see today the same degree of excesses which people might have seen before when you saw multiple RDAs attending at individual events, although I think there may still be some examples of that, but certainly there has been an improvement. I do think it is in the context of a broader issue which is what actually is the strategic role of RDAs, and I think that is an issue where, from our perspective, we feel that in a number of areas over a period of time there has, if you like, been mission creep in terms of what RDAs are there to do. We would wish to see RDAs being focused very much on providing that strategic influence and direction for regional economic development and leaving the delivery mechanism for many of these things, whether they be activities in the UK or abroad, to other organisations and reverting back to what their primary role was originally perceived as being, which was that vital interface between central government and local government. Precisely what format that takes is a separate debate, but I think it is that broader context which is important, to look at their activities internationally as well.

Mr Josypenko: To some extent, I would support what Andy has said. Our sector is a classic case of where it can work well. We are organising a national group in a jewellery show in Germany in the New Year and we are working with two regions in the UK, one of which being our local region, the West Midlands, and they are doing individual stands within a wider UK presence, so, when it works, it can work together and they can bring something extra. The problem is where there is duplication and I think there is also a tendency towards wasted resources and certainly, when you are talking about a finite pot of resources, we could question the need for regions to get involved unless there is a specific role for them. There is also an issue about inequality of opportunity where you have got a regional group alongside a national group, particularly if that regional group has got access to either European money or local money, and participants in one group can have a greater level of financial support, so they are either getting a higher level of support, or they are getting a better-looking presence because it has been paid for by the region, than companies on a national programme which are getting a lower level of funding, and that can even happen within a national group. If companies are based in some regions, they can actually get access to local support to participate in a national group, so a Welsh

company can get support from the devolved Assembly in Wales and get far more than a Yorkshire company can get through the TAP scheme. That seems unfair when we have got groups of companies competing side by side overseas, and in a quiet month they will obviously talk to each other and then one will find out that he has got a £1,000 grant from UKTI and the other guy has got £2,500, only for the sake of argument, as the figures are for illustrative purposes and they are not meant to be specifically accurate examples, but that does happen which creates inequality of opportunity in the regions.

Q342 Mr Wright: I suppose it is understandable though, is it not, with the way UKTI may well be helping to attract inward investment, that the regional development agencies look more in region-specific areas to say, "Well, if the West Midlands have gone for this, why didn't the eastern region go for this?" so there is this element of competition in terms of where they want to go. We saw evidence just a year or so back where there was one of the Eastern European companies actually opening a refrigeration unit in the Midlands. Now, why was it the Midlands? It was because UKTI determined that that was probably the best place to go. I would argue the case for the eastern region and I am sure that the other areas would say, "Why not us?" so I can understand where there is confusion on that particular point, but I am interested in what Mr Scott said about the improvement that there has been in the duplication. Certainly the Government has told us quite clearly that there has been improvement in there, but, if we have got this duplication and we need to move a bit further, what other improvements can be made so that we can actually get more value for the money and stop this duplication which there quite clearly is?

Mr Josypenko: I think there needs to be a clear lead from the national infrastructure, from UKTI, and certainly the trade promotions should be a nationally focused activity and the regional element should serve into that, but there needs to be a greater national focus and there needs to be better communication. The experience of our members is that even now, several years into this situation, there is still quite often not very good communication between UKTI and its stakeholders, in other words ourselves, and what regions are doing, so quite often a trade organisation will find out at fairly short notice that a region is planning to take a trade mission to visit a tradeshow which they are themselves covering. Now, commonsense suggests that, if you are organising a group at an exhibition and you are working nine to 12 months out, you need to be having a dialogue with anybody that is planning to supplement it and to bring people to look at that show a long way out and you need to co-ordinate, so there needs to be better information. I think the overall thing is that the trade policy should be predominantly national, unless there is a specific regional need, unless there are niche markets that are not served through a national strategy, or there is an overwhelming need to supplement it.

Q343 Mr Wright: Just to add specifically to Mr Josypenko, in your evidence you said that the trade promotion should “fundamentally [be] a national activity, and that any regionally focused export activity should be made secondary to a national strategy and programme”. How would you envisage this working and what role do you think there is appropriately for RDAs to play in that particular trade promotion?

Mr Josypenko: As I say, in trade promotions it is not so much the RDAs, it is the international trade teams which work hand in hand with the RDAs in those regions. I think there needs to be better co-ordination between the regions within UKTI and the national management of the sectors and I think there needs to be an understanding that the target market should be driven nationally by the sectors and that the individual regions should play into that ideally as part of a co-ordinated strategy, and there may be grounds in some cases for some local funding to be added to it, but it should still be done under a national focus. If there is a particular niche market that cannot be served because it is not relevant enough to the wider sector programme to encourage a national activity, then that region, if it has the resources, the wherewithal and the demand from companies in that region, could take something forward, but there should be better communication, I think, and better co-ordination at the national sector level.

Q344 Chairman: Before we go to the last area of questioning, can I just put one thought to you. I do still hear of regional visits for trade promotion purposes overseas, and the officers I met in UKTI posts despair at getting a regional visit for trade promotions. They say, “Who have they come to see? The region has an identity. We want sectoral visits and only sectoral visits really for trade promotion visits unrelated to tradeshows”. Do you agree that sectoral visits are always the way, except for the high-profile, prime ministerial-led things to India and China and there is always the exception, but, as a general rule, they should be sectoral visits rather than regional visits?

Mr Scott: Yes, I would go for that. I think sometimes we have even seen examples where there has been a sectoral regional visit, or indeed I think what is probably more appropriate is a number of regions have got together and said, “If this is going to be our sectoral focus, who have you got within this sector?”, so I think, as a general rule, and there are always going to be exceptions to every general rule, but yes, I think I would agree that the greater the focus can be on sectors, we are more likely to give a clearer direction.

Q345 Chairman: Also, one thing that the RDAs have said to me about both their trade promotion work, and they do do trade promotion work sometimes, they stretch their boundaries, and their inward investment activity is that, if they do not do it, the individual counties, the individual authorities and cities will, and it is better that the mess is less through a regional activity than a complete muddle

with everyone at it, spending council tax money doing it instead of RDA money. Now, what do you make of that argument?

Mr Marshall: I think we are getting into these institutional architectures of sub-national governance in a country up to a degree. What I would say is to reinforce what Andy said earlier, which is that we do need something to help with economic development between the level of the national and the very local. Now, there is an open question about whether those organisations should be directly involved in international trade promotion and promotion of their local areas abroad or whether that is something we should leave to a strong UK brand rather than nine English regions, three devolved nations, et cetera, et cetera, so that we can get that brand across and get investment.

Q346 Chairman: But local councils do quite like sometimes, and MPs, for heaven’s sake, as well, travelling the globe and seeing things themselves and that does not necessarily represent the best possible use of taxpayers’ money in trade promotion or, not the subject of this inquiry, in inward investment terms.

Mr Marshall: If a local council can justify the spending of their council tax or their taxpayers’ money to make a trade mission of their own, they will do so, but I think that, if we are talking about core trade promotion activities here, channelling those through UKTI and with a slightly more sectoral focus would help.

Chairman: Now, it is the last and distinct area of questioning where I think the CBI will have some strong views.

Mr Oaten: As a quick canter through the work of the Export Credit Guarantee Department and an overall question, am I right in assuming that, because of the recession, it is now harder for businesses to get hold of trade credit? Is that a general yes all round on that? Is there anything you want to add to that in terms of some really horrible examples or shall we just assume that that is the problem?

Chairman: For the record, they have all nodded.

Q347 Mr Oaten: Then, in terms of the role of the Export Credit Guarantee Department itself, do you think that they are being too conservative, too cautious in terms of some of the transactions that they are backing?

Mr Scott: You say we may have some views on this and indeed we have. I think there are again a couple of aspects to this and they interlink. We have had some long-established concerns about the Export Credit Guarantee Department even prior to the current economic downturn. We have felt that for too long it has actually lost some of its focus in terms of being there to primarily be driving and supporting UK exports, it has been too slow to respond to its established customer base, we feel that some of its internal processes have been too much driven by concerns in terms of their legalistic implication rather than actually responding to customers’

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demands and we have felt that there needed to be a review of how effectively ECGD was operating with its existing customer base, let alone those which, we could see, it could operate with in the current downturn. Then, when we obviously have started to see the situation deteriorating at the back end of last year, clearly ECGD potentially was a vehicle which could have been helping in terms of alleviating some of these immediate pressures on trade finance and trade credit in particular. We were in one sense encouraged that both the Government, DBERR as it then was, DBIS as it now is, and indeed even ECGD itself were at least starting to think about looking at some shorter-term measures and indeed also perhaps how it could help some of those businesses other than its traditional and established market. We were particularly encouraged by some of the comments though from Lord Mandelson and indeed Lord Davies who were specifically saying that they were going to be requesting ECGD to look more proactively at how they could be helping in the current climate, but, against a backdrop of not actually being, as we would see it, particularly proactive in any case, we felt that was quite a significant culture shift for the organisation to respond quickly to what was required, and that, I think, has been part of our concern. We have been asking for a number of particular measures, and we have particularly looked at the whole area of export credit insurance where we felt that was a real problem and we still do feel there is something there which would not necessarily even need a scheme, it could be quite creatively looking at how some of the existing ECGD products could be applied in that area. We have been looking for something on bond support where we felt that ECGD could have been introducing a scheme of that nature; again something which we had historically been saying they could support, but in the current climate, when there is increasingly further tightening in terms of the securities which are being required by banks and indeed customers and suppliers, again there were areas where, we felt, ECGD could be considering introducing some form of products. I think the simple answer to your question is that it is against a backdrop of where we have not been overly impressed by the responsiveness of ECGD and it has not helped in the current climate.

Q348 Mr Oaten: I will come on to how you have been trying to push them on those issues, but, just stepping back a bit, do you think that one of the problems is that there is a culture in the sense that the organisation is run by individuals who have a more sort of banking/finance background than necessarily a business or a sector understanding, and would that help if you had more businessmen and sector specialists in there rather than necessarily a more cautious banking approach being taken on these things?

Mr Scott: I do not think it is so much whether the banking approach is more cautious or not, but we certainly obviously think that having business

intelligence and business knowledge within the organisation is very important. The broader issue around culture is that I think they have become overly preoccupied with concerns that they are going to be taken for judicial reviews on the way in which they have been handling some of their internal processes, and I think that has got them into a mindset where they have become much more conservative, much more cautious and much less willing to take measured approaches and pragmatic approaches.

Mr Campkin: If I can just add one point before we pick up the next question because I think it is related to what Andy has said; it is related to the attitudes in ECGD. We do feel quite strongly that there is a quantum difference between the way that ECGD operates within the OECD consensus—within the international rules—and some of the other export credit agencies of our competitor nations. So again that is part and parcel of that attitude. It is very, we would say, over-strictly interpreting the international consensus rules within which the ECAs operate.

Q349 Mr Oaten: Who have you been raising these concerns with?

Mr Scott: At all levels within Government, within ECGD, these have been issues which the CBI has raised.

Q350 Mr Oaten: So, when you have put it to the Secretary of State, for example, that you would like ECGD to do stuff on insurance and bond support, what has been the reason that that has been rejected?

Mr Scott: Well, I think, to be fair, they would still say even today, and I believe there is an announcement today on one additional product introduction which is on letters of credit and confirmations of letters of credit which again we would support, but I believe that even in that statement they made reference to the fact that they are still considering whether there is a case for doing anything further, ie, on export credit insurance, so I think they have still left the door open and we will, therefore, use that as a continuing pressure point to keep arguing for it.

Q351 Mr Oaten: Finally then in terms of this Committee and the kinds of recommendations we might want to make, the biggies in this area would be to speed up the move towards both the insurance and the bond schemes that you would like to see introduced?

Mr Scott: Those would be two specific examples of products they could introduce, yes.

Q352 Mr Oaten: Is there anything else you would like to add to that wish-list?

Mr Scott: Those would be the specific products which, I think, could help in the current climate. I think it is against the backdrop of having a more fundamental look at the way in which ECGD operates going forward.

Q353 Mr Oaten: Do the Committee have enough information about the insurance and the bond schemes?

Mr Scott: We could provide more if you need it.

Q354 Mr Oaten: If you could, then we could have a look at those.

Mr Marshall: Perhaps I could add one point to that from the perspective of small and medium-sized businesses around the country. Our members come to us on a daily basis and say that trade credit insurance is one of the biggest problems they face and one of the biggest barriers they face to getting their businesses restarted through exports. Now, we do not think that the Government's very cautious, as Andy put it, "door is not closed and neither is the door open" view is appropriate. We would like to see a full state-backed trade credit insurance scheme. It is always put to us, "Well, the private sector markets are still functioning", but, according to our members, they are not. Secondly, the other argument which is put up against that is the question of state aid, and we have just seen the Dutch get approval from the European Commission for a time-limited, short-term trade credit insurance scheme to address specifically this type of market area, and that is something that leaves our businesses at a disadvantage to a country that is of a similar size in terms of its volume of exports in the international arena.

Q355 Mr Oaten: And you would recommend to the Committee that Dutch model?

Mr Marshall: The Dutch model probably deserves some exploration. I am not *au fait* with all of the particulars of it, but what I can tell you is that the Dutch have got it through the Commission, so there is no reason why we in the UK could not do something similar and have provisions whereby the fees build up a reserve to pay for any potential losses so that it does not impact negatively on the public purse.

Q356 Chairman: The Dutch model you have just talked about, not to be confused with the Swedish model which is education, I know, are there any other parallels around Europe that you are aware of? You do not have to answer that question now in a sense, but, if there are other examples of countries within the EU doing this, at least we would like to know about them, I think.

Mr Marshall: France and Germany would be the obvious ones and we could come back to you with some more information on that as well.

Q357 Chairman: Just on one point that Mr Scott made in his remarks about the reasons for caution in the ECGD, he talked of the threat of judicial review and I do not know why he has picked up on that. Who, do you think, poses that threat? Who might bring the reviews against ECGD?

Mr Scott: Well, there have already been threats of judicial review which have come through from certain of the NGOs who had felt that, as a result of some of the consultations or some of the discussions which ECGD has had with its customer base, this was in breach of what they perceived to be open consultation processes which, they would argue, ECGD should have been supporting with all interested parties. Now, I think that has, therefore, influenced ECGD's willingness to both respond to some of the issues that we have raised and indeed also has influenced the culture within the organisation which has become very risk-averse.

Q358 Chairman: I think it is a potentially important point you have made there and, if after this evidence session you want to give us any more notes about that, we would welcome that. I think it is the first time we have heard this particular suggestion made and I am very interested to hear it.

Mr Campkin: Can I just make one other point. I know it was not the main focus of this discussion today, but from the business community there is another dynamic which, we feel, is very important in terms of exporting out of recession, and that is pushing back against protectionism, ensuring that the WTO works properly, and concluding the Doha Round by 2010. I would also note in passing that we do support the conclusion of the EU-Korea free trade agreement, the first of a new generation of bilateral free trade agreements namely EU-Korea.

Chairman: Well, this is not an inquiry into trade policy, but I think this Committee, from its previous record on this issue, would entirely share that view. We are looking at mechanisms rather than the policy today, but we note your comments and it would be nice to have the time to look at that in detail as well, but, sadly, we do not, although you make an important point because, unless we have open trading markets around the world, whatever we do is—and I can think of all kinds of unfortunate metaphors which I will not use at the end of what has been an extremely constructive session. Gentlemen, I just want to pay a particular tribute to you. You have been exceptionally helpful witnesses, who have spoken with great clarity, who have added to our knowledge and reinforced and complemented each other magnificently, and we are very grateful for what I regard as a very constructive session. Thank you very much indeed.

Written evidence

Memorandum submitted by Department for Business, Innovation And Skills (UK Trade and Investment)

The Memorandum covers:

- The importance of exports to the UK economy.
- The impact of the recession and the Government's response to it, placing UKTI's role in context of delivering the international business aspects of the Government's strategic vision for Britain's economic recovery, *Building Britain's Future—New Industry, New Jobs*.
- UKTI's strategy—how it equips UKTI to deliver real help for exporters and how it has been developed and refined to deal with the recession.
- How UKTI prioritises sectors.
- How UKTI prioritises markets.
- An overview of UKTI's response to the global recession.

The Memorandum also includes two Annexes. The first covers UKTI's inward investment activities; much of what we do is as relevant to securing inward investment to the UK as it is to helping companies export. The second Annex gives more details on UKTI's sectoral marketing strategies.

I hope this is helpful to the Committee and we would be pleased to provide more details on any aspect of UKTI's work that the Committee needs.

We would also welcome the opportunity of further assisting the Committee in its Inquiry by attending an oral evidence session.

The Committee will also want to be aware that, following on from the 22 April Budget, UKTI has been contacting its key stakeholders and advising them on how the Budget announcements impact on UKTI. The Committee will know that the Chancellor announced an extra £10 million of additional funding over the next two years, to be used to help UK businesses better showcase their strengths to overseas customers and markets. This is in line with the Government's strategy for Britain's economic recovery, *Building Britain's Future—New Industry, New Jobs*; more details on this are contained in the Memorandum. A copy of our letter to stakeholders is attached.

Extract from a letter sent by UKTI to Exporters Concerning Budget Support:

I am writing in follow up to the budget announcement of £10 million in additional funding for UK Trade and Investment (UKTI) to provide you with some further detail regarding its implications for UKTI.

This is a budget for business and trade, reinforcing the Government's support to exporters, particularly to UK firms with a high potential for growth. The £10 million is in addition to the current annual programme budget of £91 million and will be spent over the next two financial years.

This is an exciting opportunity to boost firms with a high potential for growth in establishing an international presence and to attract top investors and overseas buyers to show them the excellence that the UK has to offer and the strategic advantages of locating here.

It is part of the £750 million Strategic Investment Fund that will deliver the Government's *Building Britain's Future—New Industry, New Jobs* strategy, published by the Secretary of State for Business on Monday 20 April. Sectors identified by *New Industry, New Jobs* as providing opportunities for growth include: low carbon, the digital economy, life sciences, advanced manufacturing and professional and financial services.

Also announced in *New Industry, New Jobs* were proposals for the Export Credits Guarantee Department (ECGD) to improve support for trade by consulting on a new facility to help UK exporters get short-term trade finance, by sharing risk with banks in confirming letters of credit.

In addition, the Government will review ECGD's programmes to make sure ECGD can best support UK exporters as global trade picks up. UKTI and ECGD will work together to maximise the export opportunities for UK business.

As you know, the Government has an ambitious programme to promote global trade and investment and reject protectionism, as outlined at the London Summit.

I look forward to discussing in more detail with you possible opportunities for your organisation to get involved.

Memorandum submitted by UK Trade and Investment

HOW UKTI IS ADAPTING ITS PRODUCT AND SERVICES TO DELIVER HMG PRIORITIES IN THE RECESSION

1. Introduction

1.1 UK Trade and Investment (UKTI) welcomes this Inquiry and the opportunity to set out how UKTI is adapting and refocusing to deliver for its business customers.

1.2 UKTI is the lead Government organisation supporting UK companies looking to develop their international business. We also support overseas companies wishing to invest in the UK. We work closely with partners in the public and private sector in delivering a wide range of services through our network of trade advisors, in the English regions and overseas. These services are also available through the trade and investment organisations in the Devolved Administrations. Our services include market intelligence, advice on regulations, sales leads and financial and practical support. We employ around 2,400 staff, of whom 1,300 are based overseas, and have a budget of some £316 million for 2009–10.

1.3 In the midst of the harshest recession in 60 years, UKTI is helping companies to sustain and build their business strengths by working with them to explore new markets overseas that continue to offer export opportunities. We will also help businesses to take advantage of improving global economic conditions as the recession starts to lift.

1.4 The key elements of the UK's trade and investment response to the recession—marketing the UK as never before; focusing on export markets that continue to grow and on the UK's high value sectors; and working with our partners in the public and private sectors—are based on UKTI's 2006 Strategy, *Prosperity in a Changing World*. These were already in place as the recession began to bite in early 2008. This Memorandum will look at how this strategy is being adapted to meet the challenges our customers—the companies exporting the UK's goods and services—now face. It will also look at the role UKTI is playing to facilitate an export-led recovery, through delivering the international component of *Building Britain's Future—New Industry, New Jobs*, the Government's strategy to secure the UK's future economic prosperity.

1.5 We note that the remit of this Inquiry focuses on exporting out of the recession. UKTI, with the Regional Development Agencies and Devolved Administrations, also leads on attracting inward investment to the UK, and around a quarter of UKTI's resources are dedicated to this. Much of the work described in this Memorandum, on marketing the UK economy internationally and our focus on key business sectors such as life sciences and information and communication technologies, is as relevant to inward investment as it is to exporting. For this reason there is strong cross-working within UKTI on these two aspects of our role. Annex 1 provides an overview of some of our inward investment work and we can provide more details if this would help the Committee's Inquiry.

2. Exports and the economy

2.1 Exports are critical to individual companies and to the wider economy.

2.2 For companies, investing and selling overseas tends to improve productivity, innovation and financial performance. Selling overseas helps businesses achieve economies of scale and levels of growth and revenue not otherwise possible; reduce their dependence on a single or small number of markets; and increase the commercial life span of their products or services, with raised returns on investment. These companies are more likely to have capital to invest in new innovation and product development in the UK, and to maintain or create jobs.¹

2.3 For the economy as a whole, the UK benefits significantly from trade and inward investment which boosts competitiveness and productivity, and sustains economic growth. UK businesses have a strong track record of exporting and investing heavily in open global markets. Over the period 1996 to 2004, 60% of British productivity growth came from businesses that export.² In 2008, UK exports totalled £417 billion, some 29% of the UK's GDP.³ The UK has the second-largest stock of global outward investment, after the US.

Impact of the recession

2.4 The world economy is experiencing a sharp and synchronised downturn. The UK's traditional export markets, in Europe and North America, have been disproportionately affected. In 2007, the United States and the EU together accounted for 68% (£251 billion) of total UK exports of goods and services. A recent World Bank forecast is that volumes of world trade in goods and services are expected to drop 6.1% in 2009,

¹ Harris, R and Q Cher Li (2007), *Firm Level Empirical Study of the Contribution of Exporting the UK Productivity Growth* (available from the UKTI website, www.uktradeinvest.gov.uk)

² Harris, R and Q Cher Li, *ibid.*

³ ONS February 2009 Trade First Release; and ONS Fourth quarter 2008 Quarterly National Accounts First Release.

and that global GDP is expected to contract by 1.7% in 2009—the first decline in world output on record. High income countries are in deep recession, with OECD economies likely to contract by 3% and other high income countries by 2%. GDP among developing economies will grow at 2.1%, compared to 5.8% in 2008.⁴

2.5 As a result, the UK economy went into recession in the fourth quarter of 2008. The latest Government forecasts, in the 2009 Budget statement, are that the economy will emerge from this recession earlier than many of our international competitors, returning to growth in 2010.

The Government's response to the recession

2.6 The Government has taken exceptional, active measures to deliver confidence and stability to the UK economy and has led international action to combat the financial crisis and its impact. In the UK, this has included securing the stability of financial institutions in the autumn of 2008; the *Real Help for Business* campaign launched in January 2009; and a range of financial help for businesses, such as the £1 billion *Enterprise Finance Guarantee* scheme and the £75 million *Capital for Enterprise Fund*.

2.7 The G20 London Summit in March 2009 set out an ambitious programme to promote global trade and investment, and will have positive consequences for the duration of the recession and the financial and trading health of global markets. Outcomes included an additional \$1.1 trillion programme of support to help the world economy through the crisis and restore credit, growth and jobs; a commitment to reject protectionism; and reaffirmation of commitments to meet Millennium Development Goals to build an inclusive, green and sustainable recovery.

2.8 In April 2009 the Prime Minister and Secretaries of State for BERR and DIUS launched their strategic vision for Britain's economic recovery, *Building Britain's Future—New Industry, New Jobs*. This strategy sets out, in the spirit of a new industrial activism, the Government's role in ensuring UK businesses and workers can compete successfully for the jobs of the future, across the world. UKTI is tasked with delivering the international business aspects of this strategy, alongside trade finance initiatives that will be taken forward by the Export Credit Guarantee Department (ECGD).⁵

2.9 *New Industry, New Jobs* confirmed that the Government will ensure that the scope and effectiveness of its assistance to UK companies will remain of the highest calibre, and that UKTI will continue to be the chief means of supporting UK businesses to internationalise. Its focus is on industry sectors where future economic growth will come from, sectors that UKTI is also supporting. *New Industry, New Jobs* sets UKTI's work firmly in the context of a wider Government response to the recession, and to helping re-shape the post-recession recovery.

2.10 This approach is built on firm foundations. More than a decade of supply side reform has given the UK flexible and competitive labour and product markets. We have one of the world's economies most open to trade and investment. This flexibility and our openness will be important assets in the years ahead. They will be the foundations of our future competitiveness.

2.11 The 2009 Budget announced a £750 million Strategic Investment Fund that will deliver the *New Industry, New Jobs* strategy. UKTI will have access to this fund to deliver the international aspects of this strategy.

Real help through the recession, preparing for the return to growth

2.12 The return to global growth will accelerate those trends that are reshaping the global economy—above all, fierce competition in our domestic and global markets. It is crucial that government policy not only offsets the risks to our competitiveness that come with a downturn, but ensures that we are in a stronger position to take advantage of the opportunities as the global economy returns to growth.

2.13 Government cannot predict the economic future and it is not equipped to run businesses. But it has a range of tools that used intelligently, pragmatically and in a focused way, can help individuals, firms and regions be more competitive and productive. This ultimately is the basis of our national prosperity.

2.14 The task ahead, in developing new strengths in Britain, will require that we continue to improve the business environment across the board, and focus on our strengths as a knowledge economy with high-technology at its heart. We must also take steps to help firms and workers grasp opportunities in particular key markets and sectors.

New approaches from Government

2.15 The key roles that Government can play are:

- A greater use of the Government's function as a procurer, regulator and legislator to drive innovation in Britain, and to set clear and stable frameworks and incentives for firms and workers to invest in innovation and change.

⁴ World Bank, *Global Economic Prospects 2009*, Forecast Update, March 2009.

⁵ The Budget announced that ECGD would consult on a new way to help UK exporters get short-term trade finance, by sharing risk with banks that confirm letters of credit for UK exporters. The Government will also review ECGD's programmes to make sure ECGD can best support UK exporters as global trade picks up.

- A greater alignment between government departments and different levels of government in delivering a strategic vision for the British economy on the ground, where it really matters.
- A greater focus on key markets and sectors. There is a role for government in delivering targeted interventions to unlock potential in markets and sectors with the potential for growth, where there can be wider spill-over effects on productivity and the creation of high value-added employment.
- A clearer recognition of the circumstances where effective government action can complement the dynamism of markets to ensure the best long term economic outcome for the UK.

Export Competitiveness

2.16 Britain's ability to access export markets and the capacity of its firms to exploit that access will underpin Britain's future prosperity. The rising incomes of the emerging economies and the massive expansion of the purchasing power of the global middle class will present significant opportunities for UK firms, alongside the developed markets of the OECD. This will be particularly important if sterling remains competitive by historic standards for the first half of the next decade.

2.17 The Government recognises the need to ensure that the scope and effectiveness of the assistance it provides to UK companies looking to break into new export markets remains of the highest calibre. *New Industry, New Jobs* noted that UKTI has acted as an extremely effective catalyst for UK exporters and will continue to be the chief means the Government has of providing this assistance.

3. *UKTI's Strategy*

3.1 UKTI launched its strategy, *Prosperity in a Changing World*, in July 2006. The key elements of the strategy are to:

- lead the marketing of the UK economy as the international business partner of choice;
- focus on high growth, emerging markets (we identified 17, including India, China and Brazil) and on those high value, innovative business sectors where the UK has strengths in depth; and
- put more staff in the front line, delivering services with partners in the public and private sector that make a real difference to the success of our business customers.

3.2 The UKTI Executive Board (which currently includes three independent members) has kept the Strategy under continuing review since it was launched. The Board last reviewed the Strategy in detail in December 2008. Taking account of the changes in the global economy since it was launched, the Board concluded that it remained the right one for the circumstances we now face.

3.3 This said, the delivery of the Strategy and its emphasis has been refined since 2006. We have in place a methodology for measuring and evaluating what we do—an independently-conducted Performance Impact and Monitoring Survey (PIMS) of customers using our services—which enables us to target and build on what adds most value for business. This provides an evidence base for developing the services we offer—most recently seen in the launch in April 2009 of our new offer to companies with two-ten years experience of doing business overseas, *Gateway to Global Growth*. PIMS also provides evidence for moving resources within UKTI, to maximise service delivery to our business customers.

3.4 We have in place challenging, measurable targets for the current Spending Review period, 2008–09 to 2010–11. These have been agreed with HM Treasury and reflect the value we add for the economy. Our most recent performance results, from March 2009 and recording the outcomes of UKTI support to the year ending September 2008, show that we exceeded our targets. We assisted 20,700 businesses, of which 17,300 were innovative; 51% of these improved their performance as a result of our help; and 1,860 businesses increased their R&D activity as a result of our trade and inward investment support.⁶ The net result was a total estimated benefit, in terms of additional profit attributed by UKTI clients specifically to the support received, of £3.6 billion—a return of £16 for every £1 UKTI spends on trade support services.

3.5 We are also tasked with delivering 525 inward investment successes in each year of the Spending Review period. In 2007–08 we exceeded this target with 549 successes; results for 2008–09 will be available by mid-June.

3.6 More details on UKTI's response to the recession are set out in Section 6.

4. *How UKTI Prioritises Sectors*

4.1 UKTI focuses on those sectors where we have evidence that we can add the most value, in the markets where the potential for growth is highest.

4.2 UKTI has 11 dedicated sector teams covering Advanced Engineering; Construction and Major Sporting Events; Creative Industries; Education and Skills; Energy; Environment and Water; Financial Services; ICT; Life Sciences; Mass Transport; and Agri-Technology. There are also cross-cutting initiatives

⁶ UKTI Performance and Impact Monitoring Survey Report, March 2009 (available from the UKTI website, www.uktradeinvest.gov.uk). UKTI's trade targets are to deliver 20,000 significant assists to business, of which 12,000 are innovative companies; 50% of these should report improved performance as a result; and 1,000 businesses increase R&D activity.

around Aid-Funded Business; Low Carbon; the Olympics; and Science & Technology. Business-led Sector Advisory Groups guide and support the development of activity plans for showcasing UK excellence in each sector. In addition, the setting up of the UKTI Defence & Security Organisation on 1 April 2008 supports the strategically important sectors of defence and security.

4.3 The current sector focus for trade is influenced by an independent report commissioned by UKTI in 2005 on the prioritisation of sector resources. We are currently in the process of reviewing our evidence base for prioritising sectors.

4.4 In targeting sectors for attracting inward investment, the same UK strengths identified for sector-focused export development hold true. The ‘UK proposition’ to new and existing investors is built largely on the very same world-leading technical and creative excellence which is the basis for the UK’s attractiveness and competitiveness as a place to invest and grow an international business. There is also a close correlation between the sectors highlighted in the Government’s *New Industry, New Jobs* strategy, and those prioritised by UKTI.

International marketing strategies

4.5 In five key sectors identified in UKTI’s 2006 Strategy—financial services, creative industries, life sciences, ICT and energy technologies—we have developed international marketing strategies.

4.6 The purpose of these strategies is to enhance the UK’s reputation internationally by uniting the main sector interests—companies, business organisations (trade associations and other representative bodies), academia and government around an agreed marketing platform for the sector as a whole. The strategies are supported by high quality marketing materials and other activities—such as trade missions and marketing events—to help UK companies win new business, and to attract high value inward investment to the UK. They target specific overseas business sectors with the core messages about relevant UK strengths. UKTI acts as a catalyst for these marketing strategies, developing a genuine partnership between business and Government to deliver a collective marketing effort for the sector as a whole.

4.7 March saw the launch of two new marketing strategies, showcasing the UK’s strengths in Advanced Engineering and in Low Carbon Technology. More details of UKTI’s sector activities are at Annex 2.

5. *How UKTI Prioritises Markets*

5.1 UKTI has a presence in 98 markets around the world, with some 1,300 staff deployed on UKTI work overseas. The total UKTI resource overseas is some £167 million, and of this around £60 million—just under 500 staff—is in high growth markets.

High Growth Markets

5.2 Focusing more resources on high growth markets such as India, China and Brazil was a key part of UKTI’s 2006 Strategy. Building strong trade and investment links with high growth markets is strategically important to the UK’s future economic well-being, and they offer significant opportunities for UK business. There is good economic evidence that firms secure most value if they enter high growth markets at an early stage.⁷

5.3 Markets were assessed as being “high growth” by assessing them against a list of criteria including economic development, demographic issues, corruption and transparency, and commercial regulation. Further analysis was then carried out taking into account the strategic, economic and political importance of the markets; and the impact UKTI could have by removing barriers to doing business and by promoting opportunities which matched UK capabilities.

5.4 From this we identified 17 markets—Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Turkey, Saudi Arabia, UAE, Malaysia, Qatar, Singapore, South Korea, Taiwan, Thailand and Vietnam. We moved £5.6 million of resource to these markets, and now 38% of our staff deployed overseas are in these markets.

5.5 As a result, the volume of services delivered in these markets has increased. For example, the number of commissions delivered under the Overseas Market Introduction Service, one of UKTI’s principal support services, increased by 179% in the high growth markets compared to 92% in the remaining markets.⁸ Likewise, UKTI’s latest independent monitoring survey, released in March 2009, shows that some 51% of businesses assisted in fast growing markets through UKTI trade services, improved their business performance as a result of UKTI support.⁹

5.6 Similarly, for Russia, Brazil and Turkey, we have established inter-Governmental fora covering bilateral trade issue affecting companies doing business in these markets. The Brazil Joint Economic Trade Committee has, among other things:

⁷ Kneller, R (2004), *Participation in export markets and productivity in UK manufacturing*, Final Report for UKTI (available from the UKTI website, www.uktradeinvest.gov.uk)

⁸ National Audit Office, 2009, *UK Trade and Investment: Trade Support*, Report by the Comptroller and Auditor General, HC 297 Session 2008–09.

⁹ UKTI PIMS survey, March 2009, *op cit.*

- enabled the UK aerospace industry to re-establish itself as a potential supplier to Embraer, Brazil's largest aircraft manufacturer;
- developed closer links in the science and innovation field, including a visit by the Governor of Sao Paulo to look at UK expertise in science parks with a view to establishing the science park concept in Sao Paulo state; and
- created a close working relationship between the UK Accreditation Service and their Brazilian equivalent, securing a contract to provide training for hospital accreditation in Brazil.

5.7 Across the board, emerging markets are expected to continue to grow more strongly than advanced economies in 2009 and 2010, according to the latest (April 2009) IMF projections.

5.8 The need for UKTI help is greater in these markets, because of market access issues and a higher need for government to government dialogue. Even in high growth markets, 85% of the companies helped by UKTI are SMEs (as compared to 90% overall). This reflects the importance of global markets to companies of all sizes.

5.9 Clearly, the global recession has impacted on emerging markets in different ways; none has been left unaffected. Our focus will continue to be flexible to adapt to changes and challenges in the global economy. There are other countries which currently have higher growth rates than some of those on the list. Often, growth in these markets is dependent on or dominated by a single sector (notably energy) and, where this is the case, although the market isn't designated "high growth" by UKTI, nevertheless we support activities in these specific sectors.

UKTI's presence in the UK's top export markets

5.10 The US and seven European markets are in the top 10 markets identified by companies seeking UKTI help to export.

5.11 The US is the UK's largest export market, and our biggest source of foreign direct investment. We have eight UKTI offices in the US and look to the US to bring in 10% of UKTI's trade targets and 30% of our inward investment projects. Similarly Europe is a major market for the UK. We have staff in 42 locations; our biggest markets are Germany, France, the Irish Republic, the Netherlands and Belgium.

Value of Trade

5.12 In terms of value of trade, the UK did over £114 billion worth of trade with high growth markets in 2007 compared with £108 billion with the USA and £411 billion with the EU in the same period.

Shifting resources around the UKTI network

5.13 We set clear targets for UKTI Teams overseas that enable us to monitor closely performance in each of the markets where UKTI has a presence. Targets are linked closely to resource and, where resources are showing signs of stretch and we believe there is scope to do more for customers, we move some additional resource there. For example, excellent performance in Bulgaria in 2007–08 led to increased resource being directed there. Where Posts are not delivering against their targets, and we believe this reflects a lack of customer demand, we can and do shift resource elsewhere. Over the last year we moved resources from Guyana, Malta, Bolivia, Guatemala and Senegal.

6. UKTI's response to the global recession

Britain's basic frameworks for competitiveness

6.1 Britain's basic approach to competitiveness over the last decade has been to maintain an economic environment that promotes business growth and competition and which attracts inward foreign investment. This has been augmented since 1997 with a succession of supply side reforms that have given Britain one of the most open and dynamic economies in Europe and the world. Britain has:

- One of the best environments in the world to start and grow a business, ranked by the OECD as the best in Europe and 10th globally.
- An internationally acclaimed competition regime, boosted by Britain and the European Union's relative openness to trade.
- An openness to inward direct investment that, coupled with Britain's strengths as a financial centre, its location in the European Single Market and its general enterprise climate, have made Britain the largest recipient of inward direct investment in the world after the US.
- Flexible labour markets that enable firms to respond quickly to changes in the market place, but which ensure that there are fair standards and support for people when they need to move between jobs.
- A high level of productivity growth that has allowed it to close the productivity gap with its key comparators over the last decade.

6.2 These fundamentals are the foundation of Britain's competitiveness and its capacity to produce strong firms. They are also the basis of Britain's exceptional performance in attracting inward investment. They must be preserved and refined.

6.3 Against this background, UKTI has reviewed its high level messaging, which promotes the UK economy internationally as a Springboard for Global Growth. We recognise that the international climate for doing business has altered radically and that companies are facing an unprecedented harsh trading environment. Nevertheless, we contend that the underlying 'unique selling points' of our economy remain true:

- That in this changed economic environment, the UK still provides the best environment for business to grow in.
- The UK is a centre of excellence in creativity and innovation.
- The UK provides a unique gateway for international connections.

6.4 For this reason, we still believe that the UK is the best place to do business in and with, and remains a Springboard for Global Growth for companies, both UK-owned and those investing from overseas.

6.5 What we have done continually, however, is to ask ourselves what more we can do to deliver the support businesses need in response to the recession and changes in the global economy.

New marketing initiatives

6.6 Our marketing initiative launched in November 2008, "It's time to explore new markets", is encouraging UK businesses to consider market diversification as a cushion against the recession. It focuses in particular on the help UKTI can provide to businesses seeking to access opportunities in 17 high growth markets.

6.7 High-level marketing so far has included a *Financial Times* supplement, specific market and sector materials and a series of events in partnership with the Institute of Directors. The Asia Task Force has run a series of events involving over 370 companies and aimed at galvanising companies to take a closer look at opportunities in Asian markets. The "Britain in the Region" event in Dubai in November 2008 involved 250 UK companies, included a delegation of 150 travelling from the UK, who were able to access UKTI experts from across the regions, participate in detailed briefing on sector opportunities in UAE, Qatar and Saudi Arabia, and access local experts for advice on local business practices.

6.8 The "China Buyers" mission in February/March 2009 is another good example of the kind of activity UKTI carries out to help UK companies access new markets:

- On 2 February Premier Wen visited London for the UK-China Business Summit with 100 Chinese companies; 300 UK companies attended UKTI's business event.
- On 27 February Minister Chen Deming led a 150 company buyer mission to the UK, during which contracts worth \$2.2 billion were signed. The UK gave Chen a list of 1,000 UK companies interested in selling to China; and 400 UK businesses attended UKTI's business event.
- On 15 March, Ministry of Commerce officials led a Chinese inward investment delegation to the UK. This coincided with an UKTI/Think London inward mission from China of over 40 hand-picked companies interested in Olympics-related investment.

6.9 Similarly, in support of the cross-Government *Real Help for Business* campaign, in early March we launched "Take it to the World", an advertising and marketing initiative. This aims to get more businesses exporting by encouraging them to explore opportunities overseas with confidence, with expert help from UKTI. At 22 April, some 3,000 views of the "Take it" campaign had been recorded on the UKTI website.

New support measures for business

6.10 Positioning Britain in global value chains and building new sources of strength will play a key part in Britain's economic prosperity in the years ahead. Ultimately, our success will depend on the ability of British companies and the workers they employ to adapt to new trends and to compete to provide the goods and services that will characterise them. British firms are well placed to respond to increasing demand for high value-added, technologically advanced goods and services. These are areas where the productivity and trade performance of British firms has been strong. However, others will also be responding to that challenge.

6.11 To help UK companies meet this challenge, in September 2008, the Government's Manufacturing Strategy announced new UKTI initiatives to help UK SMEs access global value chains, initially in China and India—some 600 companies will benefit over the next year.

6.12 On 12 March the Prime Minister announced our "Gateway to Global Growth" package of support worth £3.5 million, for experienced exporters—especially innovative SMEs—to diversify into new markets. This is based on UKTI's "Passport to Exports" programme for new exporters, but recognises the potentially more complex demands facing experienced exporters, especially those seeking to enter high growth markets for the first time, or to enter global supply/value chains. Services under Gateway to Global Growth began to be delivered from 1 April.

6.13 At the beginning of March we also launched our Fiscal Compass Programme. This aims to help UK companies capitalise on opportunities arising from major overseas recovery-related spending programmes such as fiscal stimulus packages and sovereign wealth funds. The Programme recognises that overseas governments will target these packages at indigenous companies, but that the size and scale of some initiatives mean there should be niche areas for UK companies, or capacity issues that will result in supply chain opportunities for UK firms. The Programme complements and builds on the UKTI supply chain work in China and India, which was announced in the Manufacturing Strategy.

6.14 From April 2009 our “Tradeshaw Access Programme” will increase the number of financial grants for which an individual company can apply, from three to six (subject to the grants being used in at least two markets).

6.15 In the 2009 Budget, the Chancellor announced an extra £10 million for UKTI, to help UK businesses to export so that they are better placed once the downturn ends. This will be spent over the next two years, to support businesses in showcasing their strengths to overseas customers and markets, at high profile events in the UK and overseas. This measure supports two commitments, one made at the London Summit to “Promote global trade and reject protectionism to underpin prosperity”, and the delivery of the international dimensions of *Building Britain’s Future—New Industry, New Jobs*.

6.16 We are not complacent. We know we have more to do and can do more to help UK business. A particular concern is that, while we help some 20,000 companies a year and have 28,000 companies registered on our website, UKTI survey evidence suggests that currently just 35 per cent of exporting companies use UKTI services. So we know we can do more to help that proportion of exporting companies that currently do not use our services. Add to this those businesses that currently don’t export but could, with the right help, succeed in doing business overseas, then it becomes clear that there is enormous untapped potential waiting to be reached.

6.17 We are actively pursuing a variety of approaches to reach these companies, including using our public and private sector stakeholders and partners to raise awareness of UKTI, and using advertising to raise awareness of UKTI’s services (the *Take it to the World* campaign).

6.18 We are utilising UKTI’s network to provide UK business with current information on economic developments in key overseas markets. Similarly, we are using our network and our contacts with companies to gather feedback on how the recession is impacting on them, and we share this intelligence across Whitehall. For example feedback from UKTI’s customers on access to trade credit was fed in to Whitehall colleagues working on the issue and helped shape the workable solution announced in the 2009 Budget: a “top-up” trade credit insurance scheme, which will deliver real help for businesses.

6.19 We also recognise that in the challenge of the global recession, there are opportunities. One is that the weaker pound makes our exports even better value for money. This is a chance to set up new export markets for those companies that have so far only looked domestically, and for existing exporters to consider a more diverse set of markets overseas.

6.20 The Minister for Trade and Investment, Lord Davies of Abersoch, is meeting with Ministerial colleagues across Government. A key objective of these meetings is to raise the specific concerns of international and UK-based businesses where current or proposed regulation and/or legislation will have a potentially detrimental impact on UK competitiveness as a place to invest in, and as a base from where to grow a successful international business. It is vital that Ministers and policy makers across Government understand the potential impact of proposed policy changes on businesses’ ability to compete in Global Markets.

6.21 These bilateral meetings also affords the opportunity to deliver more confident messages about the UK economy and our business strengths, to support the global competitiveness of our companies. And, as indicated earlier in the Memorandum, we are delivering the international component of *New Industry, New Jobs*, alongside ECGD.

Other business support activities

6.22 We are working hard with public and private sector partners to secure the business legacy from the 2012 Olympics, in order to deliver two of the Government’s Olympic Legacy Objectives: “to maximise the wider economic benefits of the Games across the UK, including those for tourism and business promotion”; and “to promote positive images of the UK to international audiences”. Our delivery programmes include:

- *Host2Host*—a flagship programme which aims to maximise the economic benefits of hosting the Games in 2012 by creating trade, partnership and investment links with other nations and cities hosting the Games and other major sports events. We have signed a strategic agreement with Vancouver, host of the 2010 Winter Games and Singapore, host of the 2010 Youth Olympic Games. We are working towards similar agreements with other host cities.
- *CompeteFor*—UKTI’s Olympic Legacy Unit has developed messaging to encourage domestic companies to register on CompeteFor, the website which brings together Olympic contractors and potential suppliers. UKTI’s regional teams are using the CompeteFor database to offer our trade

development services to companies they have previously not been in touch with; and our Sectors Group are identifying appropriate companies from the website to invite on trade missions and to trade shows around the world.

6.23 The formation of UKTI Defence and Security Organisation from 1 April 2008 (following the transfer of the Defence Exports Support Organisation from MoD) brings together a key sector for jobs and wealth creation with UKTI's international marketing network. This gives companies in the defence and security sectors access to UKTI's support in many more markets than before and opens up new opportunities for export success to these companies. It also gives for the first time a focus on security as a key growth sector, one in which the UK has leading edge expertise.

6.24 The Business Ambassadors Network was launched in October 2008. The Network of 17 of the UK's foremost business and academic leaders works with Government to promote the UK's excellence internationally, and highlight trade and investment opportunities. In the current challenging economic climate, the Business Ambassadors' business expertise and international experience is providing real support to UK business interests in global markets.

6.25 There is an extensive Business Ambassador programme in place and the Business Ambassadors have already undertaken engagements on behalf of the government in Australia, Dubai, Oman, Abu Dhabi, Switzerland, UK, Denmark, Spain, Mexico and Japan. There is a confirmed programme of events going forward over the coming year.

6.26 Business Ambassadors have also supported UKTI's international marketing strategies, in the Creative, Low Carbon Technology, Advanced Engineering and Life Sciences sectors.

6.27 At each of these engagements the Business Ambassadors deliver key trade messages supporting UK businesses' global engagement, and promoting the strengths of the UK economy. In doing this, they are playing a vital role in helping UK businesses through the current economic crisis and in restoring international confidence in the UK economy. Feedback from their engagements to date, including very positive overseas media coverage, reinforces that this message is being delivered.

7. Conclusion

7.1 UKTI's strategy is, we contend, the right one for helping the UK economy to meet the challenges posed by the global economic downturn. It's also the right one for helping our business customers meet the extra challenges they now face as they do business in overseas markets. We believe our approach, of encouraging and supporting companies to explore opportunities in new markets, is right for them and for the economy. There are real strengths in depth in a range of high value sectors where the UK is and can remain world class, and UKTI leading in marketing the UK economy internationally with positive messages that highlight these strengths is even more important now.

7.2 Indeed, the UK's response to the global recession demands that UKTI pursues its mission—to deliver maximum value for the UK economy and for business in an increasingly globalised and competitive world; and market the UK as a spring board for global growth—with ever greater urgency, vigour and success.

Annex 1

UKTI INWARD INVESTMENT ACTIVITIES

A.1 UKTI's high level messaging promotes the UK economy as a Springboard for Global Growth, the place to do business in and with. We get this message across in a variety of ways: through the Business Ambassadors network; through our Embassies, High Commissions and Consulates; Ministers, senior diplomats and officials; investment experts in the UK and around the world; and through high quality marketing materials.

A.2 For inward investment, our aim in positioning the UK as a springboard for global growth is to influence key decision makers internationally, so that potential investors in both high growth and high value economies see the value of choosing the UK as an investment destination. Our message is that the UK globalises companies; it is an investment multiplier that grows companies' bottom lines, but also develops their culture, brand and overall competitiveness. The attractiveness of the UK as a springboard for global growth is underpinned by the UK's pro-business environment, our position as a global leader in creativity and innovation, and our position as a gateway to international business connections.

A.3 This positioning of the UK is underlined by the fact that, apart from the USA, the UK is the world's largest recipient of inward investment (measured by capital stock and flow), and similarly the largest (apart from USA) outward investor in the world. Also, there are more European HQs of overseas companies in the UK than in the other major EU economies combined.

A.4 In the financial year 2007–08 there were 1,573 foreign direct investment projects from 48 countries recorded in the UK, a 10% increase on the previous year. Over one third of the total number of projects were assisted by UKTI's network overseas and in the UK, working in partnership with Regional Development Agencies, Devolved Administrations or other partners.

A.5 The interventions by UKTI's senior representatives and experts are designed to have a positive impact on the timing, scale and sustainability of projects. The emerging evidence from latest evaluations of UKTI's work shows significant impact in these areas, including a real impact on decisions to come to the UK. UKTI recognises the need constantly to improve, but these are encouraging findings.

A.6 Part of UKTI's strategy is to focus effort on key sectors where the UK has the strongest competitive offer internationally. Of the total 1,573 inward investment projects in financial year 2007–08, the great majority—1,062—were in high value, high impact areas such as software (234), advanced engineering (182), ICT (146), business services (140), life science (135), financial services (108), environmental technology (59) and creative and media (54).

A.7 The UKTI Global Entrepreneur Programme, established in 2003, has been instrumental in enabling over 100 technology businesses and entrepreneurs to set up headquarters operations in the UK, and has helped to raise over £100 million in capital. In financial year 2007–08 the GEP helped 35 companies and entrepreneurs in ICT, cleantech and life science to establish their global hub in the UK. The GEP business model is highly innovative, relying on the skills of dealmakers—successful entrepreneurs themselves—who work for GEP on a part-time basis. Based in the UK as well as in other key markets, these dealmakers help identify the highest calibre dealflow and provide the experience and capital-raising contacts needed to set up and succeed in the UK.

A.8 The UKTI R&D Programme supplies the UKTI network, and its partners, with R&D specialists across a range of high priority areas. They provide key expertise to help deliver inward investment projects, and other valuable collaborations, to the UK.

A.9 Investors to the UK have access to an aftercare service offering comprehensive support to assist them in growing their business in and from the UK. With UKTI as a hub, the UK's centre, the nine English regions, three Devolved Administrations and the UKTI overseas network in 33 priority inward investment source markets (and a further 66 markets beyond) are firmly interconnected, providing an aftercare service which puts knowledge, experience and contacts at investors' disposal.

A.10 Recent changes are designed to ensure that every advisor working with businesses has improved access to information on issues affecting investors, from developments in the economy and changes in government policy—whether on taxation, immigration or other relevant areas—to information on new markets.

Annex 2

SECTORAL MARKETING STRATEGIES

(i) *Financial Services*

The City Strategy is a partnership between government and the private sector which promotes the City as the world's leading international financial centre and UK financial and professional services more broadly. Launched in 2006, it is overseen by the Financial Services Sector Advisory Board and facilitated by UKTI. Activities are focussed on five priority markets—China, India, the Gulf, Russia and the US—as well as key UK strengths such as Islamic Finance. Recent highlights include:

China

- The President of the Law Society visited Shanghai in January 2009. He signed a bilateral co-operation MoU with the Shanghai Bar Association. A programme of training for Shanghai-based lawyers is in preparation.
- In January 2009 the Economic section of the British Embassy hosted a corporate bonds workshop with CSRC and the Shanghai Stock Exchange. Among the 90 UK representatives there were speakers from Standard Chartered, HSBC, Clifford Chance, Reuters and ICMA.
- Sir David Brewer led a financial and professional services mission to Hong Kong, Dongguan, Foshan and Dalian in February 2009 with excellent access to senior municipal government officials. Seminars on held on insurance, London listings and wealth management.

India

- Lord Mandelson's visit with a large business delegation in January 2009 included the well received launch of material demonstrating the UK's efforts in financial inclusion in India.
- Two MoUs on membership reciprocity between the Institute of Chartered Accountants in England and Wales and Institute of Chartered Accountants in India and between the Chartered Institute of Management Accountants and Institute of Cost and Work Accountants of India were signed in late 2008.

Russia

- The Lord Mayor’s visit to Moscow, St Petersburg and Ekaterinburg in September 2008 stimulated much positive interest in the UK, including meetings with key Russian ministers and attended high-level business events.
- A series of four “Promoting English Law” arranged by the British Embassy in Moscow to showcase UK law firms.

The Gulf

- Royal Sun Alliance subsidiary granted licence in Saudi Arabia on 5 January 2009. Its CEO says: “Specifically, getting our Chairman John Napier on to the UK trade delegation which accompanied Gordon Brown in November was a big success for us. I am sure that both this and the wider Embassy support has played a significant part in the overall process.”

Islamic Finance

- Successful UK pavilion at the World Islamic Banking Conference in Bahrain in December 2008. A MoU between UKTI and Bank Negara Malaysia (Central Bank of Malaysia) was signed in February 2009.

(ii) *Creative Industries*

The Creative Industries Marketing Strategy, a partnership of government and the sector launched in 2007, seeks to place the UK as the world’s “creative partner of choice”. New marketing products supported by the strategy will enable UKTI, partners and businesses to market themselves professionally and effectively at strategic opportunities worldwide leading up to London 2012.

The strategy also encourages cross-sector networking both within the sector and across a diverse range of sectors. One of the first major initiatives was to show case the importance of UK creative companies to the motorsport sector at an event hosted by the Duke of York last July. The UK’s presence at established events, such as the South by South West Festival in Texas, have been expanded to include additional creative sectors with an enhanced cross-cutting promotion and marketing campaign.

CREATIVE INDUSTRIES MARKETING TOOLKIT

Designed to support international marketing activities, these are sector-led marketing messages on the UK’s creative strengths, backed by evidence, case studies and imagery, delivered via a new web-based toolkit, as a resource for UK business and government to complement other marketing.

LOVE AND MONEY, 50 YEARS OF CREATIVE BRITAIN

A film exhibition, designed to support business events both in the UK and in overseas markets, features examples of UK creative commercial success from the 1960s to now, (eg Rolling Stones and Biba, the Mini and Dyson, Norman Foster, Alexander McQueen, Leona Lewis, “Slumdog Millionaire”). It also highlights design skills and manufacturing processes that underpin the UK’s creative success.

Its first international showing on 22 April was in support of the UK presence at the Milan International Furniture Fair—a strategically important event for the design sector. The exhibition will be run alongside the “British Design Embassy”, a business matching and meeting facility for UK companies attending the fair.

SHANGHAI EXPO 2010

The Creative Industries Strategy will also be instrumental in the design and delivery of workshops led by UK creative leaders during the Shanghai Expo 2010, providing a strategic platform for accessing trade opportunities and new partnerships in Asian markets.

(iii) *The UK Life Sciences Marketing Strategy*

The UK Life Science Strategy was launched in November 2007. It has already made some key contributions to benefit the UK Life Science sector:

We have created a committed, high-level industry board interfacing with UKTI and government.

We have formed a dynamic, industry agreed set of marketing messages around the themes of Science and Innovation, Talent and Skills, the NHS and the Business Environment.

In addition we have launched four country workstreams for the US, India, China and Japan, all led by board members which have created events and deliverables to be taken forward.

We will shortly be launching an online marketing toolkit going containing short promotional BioPharma and Healthcare videos, fortnightly UK “good news” newsletters, image library, case studies and evidence.

In particular the Finance workstream is actively promoting the UK offer to corporate venture funds including Lilly Ventures. Lord Davies will be using the BioFinance event at the end of April to trail and highlight some of the ways in which we are helping businesses prosper in the downturn.

We are fully joined up with other government departments—having become the fourth marketing pillar of the Office of Life Sciences six month action oriented plan to support the sector.

We have helped over 900 companies to internationalise their Life Science businesses through a variety of UK and overseas events.

UK presences at major international Trade Shows BIO (US), Medica and Arab Health and many other events delivering a complete picture of the UK LifeScience offer internationally.

(iv) *Information and Communication Technologies*

The UK ICT Marketing Strategy launched in December 2007 has developed a coordinated range of activities based upon clearly defined priority markets—India, China, Japan the US—and sub-sectors. The strategy has provided industry with an evidence base in conjunction with Gartner on the strengths of the UK Industry in relation to overseas capability. This has recently been updated and the revised version will be available from May 2009 in an online toolkit which will summarise key selling messages and marketing collateral of UK Technology and the UK itself.

Companies will be able to draw the most appropriate material to promote themselves and by following others, will be able to enhance their presence in foreign countries and to foreign companies. By increasing the reputation of the UK and focussing on its strengths overseas, the strategy would encourage further Foreign Direct Investment into the UK.

The showcase event for the ICT Marketing Strategy was TechnologyWorld08, which was held at the Ricoh Arena, Coventry. The themes of the event were drawn from the strategy. The results for business were 1,325 meetings between UK and overseas companies; with 399 UK delegates and 266 UK companies, leading to £27 million of reported potential business wins for UK companies. UK company satisfaction of the event stood at an impressive 80%.

At Mobile World Congress 2009 UKTI supported 160 UK companies at the show. Support included the generation of around 750 business leads from the UKTI stand at the show which promoted UK excellence in the sector to overseas multinationals and SMEs. Further to this support, UKTI, in conjunction with the Minister for Trade and Investment focused on the strength of UK companies in the field of sports technologies and the Future of Mobile, in association with Mobile Monday London. Both events attracted around 100 delegates and helped to raise awareness of the UK capability in the sector and direct opportunities to UK companies.

(v) *Energy*

The Energy Excellence Strategy was launched in December 2007. It has already made some key contributions to benefit the UK Energy sector:

- joining up the oil, gas, power, renewables and nuclear sectors under one UK Energy brand;
- supporting over 1,600 UK Energy businesses with a full programme of activities in a wide range of markets, which has helped deliver millions of pounds of orders; and
- delivering powerful messages about the strengths of the UK Energy sector at key international Energy events, such as the World Future Energy Summit (WFE) in Abu Dhabi.

In addition to the WFE event mentioned above, the strategy and its messages about the UK Energy sector—its key strengths of Innovation, Quality, Adaptability, Sustainability and Knowledge—have been showcased over the past year at, among others, the World Petroleum Congress in Madrid, Offshore Northern Seas in Stavanger and All Energy in Aberdeen. The coming year will see even more engagement globally at the Offshore Technology Conference in Houston, Offshore Europe in Aberdeen and World Gas in Buenos Aires.

The Strategy has a number of workstreams, including the development of a UK Energy capability website, complete with a marketing toolkit tailored for use by any UK Energy business, which will be launched at Offshore Europe later this year. A DVD is in development highlighting the sector's key selling points, while the brand identity and collateral will be used at major Energy shows across the world, both standalone and at TAP-supported events, where appropriate.

(vi) *Advanced Engineering*

The Advanced Engineering Strategy was launched in March 2009. As part of its development, a major series of share fairs, showcasing UK advanced engineering capability, was delivered in India in May 2008. The roadshows, in Bangalore, Pune and Chennai, tested the propositions about UK advanced engineering strengths in this key market. Our messages about the cutting-edge, innovative, flexible and adaptable nature of the sector were very well received, and work in India continues apace.

The Strategy has developed a marketing toolkit and website for use by UK companies, which is being fully populated with information on key global markets. The first of these is Brazil, as the first major campaign under the Strategy will take place in Brazil later this year.

A promotional DVD highlighting UK advanced engineering strengths is already available and has been used in 2008 at events such as the Farnborough International Air Show and the International Astronautical Congress. UKTI supported over 1100 UK Advanced Engineering businesses in 2008, again with reported real impact on delivering orders.

(vii) *Low Carbon*

The UK Low Carbon International Marketing Strategy was launched in March 2009. It has brought together a partnership of UK businesses and organisations, from across a range of sectors, and Government to join in and benefit from the collective UK marketing effort that will result in increased trade and investment in low carbon solutions. The Strategy's messaging will provide a platform to help UK companies succeed in the intensely competitive global low carbon market, whilst concurrently improving the UK's low carbon reputation, thus encouraging high value investment into the UK. It aims to create a unified international low carbon commercial presence that generates and maintains a reputation attracting buyers and investors to the UK.

At the end of March these partners attended an event organised by UKTI and the Carbon Trust to mark the strategy's journey so far. The emerging messages are already being deployed to promote the UK's low carbon expertise at events overseas—for example at an exhibition and conference in Australia in March/April 2009 focused on *Green Business—transition to a low carbon economy*. Next steps for the strategy include further development of its messages and delivery of activities such as overseas trade missions and inward meet the buyer events across a range of sectors to promote the UK's low carbon expertise and solutions.

WORK ON OTHER SECTORS

(viii) *Infrastructure*

UKTI organises overseas missions and business to business activities in construction, global sporting events, water, environment and mass transport. In 2008–09 it provided support for over 2000 infrastructure businesses.¹⁰ Key activities included:

- June 2008. A Low Carbon Conference in London focusing on environmental goods and services and renewable energy enabled around 75 UK companies to meet overseas buyers with a view to securing orders.
- November 2008. Masdar (Eco City) Partnership seminar. 130 attended a seminar at which Masdar representatives outlined procurement opportunities at this eco city in Abu Dhabi. The seminar was followed by 80 business one to ones between UK companies and Masdar representatives.
- February 2009. As a result of the UK—China Summit the Chinese sent a 100 strong buyer mission to the UK. Over 400 companies attended the UKTI sponsored business forum to meet the delegates.
- March 2009. At Railtex, the UK's foremost rail exhibition, a successful “Meet the Buyers” session in partnership with the Railway Industry Association brought 80 UK delegates together with procurement specialists from over 20 international client organisations with some 300 meetings taking place. Both buyers and supply companies reported the potential for new business relationships. 70 delegates attended a seminar at the BERR Conference Centre where senior international speakers spoke about project and procurement opportunities in their own railway markets. Speakers from 10 markets including Hong Kong, Taiwan, Saudi Arabia, Mexico, Poland, France, Germany and Spain. UKTI Commercial Officers from some 15 markets also joined the seminar.
- April 2009. UKTI has appointed a mandarin speaking infrastructure specialist in Wuhan to take forward the commercial aspects of the Sustainable Cities initiative in China. A second specialist to be based in Chongqing should be in post shortly.
- UKTI through its Global Sports Projects Team is delivering a strong focus on helping UK companies identify, understand and secure business from the global sports events held around the world. In April 2008 UK Trade & Investment's Global Sports Projects Team held the international conference “Winning Beyond 2012” in Manchester. This major conference attracted many leading figures in the global sports events industry and provided around 85 UK companies access to international sports infrastructure buyers. Within the last year the Global Sports Projects Team delivered two of its most successful overseas missions: a March 2009 mission to Russia attracted over 40 delegates from 20 companies providing unprecedented access to buyers for the Sochi 2014 Winter Olympics; a mission to Brazil in November 2008 attracted 22 delegates from 16 companies and provided similar access to buyers for the 2014 FIFA World Cup and the Bid Committee for 2016 Rio Summer Olympic Games.

¹⁰ Also includes companies in the power sector.

(ix) *Education*

Each year UKTI brings 20–30 overseas buyers to key education sector shows in the UK–BETT, The Education Show, The Special Needs Show—offering tailored programmes of meetings with UK companies.

UKTI encourages parts of the sector which have been domestically focused, to look at the export potential of their products and services. The Special Educational Needs segment is a good example, with many SEN companies now much more international in their thinking.

UKTI has been recently working to promote the concept of exporting to companies and organisations (eg universities) in the fields of Corporate Training and Education for Sustainable Development (ESD)

- UKTI organises UK corporate training fairs to connect UK companies to Central and Eastern European buyers. We also offer regular business briefing to groups of 20–30 universities under the Top Management Programme, to alert universities to the export potential of their training courses.
- UKTI is working to promote the UK as partner of choice in the fast-developing area of ESD—bringing low carbon resources and technology to all aspects of education, from school building, through classroom resources to best practice and teacher training. We have run events in Switzerland, Hong Kong and Dubai, with further projects due in Malaysia, the USA and Iberia.

UKTI promotes the UK as the centre of excellence in vocational training, through our support for TVET UK—a one-stop shop for connecting overseas buyers to UK capability. Our support has helped the vocational sector forge important bilateral relationships in key markets such as Egypt, South Africa and Kazakhstan.

UKTI encourages disparate parts of the education sector to work together to create exporting synergies. One current example is a joint venture between the Training Gateway and Business English UK at a corporate training event in the UAE.

28 April 2009

**Supplementary memorandum submitted by Department for Business, Innovation and Skills
(UK Trade and Investment)**

UKTI is grateful for the opportunity to provide additional written evidence in reply to the transcript of this session. This is set out below, together with references to the transcript passage where appropriate.

Topics addressed:

- Tradeshow Access Programme;
- Disproportionate emphasis on BRIC market;
- Transferring more resource to frontline services;
- Allocation of additional £10 million Strategic Investment Fund budget;
- Increased delivery of UKTI services by the private sector; and
- Overseas Market Introduction Service.

TRADESHOW ACCESS PROGRAMME (TAP)

Q282 and elsewhere

Mr Josypenko said that more money should have gone over the past year to direct support for exports (such as TAP).

Reply: Budgets are reviewed internally within UKTI during the year and in the case of TAP an additional £300k was added to the 2009–10 budget of £8.2 million in September.

DISPROPORTIONATE EMPHASIS ON BRIC MARKETS

Q283

Mr Josypenko thought there was too much emphasis on BRIC markets at the expense of established markets.

Reply: UKTI emphasises emerging markets because they are the fastest growing economies and can provide opportunities now, during the recession in the UK's traditional export markets, and increasingly for UK business in the years to come. This does not mean that we are neglecting more developed markets. The Tradeshow Access Programme, UKTI's largest single support scheme, provides grants for SMEs across a broad range of sectors and markets—the leading locations for TAP events are Germany and the USA.

TRANSFERRING MORE RESOURCE TO FRONTLINE SERVICES

Q298

This is a general point about the balance between programme and admin in UKTI. Some 90% of UKTI's staff are in the front line overseas, in the English regions, or in customer-facing service delivery in headquarters. Posts in headquarters offices in London and Glasgow have reduced by some 40% since March 2004.

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We do not recognise the £30 million figure referred to.

Mr Josypenko is contrasting a figure for programme spend (£30 million) which relates to his definition of direct support (Trade Access Programme, Passports etc) against the total resource consumed by UKTI (£323 million). UKTI's total budget of £323 million is split between Trade Services £250 million and Foreign Direct Investment £73 million.

UKTI's Departmental Report and Resource Accounts 2008–09 (HC 482) show that direct support to business on trade support amounted to £201 million (this figure excludes BIS admin).

UKTI's support to business takes the form of grants like TAP (*circa* £8 million) but overwhelmingly takes the form of services provided by UKTI's posts overseas (*circa* £142 million), direct support to Defence and Security (*circa* £24 million) and regional direct support (*circa* £20 million), it also covers events for business such as inward and outward missions.

ALLOCATION OF £10 MILLION STRATEGIC INVESTMENT FUND BUDGET

Q324 *et passim*

Mr Josypenko said that the extra £10 million UKTI received for the Strategic Investment Fund should have been spread more widely, including extra resource for TAP. He also said that UKTI had not consulted on the uses for this money.

Reply: The funding was intended to be supportive of the New Industries, New Jobs (NINJ) White Paper and therefore was focused from the start on certain sectors (advanced engineering, creative industries, energy, low carbon, construction, ICT and financial services). Ministers also wanted to see the budget directed towards a small number of high impact events visible to business and not spread across general export activity. These events would be designed to leverage a multiplying effect from partners to reach the widest possible audience and produce an early impact with strong legacy which the private sector can run with. Some of this NINJ-related funding will in fact be used at overseas exhibitions, including MEDICA in Dusseldorf, which are also TAP supported.

INCREASED DELIVERY OF UKTI SERVICES BY THE PRIVATE SECTOR

Q301–309

UKTI undertakes a substantial amount of partnering with the private sector. We value these partnerships as the private sector provides a business perspective, credibility and innovation in the way we do things.

In UKTI's English regional network we have a private sector delivery partner in each of the nine regions which employs more than 300 people in international trade teams (including International Trade Advisers) who are deployed on UKTI work. While UKTI offers a national suite of services, our advisers work with businesses locally to develop a deep understanding of the diverse range of business needs that exist across the English regions.

In four of the nine regions, the Chambers of Commerce, or their representative bodies such as Chamberlink on behalf of the 17 North West Chambers, are partners in the trade delivery organisations. In the case of the West Midlands we should also make clear that it is not "Birmingham taking the lead across a big chunk of the West Midlands" but an equal partnership of all the Chambers in the region covering the whole of the West Midlands. In the remaining five regions we have other business service organisations supporting UKTI's trade service delivery.

In each region UKTI seeks delivery partners that have a capability to deliver for UKTI, can generate synergy with other business support services and offer value for money. The Chambers can also bid for that work. UKTI will select the best value suppliers ie the best quality at the most competitive price, to work with. That will often be companies limited by guarantee (like Chambers) where profits benefit the members, or companies limited by shares. UKTI ensures that our delivery arrangements integrate with the economic strategy, business support services and private sector activity in each region.

In all nine regions, UKTI will partner with different Chambers, depending on their strengths, on a range of other activities such as business networking events or overseas trade missions. But as the BISCOMM evidence suggests, not all Chambers have the same reach or international capability.

Any organisation is entitled to bid for UKTI's regional delivery activity, including Trade Associations (TAs). UKTI has contact with over 100 TAs in an effort to ensure full regional, or full sectoral coverage, though this does prove a challenge. However, UKTI's regional teams also partner with a range of regional and national sector organisations, as with Chambers, on a range of business events.

In addition to working with city/regional Chambers, UKTI has a longstanding and beneficial relationship with the British Chambers of Commerce (BCC). The BCC manage two UKTI services—the Export Marketing Research Scheme and the Export Communications Review—where private sector specialists are deployed to provide advice to companies on market research and export communications.

The BCC, under cover of a memorandum of understanding from UKTI (and its predecessor Departments), administers the issuing of non-preferential Certificates of Origin. Certificates are issued by Chambers authorised by the BCC. The Chambers have fulfilled this role for very many years. Some 250,000 certificates are issued each year, generating modest income for the Chamber network.

OVERSEAS MARKET INTRODUCTION SERVICE (OMIS)

Q310–314

There is no doubt at all that targets for UKTI services have been driving up both quality and the additional profit achieved by businesses, as well as resulting in many more businesses receiving these services and benefits. This means less focus on targets is certainly not in the interests of UKTI clients, particularly those of OMIS.

In terms of inconsistency, these exist because Posts tailor their response very much to customer requirements. Also, conditions and business cultures vary from market to market so that in some places it takes very much longer to achieve the same result than in others. The amount of information easily available can also vary considerably between markets, even neighbouring ones. The view of what constitutes quality will also vary from company to company and individual to individual. Where differences or lack of customer focus cannot be justified, we are working hard to minimise problems and spread best practice.

UKTI has for some years had a policy of charging for most activities overseas where a private company or group of companies stands to profit from the help it provides. This is in keeping with the approach to charging for other government services such as passports and driving licences. As some of the participants mention, charging does deter non-serious enquiries. (In the past companies were commissioning unpaid reports and contact lists from a number of posts and then choosing one or not bothering to use them at all.) It also shows us where the real interest is and enables us to direct scarce resources accordingly. There are exceptions to this and, for an official UKTI or devolved administration mission, we would not normally charge for a briefing. We charge for time in organising and participating in receptions IF they are appropriate to the market and sector and IF the organiser wants one, because a proper focussed reception requires the presence of potential customers and intermediaries relevant to the missioners business objectives. This entails a level of research and effort in putting the right people together, equivalent to researching contacts.

We are clear that UKTI posts are providing a service that is not normally available from private sector providers and UKTI does not seek to compete with the private sector. However, as is pointed out by some participants, where a product is new to the post, initial internet research may have to be done at junior level.

18 November 2009

Supplementary Memorandum submitted by Department for Business, Innovation and Skills (UK Trade & Investment)

ALLOCATION OF THE £10 MILLION STRATEGIC INVESTMENT FUND PROVISION AND THE “UK GLOBAL CONNECTIONS” NETWORK

UKTI's allocation of the £10 million Strategic Investment Fund provision

Reasserting the UK's worldwide business reputation is central to economic recovery. UKTI's strategy is to market the economic strengths of the UK and the innovation, creativity and expertise of Britain in high value sectors. This attracts potential investors to the UK and helps our exporters sell themselves more effectively as international partners of choice.

The value of this strategy was confirmed in the 2009 Budget, with £10 million of the Strategic Investment Fund being channelled into UKTI, to be spent on events to promote UK sector expertise both in the UK and abroad. The funds are to help UK businesses to better showcase their strengths to overseas customers and markets. All projects must meet the following criteria:

- High value and visibility to UK business.
- Early impact with strong legacy that the private sector can run with.

- Directly related to the New Industry, New Jobs (NINJ) strategy.
- Leverage multiplying effects from partners to reach widest possible audience.

Commitments to date in 2009–10 (£4.5 million to £4.8 million):

- Up to £1 million (with potential to leverage £300k from the private sector) for a major security sector event in March 2010, building on the success model offered by the Farnborough International Air Show.
- A further package of up to £2.8 million in 2009–10 for events across the spectrum of NINJ sectors (advanced engineering, creative industries, energy, low carbon, construction, ICT and financial services). This kicked off in September 2009 with London Fashion Week and the London Design Festival. Other events included a showcase for the advanced engineering sector in Brazil in October (in the margins of the Brazilian Grand Prix), Technology World in Coventry in November, and a consumer electronics show in the USA in January 2010.
- Investment of up to £1 million to enhance showcasing of major sectoral business events and to extend the UKTI *Take It To The World* campaign, encouraging UK firms to grow their business internationally and helping them benefit from global opportunities in a challenging economic climate.
- Over the summer, selected posts were invited to bid for funds to promote the NINJ sectors through showcase events (up to £500k earmarked). Some 60 bids were received and 14 were approved, to deliver by the end of this financial year.

Other activities in the pipeline:

- Other projects in development include a global network of around 1000 influential voices to promote the reputation of the UK (UK Global Connections). This is detailed below.
- Beyond this, in 2010–11, a further package of up to £2.5 million for sector based showcase events will be available.
- Funding for NINJ events across 2009–10 and 2010–11 includes, as part of the suite of actions being coordinated by the Office of Life Sciences, an investment of up to £1 million, over the two years, to promote UK life sciences and the NHS at flagship events in the UK and overseas. UKTI will hold a new high-level technology-partnering event later in 2010 that will bring life sciences decision-makers to the UK.

“UK GLOBAL CONNECTIONS” NETWORK

NB: “UK Global Connections” is the current and correct name for the “Global Britons Network”, as first referred to by Sir Andrew Cahn at Q216 of the transcript of the 14 July oral evidence session before the Committee.

The message that the UK is a great place to invest, to find business solutions and suppliers is at its strongest when it’s given by people beyond the UK Government, in particular business people and people from other markets. That is why UKTI already makes good use of business and non-government contacts in its activities. However, we want to do more.

Early in 2010, UKTI will launch a new global network of people who have real influence and are willing to work with us in promoting the benefits of the UK as a great place to do business. The network will be called “UK Global Connections”. We will equip network members with the material they need to promote our messages loud and proud to businesses and governments across the world. The network will make it easier for UKTI people to spot and deploy capable partners, from the network, willing to work with us as speakers at our events, mentors to new exporters or inward investors, people who can enable business opportunities or influencers who can make the things we want to see happen.

Specific network objectives will be to:

- improve the UK’s reputation as the international business partner of choice;
- attract high value foreign direct investment to the UK by communicating the strengths of the UK as a place to do business; and
- help UK businesses internationalise by:
 - sharing market insight and best practice;
 - signposting and facilitating key contacts; and
 - identifying/encouraging/generating offers that facilitate exports.

Although we will encourage members to seize every opportunity to promote the UK, UKTI will seek to focus network member activities in priority areas—particularly linked to the NINJ agenda and priority markets.

Who will join the network?

Members will join the network by invitation only. Prospective members will be recognised and influential voices in their sectors or markets and would come to the network with an existing positive impression of the UK/valuable know how/insights they are willing to share with less experienced exporters and the time and desire to work with us to do this. They will include people based both in the UK and in markets overseas. Members need not be UK nationals. Indeed members of other nationalities may prove stronger advocates in communicating a positive image of the UK. We expect to grow the network to about 1,000 members.

What will network members do?

Network members will become part of a database used by UKTI staff to identify speakers for key events, participants in round table discussions with potential overseas buyers or inward investors and mentors for less experienced companies. In inviting them to join the network, we will suggest that they participate in at least two activities with us each year.

Members will also be equipped with key facts about the UK that they will be encouraged to use informally, for example when talking to usual business contacts. These messages will promote the UK as the business location of choice in which businesses in other markets can find excellent suppliers, innovative solutions to business challenges and outstanding investment opportunities that provide a springboard to global growth.

Why would members join?

In addition to a global network of UK ex-patriots, there is a significant community of business people who have been educated in the UK or whose positive experiences of Britain have left them with a strong affinity for this country. Some people will want to be part of the network simply because of that strong affinity, but others will need to feel they get something back from network membership. The principal value for members will lie in:

- increased positive personal visibility;
- increased positive company visibility;
- business-to-business commercial opportunities that may arise through their membership of the network; and
- extended/strengthened network contacts.

DELIVERY TIMELINE

Our plan is to launch the network early in 2010 and to use the first six months of the network's operation as a learning phase during which we can fine-tune our approach. Our aim is to have around 100 members initially, growing to 250 by March 2010 and 500—1000 members by September 2010.

Progress so far

Initial member nominations have been sought and received from across the UKTI network. These are currently being reviewed and we will make initial invitations to join the network in December.

Costs and Benefits

Key costs for the set up and ongoing operation of the network will flow from the creation and maintenance of a web portal for network members (currently estimated to be no more than £75k) and to fund a small, lean secretariat (probably two or three people). We are looking at whether there are opportunities to merge this network secretariat with other work in UKTI to drive out efficiencies. Our existing Performance and Impact Monitoring System evaluation methodology can be adapted to incorporate network activities so we can track the value add and play feedback into the continuous improvement of network's operation.

24 November 2009

**Supplementary memorandum submitted by Department for Business, Innovation And Skills
(Export Credits Guarantee Department)**

1. This memorandum is to assist the Committee's inquiry into *Exporting out of recession*.

INTRODUCTION

2. The Government recognises the role that ECGD can play in helping companies take up opportunities overseas. The downturn has highlighted the need for effective export support, and ECGD has been responsive to the increased demands being placed on it. The Government is committed to improving the effectiveness of ECGD. ECGD will continue to comply with its statutory and international obligations and the financial disciplines which are designed to protect the interests of the taxpayer.

3. What follows outlines the steps taken to address the concerns of exporters. A background note on the role, remit and policies of ECGD is attached.

RECENT DEVELOPMENTS

4. The economic downturn has led to a significant increase in demand for ECGD's support, largely due to:

- (i) the scarcity and the increased cost of credit internationally; and
- (ii) a deterioration in the global risk environment.

5. As well as receiving more applications for support in emerging markets, ECGD is being requested to support exports to developed markets (EC and certain OECD countries), which had not normally required government-backed export credits because financing could be obtained from the private markets.

6. As a result, ECGD expects to see a substantial increase in the exports it supports by the end of this financial year (March 2010). Current expectations suggest that volumes of new business will increase by 70% over the previous financial year. The increase in demand is across a number of sectors, led by civil aerospace and including oil/gas and construction.

7. ECGD has responded by recruiting specialist skills to augment its staff resources.

TRADE CREDIT AND SHORT-TERM CREDIT INSURANCE

8. Before ECGD privatised its Insurance Services Group operations, it had been effectively a monopoly provider of short-term trade credit insurance. Following the sale of the business to NCM (now Atradius), new companies, such as Coface and Euler Hermes, also entered the UK credit insurance market. This brought more competition, leading to more products and lower premiums for UK exporters than previously available from ECGD. ECGD has continued to offer short-term credit insurance for capital and semi-capital contracts and related services to buyers in emerging markets.

9. The economic downturn has seen a global reduction in the availability of private trade credit insurance, principally because the deterioration in the risk environment led to a sharp increase in claims and related underwriting losses. This exposed the under-pricing of risk and lowering of risk standards by credit insurers during the previous benign global risk environment.

10. As a result, UK exporters saw the withdrawal and/or reduction of credit limits on their buyers and an increase in premiums. Some exporters were left uninsured, which hampered their ability to accept and fulfil export orders. And some exporters have struggled to obtain finance from banks that relied on the existence of short-term trade credit insurance as a form of collateral for their lending. At the same time, exporters have also suffered from the slowdown in global demand which reduced export opportunities.

11. The European Union and North America are the dominant destinations for UK exports. ECGD's ability to provide support by way of short-term trade credit insurance is limited because the European Commission's Short Term Communication bans governments of Member States from providing support for commercial and political risks involving intra-EU trade and exports to certain "rich" OECD markets, including Australia, Canada, Japan and USA.

12. In the face of the problems that existed in the short-term trade credit insurance market, the European Commission agreed to a temporary waiver of the Short Term Communication. This allows governments to seek approval from the Commission for interventions that address the shortfall in risk capacity, subject to meeting certain tests that demonstrate market failure. This waiver is due to close at the end of 2010. A number of Member States have succeeded in obtaining such approval.

13. At recent meetings, the trade credit insurers have advised the Government that: they are now in a position to re-instate some of the buyer limits that they had withdrawn; new risk capacity is entering the reinsurance market in advance of the annual reinsurance round which for many insurers is at the end of the year; and they expect to be able to obtain sufficient reinsurance capacity to be able to support increased levels of cover next year, subject to the acceptability of risks on individual markets and buyers.

14. The Government is accordingly not minded to provide an intervention to support short-term export trade credit insurance, either directly to exporters (which would not be possible for ECGD as it does not have the staff or systems to provide such support without substantial investment and delay within the limited period of waiver), or indirectly through private trade credit insurers by way of reinsurance. The Government will continue to monitor the market closely.

Bond support

15. ECGD provides insurance for exporters against the unfair calling of performance bonds issued by banks on their behalf in favour of buyers. Exporter organisations have pressed for some years ECGD to provide cover for the fair calling of bonds, where banks are unwilling to do so. If ECGD were to provide such cover, it would be doing so on business that the banks have judged to be unacceptable. ECGD is exploring whether it might be possible to provide cover to banks on a risk-sharing basis, which would require the banks to share in any related security provided to them by the exporter.

Letter of Credit Guarantee Scheme

16. Following a public consultation, ECGD has recently launched a Letter of Credit Guarantee Scheme, under which it will support exporters by providing partial guarantees to banks against the non-payment of letters of credit which they confirm. This product is targeted at exports to developing countries. It will close on 31 March 2011.

CONCLUSION

17. The Government recognises the importance of credit insurance and export credit guarantees to help finance exports and to protect exporters and banks against the risks of non-payment. The Government believes that it is the role of the private sector to support exports sold on short terms of credit. The disturbance to the banking and credit insurance markets since the economic downturn is now beginning to abate, in part due to the measures that the Government has taken acting in tandem with the other leading economies. While the Government will continue to monitor the situation, it expects the private markets to come up with new risk products to support trade. The Government accordingly does not envisage ECGD intervening further in this area under current circumstances.

BACKGROUND

1. ECGD is the UK's export credit agency (ECA). ECGD's primary role is to support exports and investments made overseas by issuing guarantees and insurance contracts.

Regulatory framework

2. ECGD's operations are bound by:

- (i) statute (the Export and Investment Guarantees Act 1991, as amended by the Industry and Exports (Financial Support) Act 2009) and its standing consent from HM Treasury;
- (ii) international agreements that emanate from: WTO (the Agreement on Subsidies and Countervailing Measures); OECD (principally the Arrangement on Officially Supported Export Credits); and EU (the Short Term Communication);
- (iii) government policy that ECGD should:
 - (a) complement, not compete with the private market;
 - (b) cooperate at no net cost to the taxpayer;
 - (c) price to risk and to comply with its financial objectives;
 - (d) seek to achieve a level playing field internationally among government-backed ECAs; and
 - (e) take account of the Government's wider policies in the exercise of its primary purpose.

3. As a public body, ECGD must also comply with the Freedom of Information Act and the Environmental Information Regulations. Private companies (exporters, banks, buyers, project sponsors) who seek ECGD support must be aware that information provided to ECGD may be disclosable publicly in accordance with terms of the FOI legislation, even if that party considers it to be sensitive or commercially confidential.

4. ECGD aims to respond to the needs of exporters. But ECGD must be satisfied that that the transactions it supports are acceptable in terms of:

- (i) credit risk—transactions must be properly assessed to ensure they meet ECGD's minimum risk standards and financial objectives accordingly;
- (ii) environmental and social impacts—transactions must meet international standards as required by the OECD Common Approaches on the Environment and Officially Supported Export Credits;

- (iii) bribery and corruption—that no corruption is involved in the transaction, as far as ECGD can reasonably ascertain, in compliance with the *OECD Recommendation on Bribery and Officially Export Credits*; and
- (iv) sustainable lending—where the export is to a poor (HIPC or IDA-only)¹¹ country that the borrowing represents appropriate spending and the related debt service is sustainable, in accordance with the OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries

5. These requirements may constrain ECGD's ability to be flexible in the provision of its support for exports. Moreover, although it enters into private law contracts with exporters and banks, as a public body ECGD's decision-making must comply with its public law obligations, and can be challenged accordingly.

Exports supported

6. Since 1991, following the privatisation of ECGD's Insurance Services Group which was responsible for providing short term trade credit insurance in respect of exports such as raw materials, consumer durables, components or light manufactures, sold on short terms of credit (usually up to 180 days), ECGD's role has been principally to support exports of capital and semi-capital goods and services, normally, but not exclusively, sold with medium/long-term credit (2–15 years). Such exports have included commercial aircraft, construction projects, defence, and hydrocarbon and telecommunications equipment and services.

7. Over the past decade there has been a gradual reduction in the amount of exports supported by ECGD, as a result of the changes in the pattern of capital goods manufactured in the UK, and because of the benign risk conditions that enabled the banks to finance exports without the need for support from ECGD. In 2008–09, ECGD supported £1.46 billion of new business (under one half of 1% of all UK exports).

8. ECGD has supported about 20 capital goods exporters, although many hundreds of companies have benefited from ECGD support indirectly through industrial supply chains. Since the onset of the economic downturn, ECGD has received inquiries and applications for support from a wider range of exporters. ECGD's total exposure is £12.8 billion (October 2009).

9. A consequence of the decline in business was a reduction in ECGD's premium income, which covers its risk and the cost of its operations. As a result, ECGD had to cut its cost base, including staff numbers from an average of 366 in 2003–04 to 208 in 2008–09.

18 November 2008

Memorandum submitted by BAE Systems

SUMMARY

- The UK defence and security industry in general and BAE Systems as the largest company within it make a significant contribution to the UK's export earnings. That export success brings benefits in terms of employment of highly skilled people, investment in research and development and the sustainability of an extended supply chain of SMEs.
- By virtue of the nature of the defence and security market, the active and practical support of the British Government is indispensable for continuing success in a highly competitive global market.
- While the revised arrangements put in place in 2008 to co-ordinate government support for defence and security exports appear to be working effectively, it is imperative that, over time, the Ministry of Defence continues to play a leading role in supporting defence exporters.
- This includes factoring in export potential in the design and selection of equipments and systems to meet the requirements of the UK armed forces and recognising the value of the “in use with the UK armed forces” label in winning exports for UK products and services.
- The Export Credits Guarantee Department also has a key role to play and specific support in a number of key areas would assist all exporters.
- As the nature of the defence and security market evolves in response to global events and trends, UK companies in the sector will need the continuing support of government to ensure that market opportunities can be seized and competitive advantage can be properly deployed to the benefit of nation and the industry.

¹¹ HIPC—Highly Indebted Poor Countries. IDA—International Development Agency of the World Bank Group: very poor countries can only access concessional loans from the IDA.

BAE Systems as an exporter

1. BAE Systems is the UK's largest defence and security company and its most successful exporter of defence and security equipment, services and systems. It is the largest European defence and security company and the third largest globally. BAE Systems is also one of the UK's major engineering and technology companies and employs some 32,800 people in the UK of which some 18,000 are in scientific, technical and engineering roles.

2. The benefit from the company's export success flows through to BAE System's extensive supply chain of some 9,000 companies, many of them SMEs. Overall the company directly or indirectly sustains over 100,000 jobs in the UK.

3. In 2008 BAE Systems undertook research and development across the Group valued at £1,044 million of which £211 million was funded internally. Much of this work is carried out in partnership with universities and SMEs. The company also invests significantly in people. Our ability to continue to make these investments is in no small measure built upon the company's success in the export market.

4. Against this background and in making this response to the Committee's questions:

- What should be done to sustain and increase Britain's export strengths; and
- Is there more that Government or UKTI could do to support exporters, to identify key sectors or reprioritise markets

our focus will be primarily on the defence and security sector which, we believe, is in a strong position to be able to contribute to recovery from the current economic crisis through increased export success.

Nature of the defence and security export market

5. The first major characteristic of the defence export market in which BAE Systems operates is that its sole customers are overseas governments, government departments and government agencies. The second major characteristic is that a company's ability to pursue export opportunities is—rightly—subject to the controls exercised by the UK government under export controls legislation. The combination of these two factors not only makes the defence sector unique as part of the UK's exporting industry but also means that active government support is essential to the sector's success in the export market.

6. That success not only brings economic benefit to the UK in terms of export earnings and employment but it also plays an important part in the fabric of the political, defence and security relationship with the countries to which the UK is prepared to provide defence and security equipment and systems. It is that aspect of the UK defence and security industry's export profile that is of predominant interest to the Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MOD) but there are also direct benefits to the MOD's equipment acquisition programme through economies of scale from extended production runs, spread overheads and the commercial exploitation levy.

7. When an overseas government selects a UK company to meet its requirements for significant elements of its national defence and security capability, it invariably regards such an acquisition as forming part of the defence and security relationship with the United Kingdom and not just as part of the trading relationship. Especially in the case of major capability acquisition programmes, therefore, visible and tangible evidence of HMG's support for the company concerned and its proposed technical solution are often key discriminators in the overseas government's decision making process. That support may variously involve Ministers, including at Cabinet level and, on occasions, the Prime Minister, as well as senior members of the Armed Forces and senior officials.

8. In 2008 lead responsibility for co-ordinating government support to UK defence and security exporters transferred from the Ministry of Defence to UK Trade and Industry within DBERR. This manifested itself in the creation within UKTI of the Defence & Security Organisation (DSO) which subsumed many of the export support functions previously carried out in the MOD's Defence Export Services Organisation (DESO). There was concern at the time this change was announced that the transfer of lead responsibility for co-ordinating support for defence exports from the MOD might lead to a lessening of the MOD's commitment to supporting defence exports. To date our experience is that that has not been the case and that the MOD continues both to fulfil its detailed obligations under the Service Level Agreement between UKTI and the MOD and to demonstrate real interest at senior levels in the Department in supporting UK defence exporters. Nevertheless it is still early in the life of the new organisation and there remains a concern that, over time and particularly as the pressure on the MOD's resources continues to increase, the formal separation of the defence and security export lead responsibility from the Department may result in gradual diminution of tangible MOD involvement in providing support for exporters. We therefore believe it is important that the MOD's role in support of defence exports continues to be stated explicitly and demonstrated in practice.

9. Another area in which the MOD can make a major contribution to the UK's future defence export success is by making exportability a more significant consideration in the specification, design and manufacture of equipment and systems ordered for the UK armed forces. This was recognised in the 2005 Defence Industrial Strategy which also identified a range of key capabilities that needed to be maintained in the UK to meet sovereign capability requirements. So exportability has for some time been

a factor that should be taken into consideration in reaching decisions about how best to meet UK national requirements but, in practice it is difficult to point to equipments that have come into UK service in the last decade at least where considerations of the potential for exports has been a meaningful factor.

10. In the past UK defence products such as the Leander class frigate, the Combat Vehicle Reconnaissance (Tank) (CVR(T)) and the Hawk jet trainer have not only provided the British armed forces with the platforms they needed but they were also successful exports from the UK. The UK's armed forces must clearly have equipment that fully meets their own operational needs but, within that envelope, we believe it would be advantageous both to the UK's defence exporters and to government to give increased priority to developing solutions that have the potential for adaptation to capable and cost-competitive products for the export market. Programmes such as the Future Surface Combatant (FSC), Future Rapid Effects System (FRES) and future unmanned aerial systems (UAS) offer real potential for such an export-oriented approach. And a significant selling point in the export market is the ability to point to the fact that the equipment or service being offered is in service with the UK armed forces

11. The Export Credits Guarantee Department (ECGD) also has a key role to play in supporting all UK exporters. The significance of the role is brought into sharp focus during periods of recession. BAE Systems would welcome active and competitive support from ECGD in the following key areas:

- instances where export customer short term budgets are coming under increasing pressure, which in turn is translating into requests for the offer of medium term export credit proposals, the ability of ECGD to effectively provide buyer and supplier credit support to financing banks, under terms and conditions which are competitive with other Export Credit Agencies, thus ensuring that a level playing field is maintained for UK exporters.
- the withdrawal of short term credit insurance cover by commercial insurers in certain markets has created a need for ECGD to provide targeted sovereign and corporate credit insurance cover to address a commercial market failure under its retained short term business remit.
- the development of a contract bond support product, something that BAE Systems along with a number of other UK exporters has long championed, which would significantly reduce the level to which the exporter's available cash and credit lines are impacted by the need to provide export contract bonds

The future defence and security export market

12. Although direct exports will continue to be an important element of the UK's defence export portfolio and existing mechanisms to provide government support to traditional exporter will continue to be important, the defence and security export market is also adapting to new challenges as importing nations look to develop their indigenous industrial capabilities, both to meet their own sovereign requirements and to contribute to domestic economic growth through exports. This includes expectations placed on exporters to transfer and share technology and manufacturing know-how. In order to satisfy these aspirations from customer governments companies in the defence and security sector are exploring a range of difference business models including sub-contract arrangements, joint-ventures, equity investments and establishing own-company operations in target markets. Thus the traditional concept of "exporting" as it applies in the defence and security sector is evolving and the nature of the support provided by government needs to respond accordingly.

13. But the key characteristics of defence exporting set out earlier will continue to apply and government will still have an important part to play in providing support to those exporters engaging in these evolving business approaches. Through close co-operation between industry and UKTI, and through them with other government departments—particularly the MOD, it will be important for UK exporters to be able to put together the kind of business arrangements that, coupled with compliant and competitive offerings, will persuade overseas governments to select a UK solution.

14. In some cases the size and nature of a programme being discussed with a potential overseas government customer may be such that the most appropriate vehicle would be a government-to-government arrangement with the industry participant(s) taking a sub-contract role. Such circumstances are recognised in the terms of the transfer from MOD to UKTI of lead responsibility for providing support to defence exporters and provide for the MOD to take the lead role on behalf of the British government. We believe it is essential that this mechanism should remain available for the very limited occasions on which it might be appropriate and that the lead role in such an eventuality should indeed rest with the MOD which has the necessary programme management capacity to be able to oversee government-to-government programmes.

15. Another area in which government assistance may be needed in the future is in continuing to argue for "level playing fields" on which UK defence and security exporters can compete in the global market. The UK operates probably the most open defence market place in the world and actively encourages fair and open competition. Industry support this—indeed it is to some extent because of this policy that UK defence and security exporters are so successful in world markets—and wishes to see equally open access to other national markets. There are encouraging signs, for example in the European Defence Procurement Directive that the barriers that currently exist in some countries to allowing fair and open competition maybe lowered. However, there are still protectionist instincts that are likely to be reinforced in response to the current global

economic crisis and which have the potential to deny market opportunities to UK defence and security exporters. We therefore look to the government to do all it can to encourage the application of fair and open access to markets around the world.

16. Indeed we believe that government and the defence and security industry share a common interest in actively encouraging and facilitating cross-border co-operation at both government and industry levels. This must of course be in accordance with the requirements of the government's export controls policies and the relevant statutes but, within that environment, there is real potential for UK industry to be even more successful in world markets. One element of this facilitation is to ensure that the mechanisms for controlling exports of defence equipment are effective in terms of both safeguarding sensitive material and promoting efficient co-operation between nations and their industries.

17. The prime example of this working in practice is the US-UK Defence Trade Co-operation Treaty signed in 2007 and which now awaits ratification by the UK Congress to bring it into effect. The Treaty will introduce a streamlined process for organisations authorised to make use of its provisions to share information bilaterally while at the same time ensuring that appropriate controls are maintained. The EU is also looking to introduce simplified cross-border transfer arrangements and, in response to the increasingly globalised nature of the defence and security sector, government will have an important part to play in putting in place the processes and procedures that will allow UK exporters to take advantage of the opportunities created.

20 April 2009

Memorandum submitted by British Chambers of Commerce

1. SUMMARY

1.1 The British Chambers of Commerce (BCC) believes that British exporters have an important role to play in helping the UK recover from the recession. While the banking and financial services sector had been lauded as the key driver for economic growth and wealth creation for a decade, it is unlikely that this will remain the case in the coming years. The UK will have to create innovative goods and services that the rest of the world wishes to buy if it is to remain one of the world's largest economies. International trade is also a driver of wealth creation, efficiency and employment for the UK and we therefore need to effectively support British exporters and pursue policies that encourage trade.

1.2 British exporters have a strong base upon which to build. The UK has a tradition as one of the great trading nations, and a large part of its wealth has been based upon international trade. The UK is still the seventh largest exporter and fifth largest importer of merchandise in the world, while British service exports have grown in recent years.

1.3 While exports from the UK are worth around £370 billion a year, the UK's trade deficit has been growing for a number of years. The trade deficit of goods and services combined amounts to some £4 billion every month, while the deficit in visible traded goods stands at around £7 billion. Although the UK has often operated a trade deficit during the last fifty years, today's deficit is larger, and growing.

1.4 The UK must reverse this trend. As a nation, we are entering gloomier economic times, and trade will need to make a stronger contribution to the UK economy in the coming years. It is therefore vital that British goods and service exports are properly and effectively promoted abroad, and that current and would-be exporters are firmly supported.

1.5 All too often, the Government's trade promotion policy stands in the way of exporters, while banks and insurers have withdrawn many valuable services since the recession began. If exporting is to help the UK out of the recession, these issues must be addressed. The Government also needs to ensure a positive conclusion to the Doha round of the World Trade Organisation negotiations, which will liberalise trade in both goods and services.

2. ABOUT THE BRITISH CHAMBERS OF COMMERCE

2.1 The British Chambers of Commerce (BCC) represents over 100,000 businesses of varying sizes and sectors which, when combined, in total employ around five million people. Part of the role of the BCC is to help create the right environment for UK businesses to thrive. It is our job to work with the Government to deliver the right policy framework in which UK businesses are able to grow at home and compete internationally.

2.2 The BCC and its member Chambers across the UK are some of the most important actors on the international trade stage. All businesses who export will have some contact with their local Chamber of Commerce at some point in the exporting process. The BCC itself delivers schemes for UK Trade and Investment (UKTI), which aim help companies market and communicate abroad effectively. The Chamber Network also provides export documentation such as certificates of origin, while they also have expertise in international trade which helps potential exporters identify trading partners and navigate the difficult waters of new markets. Many Chambers also organise trade missions and other activities which place British companies at the heart of business opportunities.

2.3 The BCC sits within a global network of Chambers of Commerce across the world, and we have contacts with many of our sister organisations in different countries. We are part of the ultimate business network.

3. EXPORTS AND THE ECONOMIC DOWNTURN

3.1 Evidence strongly shows that foreign trade has seriously slowed during the past 12 months. This can be seen in export figures both within the EU and to the rest of the world. This is due to the global economic downturn and banking crisis. A loss of confidence and lack of available credit has in turn precipitated a serious drop in demand from nearly all economic sectors around the globe.

3.2 The BCC's own Quarterly Economic Survey clearly illustrates the drop in British exports. The new balance for manufacturing export orders plummeted to—28% in the first quarter of 2009, from—19% in quarter four 2008. The quarter one export balance is the lowest on record since the third quarter of 1998. The service sectors exports were also very low by historical standards.

4. EXCHANGE RATE

4.1 The fall in Sterling's value against many of the other major currencies should theoretically benefit British exporters as the relative cost of their goods would be reduced in foreign markets. During the past decade, British exporters have suffered from the relatively high value of Sterling against the Euro and US Dollar. However, we have not yet seen the positive impact of the fall in Sterling. Although British goods and services are now relatively cheaper in many markets, demand has fallen globally so that exporters have not seen the benefits of this.

4.2 The low exchange rate also presents problems for UK exporters, especially manufacturers, who have found that the cost of importing raw materials has increased considerably with the fall in the value of Sterling. This has impacted upon the already hard-pressed cashflows of SME businesses.

4.3 The twin effects of falling demand with trading partners and the increased cost of imports mean that the full benefits of the currency depreciation will not be experienced in the immediate future. Further to this, historically, depreciation of the currency has led to exporters raising their Sterling prices in the short-term to boost profits; and, it inevitably takes time for exporters, or potential exporters, to identify opportunity and exploit them.

4.4 For effective trade, business needs a stable and competitive exchange rate over a protracted period of time. Without this, British exports will never achieve their full potential.

5. UK TRADE AND INVESTMENT

5.1 *Government trade promotion policy*

5.1.1 Both UK Government policy and the services that UKTI can potentially offer are central to restoring British exports. UKTI currently offers a number of services that both current and would-be exporters find invaluable. For example, the Export Market Research Scheme and the Export Communications Review, which are run by the BCC, have both been successful in helping businesses understand the potential markets that they can sell to. Likewise, Passport to Export has helped many small firms sell abroad, many of whom would otherwise have remained only in the domestic market.

5.1.2 Despite these positive contributions to British exports, Government policy and UKTI's work often are contrary to the success of British exporting companies. These issues must be addressed if exporting is to achieve its full potential to raise national wealth.

Inward Investment versus Export Promotion

5.1.3 Government policy for trade and investment has focused on inward investment at the expense of trade. Work on inward investment currently accounts for 30% of UKTI's time and resource. When he was Minister for Trade and Investment, Lord Jones claimed that a high volume of investment into the UK, and a consequential number of jobs, had been created on account of UKTI's work. However, many of the successes that UKTI claims as its own are more related to the UK's liberal economic, regulatory and employment regime than any specific input from Government agencies. The £70 million budget for inward investment promotion is therefore excessive, and would have been better spent on supporting exporters. In any case, the budget for attracting inward investment should never have been allowed to encroach on that for export promotion.

BRIC countries and other "emerging markets"

5.1.4 Government trade policy is currently focused on promoting exports to Brazil, India, China and India (The BRIC countries) and a number of other emerging markets. These are indeed growing markets, and help for exporters here is welcome. However, these are generally hard markets to break into for British SME exporters, many of whom will find it easier to export to more familiar and less risky markets in North America and the European Union. At present, some 70% of trade takes place with these areas, and yet UKTI has directed resource away from trade promotion in these areas to fund more work in BRIC countries. It is

undeniable that there are good opportunities for business in emerging markets, but as UKTI focuses much of its work on helping on first time SME exporters, we question why so much resource has been taken away from easier markets for companies who are fresh to international trade. Emerging markets are often beset with legal problems and are operate within very different structures to those in the UK. It is much easier for first time SME exporters to trade with EU and Western markets initially.

5.1.5 The Government's focus on BRIC leads to too little support in areas where profits are to be made. Priority in the distribution of resource is dictated in order to meet government targets rather than towards markets that offer them the best chance of success. For example, Angola is currently the largest deepwater oil and gas market in the world, but is not high on the UKTI's priority list. This means that exporting support is often only available to a tiny percentage of the companies which seek assistance, and therefore opportunities are lost. This is a market in which British companies should be pre-eminent, but too often lose out to those of other countries. We would welcome a more direct client centred approach where help is targeted where it is needed.

5.1.6 UKTI help needs to be able to adapt to the fast changing conditions of the market. The loss of Sterling's value clearly opens up better opportunities in the Eurozone and United States, but UKTI has not been able to shift its resource allocation nearly quickly enough in response to this.

Misdirection of resource

5.1.7 Resource within UKTI is often misdirected. Staff who work on export promotion are given targets for the sale of UKTI products such as the Overseas Market Introduction Service (OMIS). UKTI staff do not even cover their costs by meeting these targets, while their time is directed away from trade promotion, which is where we believe it should be completely focused. Such targets clearly stand in the way of staff getting on with the day to day task of helping businesses export, and serve to cloud serious analysis of UKTI's successes and failures.

5.1.8 Further misdirection of resource can be seen in the amount that UKTI spends on staffing and human resource compared to the amount that it allocates for direct schemes aimed at exporters. Indeed, staff costs at UKTI far exceed the budget allocated for the delivery of direct services and grants. For example, at a tradeshow in Vietnam during 2008, there were some twenty FCO and UKTI staff from around South East Asia. It is likely that in such a case, many exporters had their applications for grants to attend turned down. We believe that money would have been better spent by allowing manufacturing and service exporters promote themselves at such an event.

5.2 Key programmes

5.2.1 Traditional international export promotion tools such as trade missions and tradeshows are key planks in helping exporters develop their business. However, companies report that these programmes have been seriously cut in recent years, despite the fact that they clearly deliver high returns per pound spent. It is also worth noting that our major economic competitors in North America and Europe have not made cuts in their comparable programmes for exporters, and this puts British businesses at a another palpable disadvantage.

Trade Missions

5.2.2 The Missions Programme takes exporters into potential markets and introduces them to potential customers. It has always been highly valued by businesses, who have found missions incredibly successful in helping them find new markets. However, funding for missions has been slashed by UKTI, and the current regional Market Visit Scheme does not give companies the wide range of dates for assisted market visits that they could have from access to a national scheme.

5.2.3 A coordinated national scheme, using organising bodies with proven knowledge and experience of particular markets would open up help to many more companies. This would encourage more existing exporters into BRIC and emerging markets.

Tradeshow Access Programme (TAP)

5.2.4 Funding for the Tradeshow Access Programme has also been seriously cut. International tradeshows are a key part of the export world, and for many companies are the most efficient way of entering new markets. All of the UK's key international competitors provide finance and support for their SME companies to take part in tradeshows. In comparison, funding in UK is inconsistent, unreliable, and falling. This can be seen in the 2009 Dubai International Boat Show, where many companies did not attend because subsidies for UK SME companies were the lowest ever received. While the TAP grant was eventually topped up, this happened too late and the UK was significantly underrepresented in comparison to other European states, which inevitably took the most lucrative contacts on offer at the Middle East's largest marine trade event.

5.3 *Schemes for existing exporters*

5.3.1 Some of the businesses that are best poised to exploit new foreign markets are those that are already exporting. Despite this, there are no UKTI schemes that aim to help existing SME exporters access new markets. The help given to SMEs who have not exported before through schemes such as Passport to Export are invaluable to British industry, but we are missing a real opportunity by not further helping those who already export and who are therefore the best placed to attack new markets.

5.4 *Assistance for exporting companies in the recession*

5.4.1 The range of businesses that require government assistance increases during a recession. This means that more exporters will need access to government backed international trade services. This is because during a recession businesses are naturally more cautious with expenditure and are less likely to spend their financial resources on seeking new markets, despite the positive impacts that exporting potentially offers. In the current economic climate, many companies are also completely unable to take on the financial risk of exploring new markets.

5.4.2 Government policy faces key two problems here. The first is that many of the schemes which it runs have costs to businesses, who will become unable to pay for them during a recession. For example, fees for an Overseas Market Introduction Scheme (OMIS), or paying the embassies or high commissions for country briefings, visa letters or networking support become difficult to justify for many companies. This will stop companies accessing government's services who might otherwise have found them useful.

5.4.3 Secondly, despite the greater need that companies have of government export services, many businesses have found UKTI's qualification procedures to be restrictive. Given the present economic climate, UKTI should be able to help all companies who require assistance. For example, an SME manufacturer of printing equipment was turned down for a grant to attend the main global printing industry trade fair that takes place once every four years. The reason given was that they were too qualified despite one being a small company. Likewise, a manufacturer of medical equipment was at first awarded a grant to attend the Arab Health Exhibition, but had the grant revoked because UKTI decided to reclassify the company. In both cases, comparable companies from competitor countries received full grants and as a result will have gained a business advantage over British firms.

5.5 *Government services for exporters—UKTI*

5.5.1 Businesses often find it difficult to work with the Government and its agencies. This is because there is often a fundamental lack of understanding of the private sector within public sector organisations. This can be seen in the targets driven culture of organisations such as UKTI which aim to reach a set number of companies without ensuring real quality of engagement.

5.5.2 Often intermediaries are required to facilitate the relationship between public and private bodies. The Chamber Network is a key partner for both business and the Government in doing this, and it provides many successful services for exporters from advice and guidance to export documentation.

5.5.3 Unfortunately, in some areas where the Chamber has traditionally hosted government trade services, the contracts have been awarded to bodies which are closer to government. The effect of this has been to take trade services from a single roof which employers knew and understood, to spreading them among many different organisations. Common sense would dictate that this can only make it more difficult for businesses that wish to access trade services.

6. THE BRITISH BRAND ABROAD

6.1 The United Kingdom has a strong image abroad. From the United States to the Persian Gulf and beyond British goods and services are seen as being high quality. And yet the UK brand has been watered down by separate representation from all three devolved nations and nine English regions that constitute the country. Separate efforts from Scotland, Wales, Northern Ireland and the English RDAs only serve to confuse potential customers of British firms who are likely to be unaware of the constitutional particulars of the UK.

7. TRADE SKILLS

7.1 It has been noted that there is also a shortage of trade skills within the British economy. Companies often find it difficult to obtain skills such as overseas marketing or knowledge of foreign markets, current regulations and legislation governing international trade, and cultural awareness. The British economy is also woefully short of foreign language skills. Although the international business language is English, exporters can achieve much more by being able to speak in the tongues of the markets that they are seeking to sell into.

8. TRADE FINANCE AND CREDIT GUARANTEES

8.1 Exporting businesses around the country have reported serious problems in gaining export credit guarantees from private sources. This is especially serious considering the difficult economic conditions across the globe mean export guarantees and insurances are more important than ever.

8.2 Credit insurers are evidently responding to a climate of higher risk. In the absence of access to private insurance and credit guarantees, it is vital that the Government steps in to provide support and confidence to exporters where the market has failed.

8.3 Many businesses see the collapse of the credit insurance market as one of the biggest threats to their exporting trade. Businesses have spoken of their confidence being shaken by the near complete withdrawal of credit insurance cover in their market. For example, a supplier in the automotive industry asserted that this element of the current economic climate poses a far greater risk to the stability of their business than the downturn in sales volume. Because of Sterling's recent competitiveness, the company has recently been appointed sole supplier to a major car manufacturer. However, because credit insurance has been withdrawn for the large automotive Tier 1 suppliers, the firm must now incur a much greater risk in their trade with this manufacturer. The speed and ferocity of the removal of credit insurance cover is staggering and it puts entire supply chains at enormous risk.

8.4 Should current rumours that the Chancellor will include a state backed insurance scheme in the Budget prove to be correct, it is crucial that any scheme is quickly and efficiently implemented so that struggling companies can take advantage of it as soon as possible.

8.5 Any other government action in this area is yet to make significant inroads into the export community.

9. FURTHER BANKING PROBLEMS

9.1 There is evidence that British banks are standing in the way of exporters. Aside from problems associated with export credit and insurances, there are a number of other areas where banks are not correctly facilitating exporters, or are holding back successful companies. Given the recent banking bailouts, obstructive practices by the banks to businesses must be investigated and stopped.

9.2 For example, one company has reported that every transaction within their Export function requires a bank transfer, for both receiving payments and for the purchase of components. This requires a visit to the bank, as it is not possible to make international transfers on-line. This is also an expensive process, where the banks take a varying commission, depending on the transfer origin or destination. It should be possible to make these transfers on-line to save time and money.

9.3 Furthermore, we have also received a number of examples where the banks have obstructed trade with certain countries for unsound reasons. For example, one company had been working for months on building a relationship with a Syrian contact; they had an order from them for £1 million of product, but when the time came to pay, their bank refused to accept the money. On contacting the bank the business was told that there were government and UN sanctions in place against trading with Syria. In receipt of such perturbing advice, the business considered writing off their contract immediately but thought they should investigate further before doing so. On speaking to both UKTI and BERR, the company was informed that Syria is part of an EU trade agreement, and trade between our countries is encouraged. The bank was effectively misleading its customer as to the reasons behind its refusal to take deposits from trade with Syria. This seriously risked its customer's months of money, time and effort. It should be noted that the company in question does £1.5 million of business with the Middle East alone. They rely on their bank to deal with the customers and the countries that they work with. This kind of activity causes them to jeopardise months of work developing trade contacts.

10. PROTECTIONISM AND THE DOHA DEVELOPMENT AGENDA

10.1 At this time, it is vital that the British Government does all it can to combat protectionism both within the European Union and throughout the world as a whole. Lessons must be learned from the Great Depression. The increase in protection that stemmed from the United States Congress' Hawley-Smoot Tariff Act in 1930, and the subsequent reactions from European states and British Empire greatly increased the severity of the Great Depression, and a similar situation must be avoided.

10.2 Every effort must be made to encourage a swift and beneficial conclusion to the Doha Development Agenda negotiations at the World Trade Organisation (WTO). As the global economy continues to face difficult times, a final resolution to Doha will provide a crucial facilitation to global trade. While trade is not dependent on the WTO, if Doha collapses for good it will take years for the WTO to recover its worldwide prestige, if it manages to do so at all. The rise of protectionism, and bi-lateral trade deals instead of a multilateral solution, will only serve to push the world's major economies further into recession.

11. CONCLUSION

11.1 As the UK enters economic turbulence, exports will need to become a more important contributor to the national current account. The Government's trade policy and services simply must do better. The UK needs a nimble, light touch service that delivers high value for money through providing schemes and services that exporters and potential exporters find effective. The UK must present a unified image to the outside world in order to capitalise on its competitive advantages. Currently there are only 80,000 British companies who export. If we are to remain an economically successful world power, this has to change.

20 April 2009

BRIEFING—DUTCH EXPORT CREDIT INSURANCE SCHEME

On 2 October, the European Commission authorised a Dutch measure to provide export insurance coverage to businesses unable to obtain cover, or partial cover, from the private market as a result of the current financial crisis.

The main features of the scheme are that:

- The State will provide a reinsurance facility to top up cover offered by credit insurers in cases where the existing credit limits have been reduced or new limits given by credit insurers which are lower than the amount requested by the insured company.
- The maximum possible top-up amount provided by the Dutch state is 100% of the credit limit offered by the credit insurer.
- The premiums are aligned to those of the private market, as stipulated by the safeguard clause in the Commission's Communication on short-term export-credit insurance.
- The premiums are set at a level that provides an incentive for exporters to have recourse to private insurers once there is again sufficient cover on the private market.
- The measure presents safeguards to avoid financially-unsound transactions and counterparties, which would not obtain the insurance cover even under normal market conditions, unduly benefiting from the measure.
- The Commission found the measure to be in line with the conditions outlined in its communication published at the end of 2008 on the temporary framework for state aid measures to support access to finance in the current financial and economic crisis.
- In particular, the measure requires market-oriented remuneration and has a specific objective.
- It is authorised until 31 December 2010.

30 October 2009

PROBLEMS WITH TRADE FINANCE

A lack of accessible trade finance threatens to impede a potential growth in British exports. The Government needs to act now to prevent a further depression in British trade.

SUMMARY

Trade finance has been hit by the global banking crisis like many other financial services. The true impact of this has not yet been felt, as global trade has remained depressed, but as it increases, a lack of liquidity could harm British exporters. The Government must act to ensure that British exporting businesses are effectively supported.

PROBLEM

- One of the knock-on effects of the credit crunch has been that trade finance, which underpins 90% of all global exchanges, has become either unavailable, or over priced;
- During the financial crisis, trade finance has dried up in much the same way as similar financial services and products have;
- Because global trade has contracted, the effects of a lack of finance haven't been fully felt yet. However, the BCC is concerned that once demand increases, exporting businesses could be hamstrung by a lack of available export finance and insurance;

- Banks claim that under Basel II,¹² the capital requirements for trade finance are too high, and this is holding up liquidity; and,
- Businesses are withdrawing from international trade at the moment because in the present climate it is too risky to undertake without export credit insurance,¹³ as it is either prohibitively expensive or unavailable.

EVIDENCE

- Nearly 90% of global trade is underwritten by some form of trade finance;
- By the Department for Business, Innovation and Skills' own reckoning, about 5% of total exports (£9.2 billion) are being put at risk due to lack of finance;
- The International Chamber of Commerce reports that pricing of trade instruments have increased between 50 to 100 basis points; and,
- Chamber Network Trade committees across the country report that the reduction in available finance is preventing businesses from concluding export deals.

Case studies from the West Midlands Trade Forum are appended to this paper.

RECENT GOVERNMENT POLICIES

- Until last month, the Export Credit Guarantee Department (ECGD) hadn't operated in the small firms market since 1991. Then, in August, ECGD insured a \$14.4 million (£9 million) contract secured by Cleveland Potash Limited with Brazilian fertiliser conglomerate, Fertipar. Sources reckon this to be a blueprint for the future, although no hard and fast insurance schemes have been consulted on as yet;
- A Government-backed insurance scheme would have possibly met with European disapproval because of state aid/support prohibitions under the single market, but the Commission has just approved a Dutch trade credit insurance scheme, clearing the path to a British equivalent;
- The Government has attempted to shore up domestic trade credit insurance with a £5 billion scheme but it has been taken up by only 52 companies, with a mere £7 million guaranteed, because of the stringent conditions governing enrolment on the scheme. Any Government intervention into the export market must take this into account;
- ECGD also consulted on a Letters of Credit Guarantee Scheme¹⁴ three months ago (which we responded to), although only 10% of trade deals are concluded this way, and therefore will not meet the total needs of exporters. The scheme was due to be launched yesterday, but has been delayed for a fortnight; and,
- The G20 agreed on a trade finance support package of \$250 billion in its April meeting, to be delivered through multilaterals such as the World Bank, although few British banks have taken this up, as it doesn't cover many required markets.

BCC POLICY POSITION

The BCC believes that unless the Government intervenes to support SMEs' access to trade finance, British businesses will not benefit from the likely rise in global trade flows over the coming months. There has essentially been a market failure in the trade finance industry, and the Government must intervene to rectify this by either providing a publicly-backed scheme, or ensuring that banks and other providers keep trade finance flows constant and affordable for SME exporters.

For further information on the BCC's position please contact John Lucas, Policy Adviser at the BCC on: j.lucas@britishchambers.org.uk or Tel: 020 7654 5806.

¹² Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The purpose of Basel II, which was initially published in June 2004, is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face.

¹³ Export credit insurance protects export orders against non-payment. Insurance for exporters and businesses trading domestically are distinct.

¹⁴ A letter of credit is a method of payment underpinned by a bank's undertaking to make a payment to a named beneficiary, against the presentation of documents which comply strictly with the terms of the letter. Its main advantage is in providing security to both the exporter and the importer, but the security offered comes at a price.

APPENDIX

CASE STUDIES FROM THE WEST MIDLANDS TRADE FORUM

BUSINESS 1

As a major exporter (approx 90% of turnover) we have a policy with XXXXXX and have done so for 25 years. It is up for renewal in October and we will not be renewing due to the complete collapse of cover on our customers. We believe we have been treated very shabbily indeed by them. Fair weather friends are how we describe them. I could go on and on and on.... But won't. It is a very serious problem. We are trying to mitigate our risk by asking for letters of credit, better payment terms etc. I wouldn't want to work for export credit insurance because there can't be any satisfied customers! I doubt whether there will be any jobs! As an aside it does worry me that, when things pick up there will not be sufficient people with letter of credit experience at the banks or in industry.

BUSINESS 2

We have found it hard to even obtain insurance of any kind for exporting to the USA, Nearly all companies say no to cover of any kind once you mention "USA or Canada". We have been limited by our insurers to £10,000 of exports to the USA per year, which of course limits our exports to the States.

BUSINESS 3

Many moons ago we tried to deal with the Government backed scheme, but I found it very restrictive, and ultimately left it alone. Up until about four years ago we were insuring our export debt with Euler until they again became very picky about countries they would and would not accept. In particular we have an excellent distributor in Turkey, who pays us very promptly, and yet XXXXX demanded that they exclude Turkey from the listing. At that point we decided that it was somewhat of a waste of money, and have since paddled our own boat.

If the new Government backed export credit insurance is a proper insurance, by which I mean that they are prepared to accept risk, then we might be interested, but if they're only interested in taking the safe options, then we wouldn't be interested.

BUSINESS 4

Premium Increased by 30%.

Insurers "massively" withdrawing cover on markets.

We have been with the same insurer for a number of years. We have tried to get out of the insurance this year as we had more than £1,000,000 of cover pulled within the first month of renewing the policy. They said that they can do what they like and we cannot get out of the contract—even though we had not made a claim. In most instances the reason why cover is being pulled is not due to the fact that companies are bad payers, but is due to the fact that they were "risky" businesses before the recession and do not have up to date accounts filed. By this I do not mean they are overdue but just accounts that are more than six months old. In a lot of cases we have not had sufficient warning that the cover is to be pulled and in one situation we were half way through the biggest project the company had ever had and cover was withdrawn immediately. The reason was that XXXXX in Spain had automatically cut cover on all companies within the construction industry—whether they were doing well or not. Luckily we had negotiated work in progress cover a couple of years previous to this otherwise we would have been left high and dry.

On the subject of the government's pitiful attempt to shore up the industry, this only works where credit insurers are REDUCING the level of cover and not where it is TAKEN AWAY. The time limits applied to this additional cover and the restrictions imposed were not shouted from the rooftops when this was announced in the budget. It was just a headline grabber if ever there was one.

BUSINESS 5

We have been with XXXXX for some time; we recently had a claim, which we understood was agreed in principle in February of this year and we still have not been paid in full for our claim, a part payment has been made to us. We understand that the final payment will be made first week of June. What XXXX has proposed on renewal of our premium is, in fact, a cut of nearly 50% of the original cover and an increase pro-rata of 840% in cost, ie our premium has gone up from just under £1,000 per month to £8,000—a figure which is prohibitive for practically every SME in the UK. Of course, we are still trying to negotiate this.

BUSINESS 6

Premium increased? Not yet

Reducing the level of cover? Yes

Withdrawing cover for some markets/customers? Yes

Our insurers are reducing cover for many customers and also taking away the discretionary limit of £10k we had regardless on those customers. This is making it very difficult to offer credit terms and reducing our ability to do export sales.

BUSINESS 7

We don't use credit insurance but we'd like to.

It appeared, when we last looked, that the risk being taken by the insurer was minimal and that we would pay a lot for virtually NO protection. So we did not proceed.

It appeared, when we last looked, that the risk being taken by the insurer was minimal and that we would pay a lot for virtually NO protection so we did not proceed. Clearly the insurance being offered is or NO use to us whatsoever. In many other countries, the Government stands behind exporters with a number of guarantee programmes.

BUSINESS 8

No particular comments about export insurance as they only trade with Ireland. However UK insurance premiums have been increased by 50% and many limits are being removed.

BUSINESS 9

Cover not increased because of two year-deal, otherwise would have increased. % not given.

Level of cover being reduced

Cover being withdrawn for markets and individual customers.

Credit totally removed for Eire except for total insolvency.

BUSINESS 10

Cover not increased because of two year-deal.

Level of cover being reduced as country reviews are taking place.

In response to question about cover being withdrawn—insurers are reviewing all markets. The Caribbean market especially and are now moving to a review of Europe and the USA. They have increased monthly declaration fees imposing the market rate additions clause in the policy, which can add 2% on declared turnover. This is affecting areas such as Turkey, Jordan and Jamaica.

BUSINESS 11

Premium not increased yet. Level of cover is being reduced and cover is being withdrawn for some markets. We are unhappy with the "blanket" approach that credit insurers are taking by withdrawing cover simply because a customer trades in a specific sector that is considered to carry a risk. We are also unhappy with the withdrawal of cover where filed accounts are more than six months old—there are not many companies who file within six months of a financial year end! We can understand withdrawal or reduction where specific information is received about a customer, but feel that insurers are using every opportunity to duck the issue. We have communicated this to our insurer!

BUSINESS 12

Premium increased by 15%

Some reduction in level of cover

Cover has been withdrawn eg. Iceland

Respondent saw a government circular offering help to business with credit insurance problems. The help is a chargeable service and is actually a good money earner for the government. We are paying higher premiums for reduced cover, which the government is willing to make up at a higher cost. The end result is our costs will rise again.

BUSINESS 13

Premium increase is expected

Insurers are reducing level of cover, not just for export customers. Their decisions are based on industries and not just specific customers.

It is coming to the point where we may think it not worthwhile having credit insurance. In that case we will probably turn a lot of business down where the value of the risk is too high. We use XXXXXX but I understand that XXXXXX are as bad.

30 October 2009

Memorandum submitted by British Jewellery, Giftware & Finishing Federation

Brief Comments on Current Government Export Promotion Strategy:

- Current government strategy for UK export promotion is based on dictating policy and markets from the top downwards, ie; companies are directed by UKTI to focus their export efforts on emerging markets including India & China. Individual industries know which are the most suitable export markets for their products, and sectors should have the freedom and the support to develop a strategy which is right for their own sector.
- UK Trade & Investment provides many useful services to support UK companies, including Passport to Export, Export Marketing Research Scheme, Tradeshow Access Programme and others, however policy is focused predominantly on correcting a perceived “market failure” by educating exporters. In the current economic climate, UK companies should be strongly encouraged and supported to go out and enter overseas markets, and UKTI’s efforts and budgets should be refocused onto those front line services which directly help UK SME companies to visit and enter markets, ie; by attending overseas trade missions and exhibitions.
- UKTI spends around £19 million per year in marketing activities, promoting the strengths of UK Plc around the world, however its budget to support UK SME companies at overseas trade exhibitions is less than half of this sum.¹⁵ Consequently the marketing message is often undermined “on the ground” because fewer UK companies are participating at international trade shows. Many UK exporters complain that the UK presence at international shows suffers in comparison to those of our competitor nations. UK government needs to provide its companies with a level playing field in accessing international markets. The German government’s budget to support its companies at overseas trade shows is €38 million (£34 million); the UK’s budget for the comparable scheme is £8.5 million.
- Almost 74% of UKTI’s current operating budget is allocated to staff and administrative costs—£224 million in 2007–08, out of a total of £295 million.¹⁶ Staff and overheads levels need to be reduced dramatically, to free up budget for services which directly benefit exporters. Regional networks are inefficient and create duplication of administrative infrastructure, as well as inequalities of opportunity for companies. Greater efficiency can be realised by more systematic use of existing industry and trade associations and chambers of commerce in delivering trade support. Many industry organisations already provide services which mirror UKTI operations, and typically operate on a not-for profit basis, in contrast to commercial consultants who are obliged to generate profit from their activities.
- A greater focus on services which actively help companies to intervene in overseas markets, and greater use of existing business intermediaries can create a greater return on investment for the UK’s export promotion budget.

30 April 2009

Memorandum submitted by the British Marine Federation

1.1 The British Marine Federation is the trade association for the leisure boating industry, representing around 1,500 member companies. Our members provide the boats, equipment, facilities and services that enable nearly four million people to enjoy their recreation afloat on the coast and inland waterways of our country. The BMF also operates the London and Southampton International Boat Shows via its subsidiary National Boat Shows Ltd.

¹⁵ UKTI Report & Accounts 2007–08. £18.8 million spent on Trade development marketing activities and inward investment promotional expenditure. TAP budget was £8.5 million.

¹⁶ UKTI Report & Accounts 2007–08.

1.2 Our industry is wholly comprised of small and medium-sized enterprises with over 95% of companies within our membership employing less than 50 people (based on BMF membership statistics). In total the UK leisure marine sector directly employs over 35,000 people and generates annual revenues of over £3 billion, of which 35% represents export sales. Over recent years the leisure marine sector has been recognised by Government as a manufacturing success story and a growing and valuable contributor to the UK economy.

1.3 Our industry's export performance is built on the reputation for good design, quality and innovation of UK manufactured boats and marine equipment. Some of our leading boat builders export in excess of 90% of their output. The BMF enjoys a partnership relationship with UKTI in support of the UK marine export effort.

1.4 The BMF welcomes the opportunity to submit evidence to the select committee at a time when many member companies are facing financial difficulties, including access to credit from lenders and other financial institutions.

2.0 MIDDLE EASTERN TRADE IN THE AREA OF DISCRETIONARY SPEND—FOCUS ON DUBAI.

2.1 There is a general perception that trade with the Middle East poses an extraordinary opportunity for UK industry to export itself out of recession. The committee itself quotes a trade increase of 23% over the first 11 months of 2008, to £11.4 billion to Arab states. The BMF, in cooperation with UKTI, has supported its members in order to attend the Dubai Boat Show. This event has been, up until recently, growing in popularity by over 10% year on year and has been rightly identified by the leisure marine industry as a potential area for growth.

2.2 However, it is not the case that foreign trade with this region is immune from the effects of the global recession. Indeed, this view certainly does not correspond with the recent experience of our industry. This year's Dubai Boat Show saw a marked decrease in attendance, and orders throughout the sector have dropped by a *higher* than average level from the Middle-East region.

2.3 The BMF would encourage the committee to consider that, while many Middle Eastern states continue to invest in infrastructure projects using the cash reserves derived from their oil wealth, expatriates of every nationality, many of whom work in the financial sector, make up a significant portion of those receiving the products of UK trade. Dubai is an excellent example of this. With 3.62 million expatriates living in Dubai alone, 62% of homes in the country are owned by foreign nationals. However, the average property has fallen in value by an alarming 60% in the last year. There has also been a 25% decline in demand for luxury goods in the country over the same period.¹⁷

2.4 Furthermore, 60% of residential developments in the UAE have been cancelled this year, many of which incorporated marinas, further reducing the potential of future sales for our sector in this region.

2.5 With the economic downturn affecting marine businesses particularly badly, it is crucial that UKTI continues to support leisure marine companies with sufficient and appropriate funding to access the right foreign markets for their particular products.

2.6 With this in mind, the BMF would encourage the Committee, as well as UKTI, to carefully consider how it can best support British industry by furnishing itself with detailed and up-to-date market intelligence. At this stage, while Dubai still offers opportunities for trade, the UK leisure marine industry is taking a holistic approach to exporting to the Middle East. To that end, we are currently examining the possibility of taking our members to the Abu Dhabi boat show in order to diversify the available markets in the region and create an increasingly stable and sustainable market for the industry.

3.0 OPPORTUNITIES FOR TRADE IN THE MIDDLE EAST—UKTI FUNDING

3.1 The BMF has enjoyed a very productive relationship with UKTI which has helped the leisure marine industry to access the Middle East market. The Tradeshow Access Programme has been particularly helpful to our members, supplying them with funds of up to £1000 for those inexperienced working abroad. Our members are also users of the Overseas Market Information Service and the Market Visit Support Scheme.

3.2 Despite these schemes, the level of funding received by marine businesses remains low. With only £1,000 available to fund a foreign trade visit, many SMEs continue to believe that such markets are beyond their reach. This situation is compounded by the volume of administration required to secure a relatively nominal level of support, as well as significant lead times. The BMF believes that red tape should be cut so that accessing this funding is made as simple as possible, particularly for SMEs. We also would like to see an increase in the level of funding available through the Tradeshow Access Programme.

3.3 Furthermore, we would advocate that a significant reduction in fees for the Overseas Market Information Service be introduced in recognition of the difficult financial climate. This service, up until recently, was free for members and could be again should HM Treasury supply UKTI with the appropriate funding, if even on a temporary basis. This will ensure that businesses retain and expand their access to useful market intelligence and enable the UK to adapt to changing international market trends, despite the difficult economic situation.

¹⁷ Figures sourced from www.arabianbusiness.com and www.timesonline.com

3.4 The marine industry recently lost Priority Status within UKTI and we believe this has led to a reduced status within the agency. Given the industry's exposure to a depressed credit market, the resources of our members to engage in overseas activities are at their lowest in many years, despite there being a demonstrably high regard and demand for their products in various foreign markets.

3.5 The BMF calls upon UKTI to recognise the considerable economic benefit and prestige the leisure marine industry brings to the UK by reinstating it as a priority sector. This change is of particular urgency and importance to our members, given the recent announcements within the budget promising much needed additional funding to support key export sectors.

4.0 OPPORTUNITIES FOR TRADE OUTSIDE OF THE MIDDLE EAST

4.1 While the global economic situation has been extremely detrimental to the prosperity of the UK Marine Industry and SME's in general, the depressed pound does present opportunities for UK businesses to hold a competitive edge in exports in certain sectors. This is particularly true within the euro zone, where access to the single market but independence from the Euro makes the UK an attractive proposition for buyers located in continental Europe. This is born out in reality by extensive anecdotal reports across the sector demonstrating European orders propping up otherwise depressed order books.

4.2 UKTI must recognise this opportunity and provide support to trade in Europe, as such a specific focus has the potential to help arrest falls in UK exported goods, against the broader market trends. While the whole European market is contracting, there is an opportunity to secure a greater share for the UK which will leave British businesses in a prime position when the upturn comes.

5.0 SUPPORTING OUR LEADING BOATBUILDERS AND THEIR EXPORT ACTIVITIES

5.1 The UK's leading boatbuilders already contribute in excess of £1 billion to the nation's economy, with a vast amount of that revenue derived from foreign buyers. Despite this, the UK's favourable market share in this area is under threat in the current economic conditions. Every effort must be made in Government to ensure that these iconic, recognisably British brands are given the opportunity to successfully compete and market their product overseas.

One way that this could be achieved is to implement a VAT offsetting scheme based on those already introduced by other European countries, where an increase in capital expenditure yields greater tax relief for the buyer.

5.2 Additional support could also be found via a supplement to the existing Tradeshow Access Programme. The cost, particularly for larger boat builders, to exhibit across the globe is extremely high but is necessary in order to retain a critical mass of foreign orders. If the Government were to provide a percentage contribution towards their stand costs, this would serve as an excellent incentive to retain and even expand export activities, as well as help to realise the Government's ambition for an export lead recovery out of recession.

6.0 EFFICIENCY OF UKTI INTERNAL PROCESSES

6.1 The BMF adds its voice to other trade bodies calling for the devolution of funds from UKTI to their direct control. While many of the UKTI initiatives require significant time to process, the fluid state of the economy requires a rapid response to take advantage of lucrative but fleeting opportunities. The BMF, with its expert knowledge of the sector, could act as a fully audited agent on behalf of UKTI, to ensure its funds deliver the best possible value for money for the tax payer while yielding the maximum possible benefit for the UK economy.

6.2 We would be delighted to discuss such proposals in further detail should the committee wish.

7.0 CONCLUSIONS

7.1 The BMF commends the committee's focus on the importance of supporting exporting businesses and their role in correcting the current economic recession. It also recognises the opportunities available in the Middle East to help achieve this.

7.2 However, the BMF reiterates that, while public infrastructure investment may continue unabated in the region, many other industry areas are experiencing a larger than market average *decrease* in trade in this area, as a result of the economic conditions alluded to in the aforementioned evidence.

7.3 The BMF would encourage the UKTI to consider these conditions when implementing its strategy in the Middle East and calls for a holistic approach to trade, taking into account all industry sectors, including leisure marine.

7.4 We would also request that the committee consider the benefits of creating a new priority market within UKTI that includes leisure marine, and the potential for increased trade and prosperity for our members.

7.5 Additionally, we encourage HM Treasury to recognise the importance of UKTI in securing the economic future of the leisure marine industry, and to increase its funding to provide access to new markets for as many marine businesses as possible.

7.6 Finally, We would encourage UKTI to work hard on identifying areas where efficiency savings can be found and to pass on these savings to exporting businesses.

8.0 NEXT STEPS

8.1 The BMF would be delighted to provide any further evidence to committee, should you require it, and is also available for oral evidence. We look forward to further involvement in your inquiry.

16 April 2009

Memorandum submitted by the British Standards Institution

As the UK's National Standards Body, BSI British Standards welcomes the opportunity to submit a memorandum on exporting out of recession.

This Memorandum outlines the important role that British Standards play in assisting the UK economy and how the use of internationally recognised standards can help exporting businesses endure a recession.

1. There now exists a significant body of evidence to support the claims of key economic benefits derived from the application of standards. Studies conducted in a number of countries including Australia, Canada, Germany and the UK point to the macro-economic benefits of standards. In the UK this has been quantified at an annual contribution to GDP of £2.5 billion per a year.

2. The question is now being asked if the role of standards changes in a period of reduced growth or recession. The simple answer is standards can provide the extra cost saving, the new customer, the new innovation—a range of benefits that makes the difference to a business enabling it to survive, grow and ultimately trade even in the toughest economic conditions.

3. Supporting export trade—Standards can open doors when companies are looking for new customers in new markets. New customers will know in advance what to expect, both in terms of what is delivered and how, simplifying market entry. Adherence to product standards means that products will be compatible with other components anywhere else the standard is being used. Additionally, standards are well-recognized, understood and respected both nationally and internationally: being able to claim adherence to standards translates well in any language. ISO 9001 for instance has been adopted in more than 170 countries worldwide.

4. Trade & Globalization—Standards facilitate trade both on a macro and micro level. With the fall in tariff barriers, technical barriers have now become one of the main elements that inhibit trade. The WTO's Technical Barriers to Trade Agreement highlights the need to avoid unnecessary obstacles to trade, and European and international standards are a way of harmonising the requirements for products and services between countries. As the UK's representative in the leading European and International standards organizations and as one of the world's leading National Standards Bodies, BSI has a key role to play in this respect.

5. The formation of the European Single Market has been one of the greatest successes of European integration over the last 20 years and standards have played a key role in ensuring the free movement of goods and services and ultimately the growth of the European economy and a model for the global economy. Now as the world economy slows and the threat of protectionist measures rises, the need to ensure that standards are harmonised between countries and the free movement of goods and services continues becomes even more important. BSI has an important role to play as the UK's National Standards Body and in co-operating and collaborating with our counterparts around the world.

6. BSI has provided technical assistance, often in close co-operation with UKTI and FCO officials, to key countries of strategic importance to the UK such as China and Russia, as well as emerging economies in Latin America (Mexico), Eastern Europe (Kosovo) and Asia Pacific (Vietnam). We have been able to help these countries develop their standards and quality systems so that they are more aligned with UK best practice, thereby inherently benefitting British exports.

BSI BACKGROUND

1. BSI British Standards is the UK's National Standards Body, incorporated by Royal Charter and responsible independently for preparing British Standards and related publications. BSI has 107 years of experience in serving the interest of a wide range of stakeholders including government, business and consumers ensuring standards are useful, relevant and authoritative.

2. A Standard is a document defining best practice, established by consensus and approved by a recognized body (such as BSI). Each standard is kept current through a process of maintenance and reviewed whereby it is updated, revised or withdrawn as necessary.

3. Standards are developed when there is a defined market need through consultation with stakeholders and a rigorous development process. National committee members represent their communities in order to develop standards and related documents by consensus. They include representatives from government, business, consumers, testing laboratories, suppliers, academic institutions, social interests, manufactures, regulators and trade unions.

4. BSI champions UK interests at home and abroad and is an incubator of many of the world's leading standards. It is the national gateway to all the European and worldwide standards bodies promoting fair trade, technology transfer, economic prosperity and security.

5. BSI presents the UK view on standards in Europe (to CEN and CENELEC) and internationally (to ISO and IEC).

BSI British Standards welcomes further questions from the committee and would be delighted to provide oral evidence, should this be sought.

20 April 2009

Memorandum submitted by the Campaign Against Arms Trade

1. The Campaign Against Arms Trade (CAAT) is working for the reduction and ultimate abolition of the international arms trade, together with progressive demilitarisation within arms-producing countries.

2. Currently, a disproportionate amount of UK government support and subsidy for exports goes to an industry whose products are not only controversial in their nature, but also a drain on the UK economy. CAAT believes the arms companies have persuaded governments to give them this support because of the strong links they have enjoyed over decades and not because any analysis has shown that military exports are good for the economy or employment. The recession presents an opportunity for a rethink about the kind of goods that the UK should be manufacturing and exporting.

3. Manufacture must be considered before exports. With limited Government resources overall, provision of export support for an existing industry, such as military production, could be at the expense of start up investment in newer and potentially more economically beneficial industries.

4. There is general political agreement that there needs to be a more environmentally sustainable economy. In support of this, a credit line of £50 million was established by the Export Credits Guarantee Department (ECGD) in 2003, ring-fenced for renewable energy yet, CAAT understands, to date there have been no applications for such support as the exports do not exist. This is an example of an industry which needs to be assisted as it develops and manufacturing is established, before it can make use of any export support.

SUPPORT GIVEN

5. Military exports account for just 1.5% of all exports, with 40% of the components for these being imported. The UK government supports and subsidises them through the promotional activities of UK Trade and Investment's Defence & Security Organisation (UKTI DSO), ministers, defence attachés and other embassy staff; research and development (R&D) funding; the provision of export credits and distortion of the UK's own military procurement.

6. It is difficult to put precise financial values on the support given, but it has been variously estimated as between £500 million and £1 billion a year, which is many thousand of pounds for each arms export job. As examples of the disproportionate support, UKTI DSO has 160 staff working to promote arms sales whereas there are only 129 UKTI staff working specifically allocated to all the other industrial sectors put together. The remaining 2,300 UKTI staff are available to support all industries, including military production.

No economic justification

7. Defence Equipment Minister Quentin Davies MP questioned the idea that producing military equipment is the way to stimulate the economy when he appeared before the Commons' Defence Committee on 16 December 2008. He said that: "... to use your money for maximum impact you need to spend it on goods and services which are labour-intensive rather than capital intensive in their manufacture so that the benefits flow through into pay packets rather than into rewards for providers of capital—banks and shareholders and so forth who would inevitably have a very high propensity to save and a low propensity to consume. Ideally you need these wages to flow through to people who are relatively low-paid. This is not the case with defence; defence is capital-intensive rather than labour-intensive." By a Government Minister's own admission, supporting military exports does not appear to be a recipe for helping the UK out of recession.

8. Furthermore, in common with many other sectors of the economy, there is no longer any identifiable UK arms industry. Military industry is internationalised with most equipment containing components and sub-systems from a variety of companies, which typically may have their headquarters in one country, but

subsidiaries in several others. Sales and employment, too, are globalised with, for example, Thales and General Dynamics being major suppliers to the UK Ministry of Defence, and BAE employing more people in the US than it does in the UK.

9. UKTI addresses this lack of recognisably UK businesses by saying that: “To qualify for UKTI trade services the business should be able to demonstrate that it has an active UK trading address. This includes both UK-based business investing, or looking to invest, overseas and foreign-owned businesses based in the UK. There is no policy with regard to foreign content, we are looking at overall benefit to the UK economy.” The ECGD will support projects with up to 80% foreign content.

10. However, with the military export sector, the benefit to overall economy does not exist. Even the Ministry of Defence, in its 2005 Defence Industrial Strategy, admitted: “Arguments for supporting defence exports in terms of wider economic costs and benefits eg the balance of payments, are sometimes also advanced. A group of independent and MoD economists (M Chalmers, N Davies, K Hartley and C Wilkinson—*The Economic Costs and Benefits of UK Defence Exports*. York University Centre for Defence Economics, 2001) examined these, by considering the implications of a 50% reduction in UK defence exports. They concluded that the ‘economic costs of reducing defence exports are relatively small and largely one off...as a consequence the balance of argument about defence exports should depend mainly on non-economic considerations.’”

11. Military exports undoubtedly bring commercial benefit to arms companies and their shareholders, but, to the best of CAAT’s knowledge, there is no evidence from economists independent of the arms industry that suggests military exports make are important to the UK economy.

EMPLOYMENT

12. Turning to employment, the 55,000 jobs supported by arms exports account for 0.2% of the UK workforce and less than 2% of manufacturing employment. A further 155,000 workers are employed producing equipment for the UK armed forces, but even the military industry total of 210,000 jobs makes up less than 0.7% of the UK workforce and around 7% of manufacturing jobs.

13. Since the beginning of the 1980’s at the height of the Cold War, numbers of employees in the sector have dropped rapidly, levelling out over the past few years. There is little reason to suppose that the long-term decline will not continue, due to the capital-intensive nature of the industry and outsourcing to countries with lower production costs.

14. The arms companies are, not unnaturally, prone to exaggerate the number of jobs sustained by the arms industry. In the run-up to the decision to stop the Serious Fraud Office inquiry into BAE Systems arms deals with Saudi Arabia, figures of up to 50,000 Eurofighter jobs under threat were appearing in the press. However, a June 2006 report commissioned by the Eurofighter PR and Communications Office said that the Saudi Eurofighter deal would secure around 11,000 jobs throughout the whole of Europe. Fewer than 5,000 of these jobs would be located in the UK.

15. The sale of Eurofighters to Saudi Arabia also illustrates another trend under which the buying country insists that an assembly line is set up in that country. Two thirds of the 72 Eurofighters are expected to be assembled in Saudi Arabia leading to the creation of 10,000 skilled jobs there. Similarly, 66 Hawk jets were sold to India, but 42 of these are being manufactured under licence in India by HAL. The logical extension of this is that HAL will produce Hawks for the global market, and negotiations to this end have been reported.

16. A common misconception is that UK arms industry jobs are primarily in areas of high unemployment but the largest number of military industry jobs are in the low-unemployment South West and South East. It is only after these that we come to the North West, where there is a significant amount of BAE employment. There are only a handful of areas that could be described as having a residual dependency on arms employment. Of these, only three sites—BAE Warton in Lancashire, BAE Brough in East Yorkshire and AgustaWestland (owned by Finmeccanica of Italy) in Yeovil—have significant export contracts. BAE Brough already faces an uncertain future and there were 450 redundancies in 2008.

17. Government support for arms exports cannot, therefore, be seen an efficient way of boosting jobs in the UK.

Preserving Yesterday’s Industry

18. The disproportionate support given to one industry is a historical legacy, exploited by those interested in preserving the status quo. The “revolving door”, whereby politicians, military personnel and civil servants, move into the arms industry or, sometimes, vice versa, as well as the plethora of committees, for example, the National Defence Industries Council, on which company executives sit alongside politicians and senior civil servants give the arms industry a foothold within government machinery.

19. In addition, there is the understandable desire of trade unions and local authorities, as well as Members of Parliament, to preserve the jobs which exist rather take a risk on a more sustainable future.

20. A further factor is the emotional association of military industry with the “defence” of the UK and the security of its citizens. The international nature of the arms industry, as described above, belies this. In fact, there is a growing body of opinion that the arms companies distort the UK’s procurement priorities.

For example, Lewis Page, who used to be in the Navy, wrote “Lions, Donkeys and Dinosaurs” on this theme in 2006, whilst a retired army officer wrote to the *Daily Telegraph* on 19 September 2008 saying that: “The reason we have a military is to protect the nation, not to generate employment in the defence industry.” He cited the “white elephant Eurofighter”.

New opportunities

21. Ending the support for military exports would free up resources to help other sectors that might be more efficient and innovative and likely to grow rather than decline. It is not within CAAT’s competence to explore these in detail. However, an obvious example is the response to climate change, widely acknowledged as the biggest threat to human security. A key factor in addressing the threat is the rapid expansion of renewable energy research and development and production, and this requires public investment and skilled engineers. In 2007 UK government-funded R&D for renewables was around £42 million, compared to £2,598 million for arms (28% of all Government R&D) and total military expenditure of £34,045 million. There will have been some increase in R&D for renewables in the intervening period, but it is still a drop in the ocean compared with arms spending.

22. There is demand for funding. By way of example, on 7 April 2009 the *Financial Times* reported that the Confederation of British Industry wanted investment to help the switch to a low-carbon economy. The same issue had an article on calls by the science research councils calling for £2 billion of additional money to invest in high-tech start ups and prevent a brain drain to the United States

23. Arms industry workers have skills that are needed to meet these new challenges. BAE likes to portray itself as a major provider of high-tech jobs, but these jobs are dependent on R&D funding from the taxpayer, if the money changed sector it is likely the jobs would follow. Resources could be targeted at those locations which might be disproportionately affected during the changes, as clearly these areas would have workers with good skills to undertake alternative engineering projects.

24. Once the new industry has been established, Government support, through UKTI and export credit provision, can then be directed towards the promotion of its exports.

25. It is worth noting here, that there is also some evidence that the application of science and technology to an area to which many people have ethical objections may dissuade some from studying science. The UK Graduate Careers Survey 2008, as reported in *The Times* 9 April 2008, said that working for the Ministry of Defence and arms companies topped the list of employers rejected on moral grounds. Such people may well be attracted to scientific or engineering careers if they are seen as making a positive contribution to society.

Consistent policies across government

26. The prevailing policy of promoting military exports has frequently undermined other policy objectives such as ending conflict or support for human rights. It has left the UK open to accusations of hypocrisy over issues of corruption, which, in turn, has led to questions about London’s role as a financial centre. Ending the support for military exports could lead to more consistent Government policies.

27. It would also free up resources which might not only help the UK out of recession, but could build a sustainable economy for the future.

20 April 2009

Memorandum submitted by CBI

The Confederation of British Industry (CBI) is the national body representing the UK business community. It is an independent, non-party political organisation funded entirely by its members in industry and commerce and speaks for some 240,000 businesses that together employ around a third of the UK private sector workforce. The CBI’s membership includes the majority of the FTSE 100, some 200,000 small and medium-sized enterprises (SMEs), more than 20,000 manufacturers and over 150 sectoral associations.

INTRODUCTION

1. UK companies’ visible exports contribute 25% of UK GDP and UK services companies remain large contributors to the UK balance of payments. They are the world’s second largest source of foreign direct investment (FDI) and the UK is the second largest recipient of global FDI. Yet falling global demand will lead to the first decline in world trade since 1982—the World Trade Organisation now puts this at minus 9%. This will be compounded by significant falls in international investment and capital flows.

2. Business is right to be concerned at the looming spectre of protectionism. A major reduction in market access for goods, services and investment, together with significant distortion of competition, can only lead to reduced business opportunities and declining global prosperity. The importance of an open trade and investment climate to the UK demonstrates why it is vital the protectionist trends are resisted and that trade and investment must be seen as a key driver towards recovery.

3. The CBI believes it is important Government fully recognises this position and focuses on building the UK's capacity to further benefit from, as well as respond to, the opportunities and threats of globalisation. This dynamic is made more critical by the current challenging global economic circumstances. The success of the UK's economy in the future will be dependent on adopting the right approach now.

4. To create the rights conditions to help business prosper the CBI highlights the following key points:
- Robust export growth will be essential if the UK economy is to sustain a satisfactory rate of expansion in the near future.
 - The business climate and its underlying competitiveness should be supported amongst other things by minimising the adverse impact of regulatory and tax policies on business costs, improving skills levels, identifying the value of intellectual property in export markets, and exploring some of the new ideas on industrial activism.
 - UKTI activities must effectively support UK business interests both in export and investment promotion, and must convert its knowledge of different markets and its wide-ranging influence into concrete export opportunities for business.
 - The Export Credit Guarantee Department should ensure more effective support for companies.

CREATING A COMPETITIVE CLIMATE FOR EXPORTS

5. As the drivers of economic growth change, via declining household expenditure and constrained Government spending over the years ahead, the UK will have to look to a combination of business investment, import-substitution and exports to drive economic growth for several years to come.

6. Business investment cannot be expected to grow at a robust rate for very long without final demand from one source or another—households, Government or net trade—also growing at a reasonable pace. While the potential role of import-substitution should not be overlooked, this is unlikely to suffice on its own given the limitations imposed by natural resource constraints and relative cost considerations. So robust export growth will be essential if the UK economy is to sustain a satisfactory rate of expansion in the near future.

7. That will require a better export performance than over the past decade—as shown in table 1.¹⁸

Table 1
THE UK'S EXPORT GROWTH VALUE

	<i>By volume</i>		<i>By value</i>	
	<i>1998–2008</i>	<i>1973–1998</i>	<i>1998–2008</i>	<i>1973–1998</i>
Exports (goods & services)	3.7%	4.3%	5.9%	11.0%
Imports (goods & services)	4.9%	4.5%	6.7%	10.7%
GDP	2.6%	2.1%	5.1%	10.4%

Source: National Statistics

8. One factor that should help exports in the near-term is the significant decline in sterling, of some 25% in trade-weighted terms between July 2007 and March 2009. If as seems likely sterling did not return to the levels characterising the 1997–2007 decade for many years to come, then that would provide welcome support for the goal of a more balanced economy.

9. However, a policy that relied on sterling weakness alone to support export competitiveness and economic growth would not be optimal:

- Exchange rates are driven by a complex array of forces and cannot be relied upon to settle at a “desirable” level in anything other than the very long term. Though unlikely, there is no guarantee that sterling will not return to a significantly more challenging level.
- A key downside of sterling weakness would be comparatively high import prices, reducing UK residents' living standards and boosting some key industrial input costs.

10. It would therefore be far better to seek to support *underlying* competitiveness, amongst other things by minimising the adverse impact of regulatory and tax policies on business costs. That would allow UK-based producers and service providers to compete internationally without any need for an overly-weak currency. The Government should therefore strive to contain:

- direct additions to business costs, due for example to taxes, other public sector charges, or a need to employ extra staff to comply with regulations; and

¹⁸ As table 1 shows, in volume terms exports grew by an annual average of 3.7% in that time, which was clearly slower than import volumes and little more than one percentage point above the GDP growth rate. To put that in context, export volumes had grown by 4.3% per annum over the 1973–1998 era, some two percentage points above the GDP growth rate and almost matching the expansion in imports. In value terms—which matters from a balance of payments perspective—export growth also fell short of import growth over the 1998–2008 period, whereas the opposite pattern applied over the previous 25 years.

- pressure on unit costs due to below-potential productivity, caused in turn by eg by regulatory-driven inflexibility, or tax-induced inefficiency in the use of resources.

International tax competitiveness

11. The competitiveness of British business is increasingly compromised by the UK corporate tax system. As tax competitiveness deteriorates this undermines the attractiveness of the UK as a place from which to conduct internationally focussed business and specifically from which to export. While corporation tax can clearly have a marked effect on our ability to compete, the burden of other taxes should not be overlooked.

12. The 2008 Pre-Budget Report implies that the Treasury target for total business taxation for 2008–09 was almost £140 billion, or a quarter of all Government revenues. This includes corporation tax of £45 billion, employer NICs approaching £50 billion, property rates of £23 billion and £15 billion in business payments of transport and green taxes. OECD revenue statistics show that the burden of UK property and transport taxes—which are typically shared fairly evenly between firms and households—is amongst the highest in the industrial world.

13. Fiscal policy therefore needs to be shaped to support international competitiveness. It follows that the tax burden in general, and the business tax burden in particular, should be prevented from rising further not just through the recession but during the recovery and beyond.

14. Whilst enabling public spending to be reined back through a radical reform in the approach to public service delivery, specific tax and spending policies will also need to support competitiveness, employment and investment, including a reversal of key recent business tax decisions

The role of intellectual property (IP) in export markets

15. Deteriorating business conditions have led companies across many industries to try to exploit the full potential of their IP. The IP embedded in UK exports is a key component of their value and will be an increasingly important differentiator of UK products going forward. The UK is currently a world leader in knowledge intensive businesses being, for example, the world's second largest pharmaceuticals exporter with export sales of £12.2 billion in 2004, and a world leader in creative industries accounting for more than 15% of the global video games market with £1.3 billion per year of music industry exports.

16. Strong IP rights and properly functioning regimes are required to protect stocks of intellectual property, and to provide the necessary incentives for innovation. Decisions taken in this field will in good measure promote or impair economic growth.

17. The current system in the UK for IP protection and promotion is in general very good. This environment underpins solid global trademarks in manufacturing, pharmaceuticals, retailing and services. The CBI does not believe that it is necessary to consider a shift in the fundamental IP framework in the UK, but the Government could do more to develop a greater understanding of the economic importance of IP and give it according weight in policy making.

18. Whilst the UK's domestic record on IP protection is generally good, in order to successfully compete in export markets, international IP issues are increasingly important for UK companies. As a matter of principle it is essential that the UK Government supports continued improvement in the quality of patents granted in Europe and worldwide; the efficiency of obtaining and enforcing patents; and remedies for copyright and trademark infringement.

19. In countries where copyright and trademark counterfeiting and piracy are rife, the principal problems are inadequate legislation, inadequate enforcement procedures and remedies, and inadequate Government commitment to dealing with the problem. We appreciate the efforts of the UK Government and the European Commission in encouraging countries with emerging markets to address such problems.

Skill levels must be improved

20. The UK needs to improve its skills profile in order to remain competitive and adapt to global economic change. The growth of emerging economies is bringing tougher economic competition and globalisation means that business activities are being located according to comparative advantage—the UK cannot compete on labour costs and must build an advantage on higher skills. Action is needed to increase the number of young people studying science and mathematics at school, through automatic enrolment into triple science for the most able students, and that these subjects are taken at university through better careers advice and financial support.

EXPORT FINANCE AND THE EXPORT CREDIT GUARANTEE DEPARTMENT

21. The worrying decline in global trade is both a function of falling demand and a reduction in the availability of trade finance. Consequently, trade finance products have also become more expensive. Given that 90% of the world's visible export trade depends on credit, insurance and guarantees, this dynamic has had a significant practical effect on businesses' ability to trade internationally.

22. As stated earlier, the depreciation in sterling will not by itself drive an export-led recovery over the longer-term; effective financing will be critical to meeting all our aspirations. This places the spotlight on the Export Credits Guarantee Department (ECGD), which must demonstrate a shift in attitude to one where there is a “can do” approach to supporting exporters. This will require a step change in everything from response times, re-balancing its interpretation and operation of the business principles, and ensuring that it matches the commitment of its peer group of export credit agencies. If ever there was a time for ECGD to fulfil its core function of providing support in case of market failure, this must be it.

23. As reported in the Financial Times¹⁹ the CBI agrees that the Government went too far in making changes at the ECGD. We strongly support Lord Mandelson’s pledge to boost its capabilities and to expand its role. The CBI also welcomes Government announcements of a variety of wider support schemes, as well as the introduction of legislation that will allow the ECGD to support transactions when goods have already been exported.

24. On specific support, the CBI is pressing the Government to provide help for exporters with a direct funding scheme to ensure that a lack of liquidity does not compromise export orders, a stand-alone bond support scheme (a scheme that is not tied to an ECGD-supported facility) and the reactivation of the ECGD’s dormant reinsurance facility to surmount the problems that are arising for companies that are seeking credit insurance for contracts on cash or near-cash terms.

25. With the current market conditions, banks have reduced their trade finance offerings for balance sheet and credit risk reasons. We believe that this is leading to market capacity issues. In addition, the banks have signalled a significant rise in letters of credit confirmations, including for developed markets. We think that the Government must move back into the short term trade business—something which other export credit agencies are also doing.

26. Business investment and trade will be critical to forging a sustainable growth path for our economy, and high-value manufacturing will drive a bigger share of that growth. Resurgent interest by the Government in exporting and high technology manufacturing is welcome and must continue.

THE EFFECTIVENESS OF UK TRADE AND INVESTMENT (UKTI)

27. In the current economic climate it is even more important to ensure that Government support for businesses that trade or invest in and from the UK is delivered effectively.

28. The CBI believes UKTI should focus on more proactive work chasing more leads and market information. The CBI recognises that the focus on priority markets and activity as part of UKTI’s five-year strategy has been encouraging, as has the reaching out to mid cap companies. While priorities are important, care must be taken to recognise that the UK’s global footprint is best served by providing expertise across a wide range of markets and sectors.

29. The recent NAO report²⁰ raises some valid points that could also help UKTI improve its service provision further.

30. There is significant value for the UK from outward investment activity, this can also be about effective market access. Sometimes foreign direct investment (FDI) is a preferred option to access markets, or it may be the most competitive way to establish supply chain dynamics, rather than through straight export activity. It is also clear that the attraction and retention of high quality FDI to the UK provides significant benefits.

31. UKTI must therefore have good links into the FCO’s global network of posts overseas. UKTI needs also to continue to ensure that it works closely with BERR on trade and investment policy.

32. We also believe that the focus on meeting targets for chargeable services, whilst understandable, has led to a disincentive for UKTI staff to pursue more proactive work. The CBI recommends that UKTI should be chasing greater numbers of leads and market information to feed back to business. UKTI should also start producing positive, good news stories about the UK for use throughout the Government, but specifically overseas and should be seen as part of the key collateral for selling and promoting the UK.

33. UKTI has made some advances in trying to address the issue of overlapping and duplication related to the RDAs and the devolved administrations, which link to our concerns about the coordination and reinforcement of the UK brand. Continued efforts here, together with monitoring on the ground, would be useful.

34. In terms of staffing, the CBI believes that as much resource as possible should be devoted to front-line service provision. A common culture is evolving but, as is often the case, needs continual efforts. The organisation must strive to attract the highest quality of people from both parent departments who see an UKTI posting as a career-enhancing move.

35. The CBI argued for a modest uplift in UKTI’s budget as part of our 2008 pre-budget submission. We believe that the additional resources can help to bring better and time-sensitive information and insights on key markets to business. This is especially important as UKTI operates in cases of market failure—where the private sector cannot or will not provide services, or where those services would be at prohibitive cost.

¹⁹ “Mandelson export pledge” Financial Times 6 April 2009 <http://www.ft.com/cms/s/0/6fa595d8-2243-11de-8380-00144feabdc0.html>

²⁰ NAO report “UK Trade and Investment: Trade support” 3 April 2009

UKTI must convert its knowledge of different markets and its wide-ranging influence into concrete export opportunities and investment possibilities for business. In addition, there is a good case for more targeted expenditure on marketing in order to reach those companies that currently do not take advantage of the UKTI offering, as well as to plug the shortfall in funding that the fall in sterling has had in the trade fairs and promotion activity.

20 April 2009

Memorandum submitted by Chemical Industries Association

BACKGROUND

1. The Chemical Industries Association is pleased to have the opportunity to make a submission to the Committee and highlight our continuing concern over the high and volatile prices prevailing in UK wholesale energy markets.

2. The Chemical Industries Association is the trade association for chemical businesses in the United Kingdom. The 150 members range from large multinationals to small start up businesses, 70% of the membership is headquartered abroad.

3. Turnover exceeds £57 billion, and over 180,000 employees work for 3000 organisations, although only 160 employ more than 250 people—not all chemicals activity is large scale. It is internationally competitive, as demonstrated by a regular surplus on overseas trade and the sector is ideally placed to build on export opportunities.

UKTI

4. The UK chemicals sector, which represents almost 12% of all manufacturing value added has become more and more detached from UKTI policy in recent years. The industry has developed its own “bottom-up strategy” because this association believes that its members rather than Government are best placed to determine the industry’s own export promotion priorities. Unfortunately, UKTI’s priorities are fundamentally determined by PES rounds and regional policy considerations, not by the priorities of industry.

5. That is not to say that UKTI does not have some pearls within its oyster shell. The network of Commercial Departments in overseas post do a great job but unfortunately these have now become expensive quasi-commercial cost centres that are more focused on delivering OMIS targets than giving local direction to exporters. We were recently quoted from a post in Asia that they would have to charge £2k under OMIS to arrange a reception (venue, food and drink extra) at a trade fair for a group of five UK SME exhibitors. These exporters are already facing additional costs imposed by Her Majesty’s Government through the Climate Change Levy, the Pension Protection Fund and substantial regulatory charges that their global competitors do not pay.

6. Until now, grant levels for exhibiting at overseas trade fairs have been systematically reduced or left to wither on the vine. Eight years ago, companies could claim up to £3k per exhibition, now the maximum is £1.8k but most grants are limited to £1k or £1.4k. Support for industry organisations that administer and organise official trade fair activities has similarly dwindled.

7. There has been a recent shift in UKTI resources away from trade promotion to inward investment activity that often involves acquisition of existing assets rather than investment in new assets. There is now a very strong argument that it will be trade, not foreign investment, which will dig the UK out of its current economic predicament. The Government should therefore realign its UKTI programmes accordingly.

8. If and when they do so, Ministers should look at the relationship between UKTI programme budgets and UKTI running cost budgets. The programme budgets provide direct export incentives for industry; the running cost budgets cover the advisory services and overheads. At present UKTI running costs vastly exceed the direct financial support on offer to UK exporters. A significant proportion of the running costs does sustain the valuable work of overseas posts and should therefore be safeguarded. However, the running costs of UKTI and regional agency export promotion staff based in the UK still exceeds the direct support on offer to industry. One questions whether the UKTI budget is there to employ an army of public sector advisers rather than provide more direct help to the UK’s hard pressed exporters. By re-adjusting internal UKTI budgets, more cash positive support could be provided to industry without any change to UKTI’s financial call on the Treasury.

9. Leaving ECGD aside, the Government has deliberately shunned most of UK’s exporters by diverting all of its resource to assisting new or small exporters. It has failed to recognise that (as a rule of thumb) it takes ten times more resources to find a new customer than to hold onto existing ones. It has steadfastly refused to support stalwart exporters and has focused on “hi-tech” SMEs with no track record. The budgets allocated to supporting biotechnology and nanotechnology sectors (which themselves received substantial industrial development funding) are not driven by market need, but are driven by Government policy. Adding more taxpayers money to well-funded sectors at the expense of existing exporters is questionable.

10. What follows is an outline of the UK chemical industry export promotion strategy. It highlights these and other consequences of the current UKTI approach to export promotion support. This particular strategy has been developed according to the needs of industry rather than to a Central or Regional Government plan.

2009–10 EXPORT PROMOTION STRATEGY FOR THE UK CHEMICALS SECTOR

INTRODUCTION

11. The following strategy paper has been prepared for UKTI by regionally based international trade advisers with a special interest in chemicals and the Chemical 12 12 Industries Association's International Business Promotion Network. It has been produced in order to ensure that any official support assistance provided to the chemicals industry is distributed in the most cost effective way in terms of new business introductions and helping companies retain existing overseas customers in an extremely competitive global environment.

13. The proposals arising from this paper are largely the results of widespread consultation within the speciality and fine chemicals sector.

FACTORS BEHIND THE RECOMMENDATIONS

14. This strategy is self-financing in parts but is also contingent upon UKTI funding through the Trade Fair Access programme and to UKTI regional programme budgets.

15. The contribution of the UK chemical industry to the balance of trade is unsurpassed by any other manufacturing sector. The chemical industry is UK manufacturing's number one exporter too. With exports of £37.1 billion and imports of £30.4 billion, it earned a trade surplus of £6.7 billion in 2006. This trade surplus is expected to have narrowed to about £5 billion in 2008.

16. When the overall trade balance is broken down and the statistics analysed in more detail it is clear that most of the trade surplus is generated by large multi-nationals trading amongst themselves. Therefore this strategy deliberately ignores inter-multinational trading, as it is highly unlikely to influence it in any way. In this context making the UK a more attractive place to manufacture would of itself ensure higher export levels. Instead the focus of this export promotion strategy is on meeting the needs of smaller speciality and fine chemical companies that live by being innovative and die by not competing effectively.

17. The customer base of this specialised sector of the chemicals industry is absolutely huge. Every manufacturing sector in every country uses chemicals to produce desired effects and outcomes. Often, it is the underlying chemistry and production techniques that give a chemical product its value. Innovation is the key to find sustainable and cost effective solutions for customers.

18. So whilst virtually all chemical companies undertake business in other sectors such as food, automotive, electronics, textiles, consumer products etc etc most business is actually conducted within the chemicals sector itself. The difficulty in producing a strategy to help these companies is to determine where to get most bangs for the limited bucks that are available. Rather than chase opportunities in a diverse range of sectors, the main focus of the strategy should be to help these companies pick up more business in the chemicals sector, which comprises various sub-sectors (eg pharmaceuticals, rubber, plastics, personal care chemicals, etc).

19. The industry is fundamentally research-based. Its relative high growth is based on a constant flow of new products; in many cases these products have unique specifications as required in the contract. In 2007, R&D expenditure, at £5.1 billion, was equivalent of 14% of UK sales (pharmaceuticals/chemicals combined). The recent change in UKTI TAP rules to extend support to innovation companies is welcomed and is one of the underpinning tenets of this strategy.

20. In order to get more value for money UKTI support activities and funding would be more effective if it was applied to existing exporters as well as new exporters. This has partially been accommodated by recent changes in UKTI policy and it is strongly recommended that UKTI rules of engagement be further amended in order to accommodate a much larger number of existing exporters.

21. What is the purpose of UKTI intervention? To co-ordinate industry activity? To fund industry activity? To broker business introductions? To inform industry? To stimulate trade activity? It is probably all these things. But there is danger in trying to support industry in all of these ways UKTI spreads its support too thinly to be effective. With TAP budget cuts, UKTI staff cuts, Embassy staff cuts this danger is more than ever present.

22. At the Leeds Chemicals Export Forum in June 2006, there seemed to be a prevailing view that there was a confusing array of public sector trade-related initiatives, each with their own mission statement. A harmonisation of mission statements of regional, specialist and other development agencies was considered to be essential. Individual companies seek a single contact point. Since industry is the customer of these agencies, the national trade promotion body, UKTI, should do more to simplify the interface at company level between industry and these official trade services.

23. There was also a common view expressed by experienced export managers that collective activities produce more synergy and offer better value than supporting individual companies or dealing with ad hoc requests for support. Therefore the recommendations of this paper are based around collective activities and networking within the recognised boundaries of the chemicals sector.

24. In recent years new funding streams have been made available to new so-called sectors such as nanotechnology. In reality this is not a distinct sector; it is a microscopic part of mainstream chemistry. The so-called nanotechnology sector gets more UKTI support than all the rest of the sector put together. This anomaly needs addressing.

25. Not surprisingly industry wants cash positive support, particularly SMEs seeking new business in existing and new markets. The UKTI policy of categorising new exporters or new-to-market exporters is confusing and is unlikely to yield as much value as supporting companies in existing markets. Perversely, UKTI's TAP grant scheme is encouraging companies to take on unnecessary new costs and new risks. It is highly unlikely that a SME will exhaust all of its potential business opportunities in a market like the USA—surely tax payers will get a better return by encouraging the company to focus on doing even more business in established markets rather than chase the proverbial Golden Dragon in developing Asian markets.

26. This is an important point because according to economists that specialise in the chemicals sector, although there is double digit growth in the Chinese and Indian chemicals markets, it will be at least eight years before the size of these markets match those of the USA or Europe or Japan. In other words, there will be more market opportunities in Developed Markets than in Developing Markets for the foreseeable future, although there are exceptions in generic life science chemistry where India and to a lesser extent China have dominant global market positions. Therefore the primary focus of the strategy should be on USA, Europe, Japan and India (where the UK has an unique language/cultural advantage).

24 February 2009

Memorandum submitted by The Design Council

INTRODUCTION

The Design Council welcomes the opportunity to respond to the House of Commons Business and Enterprise Committee inquiry into exporting out of recession.

The Design Council is the national strategic body for design. Its role is to inspire and enable the best use of design in business and public services. While our work mainly focuses on industry's demand for design, we also seek to address supply side barriers to growth of the design sector. Here we want to highlight how the Government and UKTI export strategy could support UK design sector better as the area where the UK has a significant competitive advantage.

Our views are drawn from our work in the areas of business and public service innovation and the Design Council's research into the impact of design on business performance, *Value of Design Factfinder*²¹ and *Design Industry survey*²², 2005 and 2007.

UK BUSINESSES ARE INCREASINGLY USING DESIGN TO COMPETE

Design is among the UK's strongest creative sectors, and ranks highly against international competition.²³ When businesses exploit the skills of UK designers, significant performance benefits have been demonstrated—for example, manufacturers who invest in design see significant outcomes as a result, including improved quality of goods and services, and increased market share.²⁴ And companies that spend double the average amount on creative inputs, including design, are 25% more likely to introduce product innovations.²⁵

In 2002, 51% of Queen's Award for Export winners directly attributed overseas sales success to their investment in design; over 90% said design was valued by their international customers; and 86% reported that design helps them to compete internationally.²⁶

In its brochure on UK Creative industries UKTI notes: "UK designers are renowned throughout the world for their ability to deliver effective design solutions. They also have a unique ability to design for the international marketplace. The UK is a creative hotbed and an ideal gateway into the international market."²⁷ However, with the current economic downturn and increasing global competition it is important—now more than ever—that the UK remains a leading resource of world class design research and knowledge and the UK design sector is step ahead of international rivals in global markets.

²¹ <http://www.designfactfinder.co.uk/>

²² <http://www.designcouncil.org.uk/en/About-Design/Research/The-Business-of-Design2/>

²³ Moultrie, J. & Livesey, F. (2009) "International Design Scoreboard: initial indicators of international design capabilities." Cambridge: University of Cambridge

²⁴ HM Treasury (2005) "Cox Review of Creativity in Business: building on the UK's strengths." London: HM Treasury—citing results for UK manufacturers from the Third Community Innovation Survey.

²⁵ Bakhshi, H., McVittie, E. and Simmie, J. (2008) "Creating Innovation: Do the creative industries support innovation in the wider economy?" London: NESTA

²⁶ Whyte, J., Salter, A., Gann, A. and Davies, A. (2002) "Investing in Design to Improve Export Potential." Sussex: University of Sussex.

²⁷ <http://www.ukinvest.gov.uk/UKTI-publications/4017730/en-GB.html>

RECESSIONS DEMAND CREATIVE RESPONSES

In the middle of a recession, businesses can be tempted to save money by cutting marketing budgets, delaying new product development and reducing R&D. In the 1990s recession, R&D spending dropped across the industrialised world, falling as a proportion of GDP from 1990 to 1995.²⁸ However, research shows that companies that don't invest in growth, research and development during a recession are 2.5 times more likely to fail than those that do—the latter often emerging stronger and more competitive than before the recession.²⁹

Some of the world's strongest economies, such as the United States and Finland, established their economic strength during profound downturns by identifying new markets. Design plays a major role here: for example, Nokia found new markets by developing products with an emphasis on high quality design.³⁰

DESIGN AND THE CREATIVE SECTORS WILL DRIVE GROWTH

Creative sectors such as design are seen as drivers of innovation and growth throughout the UK economy³¹ Policymakers and academics have recently moved beyond focussing on technical and research activities to recognise the importance of design and creativity to innovation activities.³² Design catalyses business innovation by applying a formal approach to creativity, and plays a key role in developing new products, services and processes.³³

Businesses will need to compete during the recession by adding value to their offerings and responding to changing customer demands: this means improving current products and services—and designing new ones. Businesses will also need to find smarter ways of working, which can be helped by using design thinking as a strategic tool. There is evidence that these approaches are taking root, with 54% of UK firms planning to use design to stay competitive during the recession.³⁴

GLOBAL CHALLENGES FOR UK DESIGN SECTOR

When we surveyed the Design Industry in 2005, 17% of UK design businesses said their main competition comes from outside the UK. So in 2007 we asked 285 design businesses that are already competing against overseas designers to tell us more about their experiences. When asked in 2007 where the competition is coming from, the 78% of designers reporting overseas competition for the same work say that it's from designers in Asia (56%)—in particular India (38%) and China (26%)—and Western Europe (30%).

The research³⁵ also showed that almost half (47%) of all the design businesses we spoke to expect that the amount of overseas work they undertake will increase over the next three years. Of those already doing this work 57% expect it to increase: currently, 61% derive just 25% or less of their fee income from work for overseas markets.

The findings, which appear in a new report examining international design capabilities,³⁶ could have significant implications for the UK, where high-value activities such as design are regarded as essential to future competitiveness.

The “International Design Scoreboard” produced by a consortium of UK universities led by the University of Cambridge and supported by the UK Design Council, shows East Asian countries such as Korea and Singapore are beginning to shift their economic emphasis away from low-cost production and into design.

The results suggest that western nations are under increasing threat from emerging East Asian “powerhouses” as they develop their design sectors, invest in national design promotion and produce skilled design graduates. The report confirms conclusions made in the Cox Report of Creativity in Business that strong manufacturing bases in the Far East are also developing strong design capabilities.

If their ambition is successful, countries such as Korea will become even more competitive in areas such as design. They will also have the added advantage over many Western countries of a close production base, which in many cases has already shifted to the East.

²⁸ OECD figures, cited in Lord Sainsbury (2007) “The Race to the Top: a review of government's science and innovation policies.” London: HM Treasury. Chart 2.1

²⁹ Collier, W., Green, F. and Kim, Y. (2007) “Training and Establishment Survival.” Yorkshire: Sector Skills Development Agency

³⁰ Labone, R. et al (2003) “Success by Design.” Wellington: New Zealand Design Task Force

³¹ Sunley, P. et al (2008) “Innovation in the Creative Production System: the case for design.” Journal of Economic Geography 8. Oxford: Oxford University Press; NESTA (2008) “Hidden Innovation in the Creative Industries.” London: NESTA; The Work Foundation (2007) “Staying Ahead: The Economic Performance of the UK's Creative Industries.” London: Department for Culture, Media and Sport ; DTI (2006) “DTI Occasional Paper No.6: Innovation in the UK: indicators and insights.” London: DTI

³² Moultrie; Cox; DTI;

³³ Bruce, M. & Bessant, J. (2002) “*Design In Business: Strategic innovation through design.*” New York: Financial Times/Prentice Hall

³⁴ Design Council (2008) “National Survey of Firms.” London: Design Council

³⁵ <http://www.designcouncil.org.uk/en/About-Design/Research/The-Business-of-Design2/Competition2/>

³⁶ <http://www.designcouncil.org.uk/en/About-Design/Research/International-Design-Research/>

 RECOMMENDATIONS FOR A NEW UKTI EXPORT STRATEGY:
1) *Align export strategy with government priorities for economic recovery*

A new UKTI export strategy needs to be aligned with Government priorities in skills, enterprise, innovation and low-carbon economy as outlined in its strategy for economic recovery “Building Britain’s Future—New Industry, New Jobs”.³⁷

In UK businesses where design is integral to operations, 84% say they’ve increased their competitiveness through design; and 79% think that design’s importance to competitiveness has risen over the past decade.³⁸ These trends look set to continue—a recent CBI survey showed that 55% of manufacturing firms see design and development as one of their most important sources of competitive advantage in five years’ time.³⁹

The new UKTI strategy should support design-led businesses and stimulate investment in intangibles such as design, branding and R&D.

2) *Design a sector specific export strategy for creative industries*

In July 2007 UKTI published its *Creative UK: Towards an international marketing strategy for the UK’s creative industries*. It was a welcome first step to recognise the importance of creative industries in UKTI export strategy. However, the current economic climate requires a more sector specific approach and a new strategy needs to consider that different sectors within creative industries have different commercial value eg. fashion and design vs. theatre.

3) *Recruit UK Brand Ambassadors*

The UK’s strong design reputation in the international marketplace is considered likely to help design businesses to expand into overseas markets. 82% of designers who have worked for overseas clients, or are considering it, say UK’s reputation in design makes a positive contribution to winning work from international clients. Some of the leading UK designers run successful global business operations—such as Paul Smith in China, Richard Seymour of SeymourPowell in Singapore and Jonathan Sands in Australia and the US, to mention just a few.

To enhance the UK Plc brand internationally, UKTI should develop a roster of high-profile creative industry representatives to head the overseas missions, particularly in emerging, “brand greenfield” markets such as Russian and Asian markets.

4) *Encourage greater understanding of overseas markets*

The Design Council research⁴⁰ shows that around a quarter of designers have undertaken overseas visits (26%) or trend research (25%) to better understand overseas markets, or are planning to do so. But about a fifth (19%) do not know what they will do to better understand overseas markets. Also, two-fifths of design businesses who are either working for overseas markets or considering doing so believe that language or translations issues are a barrier to winning work, while 16% believe cultural issues or practical communications problems are barriers.

Government needs to measure, value, understand and monitor over time the input of creative industries to exports. More evidence is needed that overseas missions are delivering tangible outcomes. In particular, how current Passport to Export scheme supports design sector.

5) *Target and incentivise inward investment in value-added activities such as design*

A new strategy needs to target and incentivise global companies—their accounts are transparent, so it’s easy to identify them! London is a global creative hub and over the last five years some of the market leaders such as Nokia and Nissan set their design HQs in London. In 2006, Nissan Design Europe has won a tax relief claim for design work dating back two years, using the research and development tax credit system recommended by Government-backed Cox Review of Creativity in Business. The move was worth “hundreds of thousands of pounds” to Nissan and pointed the way to millions of pounds of potential claims from other global design-led businesses.

6) *Raise awareness of IP in emerging markets*

Lack of respect and understanding of for Intellectual Property rights such as brand, trademark and copyright is a disincentive for UK design firms to work in emerging markets. The UKTI should work closely with the IPO to raise awareness of the importance of Intellectual Property to investment.

23 April 2009

³⁷ www.berr.gov.uk/files/file51023.pdf

³⁸ Design Council (2005)

³⁹ CBI (2007) “Understanding Modern Manufacturing”

⁴⁰ <http://www.designcouncil.org.uk/en/About-Design/Research/The-Business-of-Design2/Competition2/>

Memorandum submitted by the East Midlands Development Agency on behalf of all English Regional Development Agencies

BACKGROUND

Exporting is key to the UK economy, representing 29% of GDP.⁴¹ UK's traditional export markets have been disproportionately affected by the global economic downturn and the World Trade Organisation's current projection⁴² is that the volume of world exports will shrink by approximately 9% in 2009.

However, a survey for BERR in December 2008 found that exporters are also proving more resilient during the downturn, with 22% exporting SMEs interviewed having increased staff numbers since 2007–08, compared to only 12% overall; and 42% of the exporters interviewed having increased their turnover in the previous 12 months, compared to only 23% overall.

The RDAs recognise the critical importance of international trade in helping fuel the economic recovery. Global competitiveness through strong trade performance is a central feature of all the Regional Economic Strategies, and trade has arguably become even more important, with continuing opportunities in growth markets given the current value of sterling.

RDAs AND UKTI WORKING TOGETHER

UKTI's regional teams, which are co-located with the RDAs, in effect act as the international trade arms of the RDAs, using RDA funding to supplement UKTI's national funding programmes in order to address regional priorities (eg for markets and sectors). It should be noted that RDAs do not have trade representation overseas. The role of RDA representatives based in overseas markets is to promote inward investment.

A revised and enhanced "Dual Key" framework,⁴³ reflecting the recommendations of the 2007 Joint UKTI/RDA Review of Regional Trade Services in England, has now been agreed by RDAs and UKTI, providing an agreed framework for the delivery of international trade services by UKTI's regional teams. Overall, the changes give RDAs a greater role in business planning and in the delivery of international trade services in the regions, and ensure that regional priorities are more fully reflected. It requires UKTI to secure agreement from RDAs on any trade strategy developments and new national trade support programmes. For example, RDAs were represented on the UKTI-led group that developed *Gateway to Global Growth*, the new package of support announced by the Prime Minister on 12 March to help experienced exporters diversify into new overseas markets.

The changes agreed also align UKTI international trade support activity with that of other business support services at a regional level, including Business Link, and will provide a simpler, more integrated, service to companies that wish to go global. The links between UKTI's regional and overseas networks, crucial to the quality and scope of the international trade support offer to companies in the English regions, and with it the economic impact, are maintained.

EXAMPLES OF RDA-FUNDED INTERNATIONAL TRADE ACTIVITIES

The nine RDAs provide additional funding to support a wide range of international trade activities in the English regions, delivered through UKTI's regional teams. Recent examples include:

- One NorthEast have developed a trade project with UKTI called *Horizons*, with £1 million funding over the next two years to build international capacity/capability and encourage growth in business turnover, through intensive assistance for North East businesses preparing to launch new or existing products into new overseas markets.
- Yorkshire Forward has launched a trade campaign to promote international business to targeted SMEs within key sectors. Their *Going Global* regional business conference in September was attended by 600 regional businesses. They have recently invested £6.6 million in the Trade and Export Support Scheme, which is designed to help companies in Yorkshire and Humber access funding to support the development of their export strategies.
- As part of the Mayor's Economic Recovery Plan, London Development Agency has made up to £0.3 million available to UKTI London to support trade support activities. These have included specialist seminars and workshops, a stand at IFE09 (the world's only food event dedicated to innovation), "Meet the Buyer" events (eg buyers were brought in for London Fashion Week, the India Marketing Scholarship Scheme and additional grant funding to help SMEs participate in overseas shows and exhibitions).

⁴¹ In 2008 UK exports totalled £413 billion—UKTI

⁴² WTO 25 March 2009

⁴³ Effective from 1 April 2009

HOW COULD GOVERNMENT HELP EXPORTERS?

Exporters obtain insurance cover from financial intermediaries. For those generating exports in excess of £20 million this is provided by the banks. Despite the re-structuring of their financial products, evidence to date suggests that access to cover is still forthcoming. However, for companies exporting sub £20 million, cover is provided by the wider financial industry, such as credit insurance agencies. These wider financial intermediaries are turning away from the medium to high risk insurance export guarantee market. We are therefore finding that smaller suppliers are unable to take advantage of the depreciation of Sterling due to the lack of export credit guarantee cover.

Essentially this is amounting to a gap in coverage for projects below £20 million and remains a serious barrier for businesses in the UK. Other EU states fund projects of a smaller scale and the UK should be prepared to provide this support. Banks are often unwilling to provide finance even against UK confirmed letters of credit for projects. We believe that the Government, through the Export Credit Guarantee Department, should provide a guarantee of cover for projects sub £20 million. The RDAs raised this issue in their Budget submission to the Treasury.

We welcome the Government's announcement that they will be consulting on a new facility to provide support for short-term trade finance and that they have under review other support from ECGD to help exporters deal with the consequences of the current instability in financial markets. We urge the Government to put measures in place as quickly as possible to address these issues.

27 April 2009

Memorandum submitted by Energy Industries Council

With regard to Iran (the subject of my 27 April email) I understand that the situation is politically charged and difficult and that this is unlikely to change unless 12 June elections produce an unexpected result or there is a fundamental change of attitude by the current Iranian President. Our members are telling us that what they would most appreciate is consistency. HM Government has not banned exports to Iran but is imposing strict controls on dual-use items. Whilst all concerned appreciate the need to impede Iran's alleged nuclear weapons programme, there appears to be a lack of consistency in the application of controls. For reasons of commercial confidentiality I cannot give specific details but our Members have reported in writing:

1. Inordinately long lead-times for export licences. The contract for one member had been cancelled by the time the licence was issued, and the company will be excluded from further contracts because of this;
2. Export licences refused for low-technology items where it is difficult to see any possible dual-use sensitivity;
3. Companies based in other countries (particularly Germany) are being allowed to export similar items into the same projects from which UK-based companies effectively have been excluded by export licence refusals;
4. British banks are refusing to give short-term bond cover for contracts in Iran, in one case alleging that this was due to an export ban. The allegation was withdrawn when challenged but bond cover was still not forthcoming. Our member meanwhile had lost the value of the bond from the British bank that had arranged it and now is trying to recover that sum. Banking arrangements with Iran are severely curtailed albeit there is no relevant ban in place.
5. Whilst I have no evidence other than anecdotal to support this statement, companies in European countries are exporting via third countries to avoid EU restrictions.

More generally, our members find that they have great difficulty in financing export contracts and that the cost of funding where available has gone up immensely. They feel disadvantaged compared to companies based in other EU countries (and elsewhere) by the lack of availability of government provided short-term credit insurance. As you will be aware, ECGD transferred this side of its business to the private sector in 1991. Although this may have seemed sensible when credit insurance was easily available in the commercial markets, it now means that the ability of UK-based companies to compete in export markets is severely constrained. The UK has the worst export credit agency facilities of any EU or similar country.

One of our members, a manufacturer of high-value capital goods for the oil industry, provides a good example of what is going on. The company exports over 70% of its production, mainly to the Middle East and Russia. It needs to have 80% of the contract value funded from the outset. Before the credit crunch, three times the amount of credit cover was available to this company compared to today, at one-third of the cost. Although demand for the company's products remains very robust, they are having to decline invitations to bid for overseas contracts and scale down production.

A reinvigorated ECGD would be the best way of supporting UK exporters. Apart from reinstating the provision of short-term credit insurance, the ECGD's operational structure should be revised and staffed by experts who understand the needs of specific sectors. It should not be run by bankers for bankers, operating

through the clearing banks as at present. ECGD have just launched a public consultation on the letter of credit guarantee scheme and we shall contribute to it; I am concerned, however, at the likely delay before any improvement is made—and all the time our exporters are losing out to the competition.

Government support for companies trying to break into new overseas markets should also be strengthened. The recent announcement of an additional £10 million for UKTI is welcome, but we are concerned that it should be directed to front-line activities capable of making a real difference to UK exporters. We understand that UKTI is also to be allowed to bid for further funding from the £750 million Strategic Investment Fund for the “Building Britain’s Future—New Industry, New Jobs” strategy. There is scope for greater collaboration with private sector service providers such as the EIC to provide first-class support to UK exporters in the most efficient and cost-effective manner. A top priority should be to strengthen the Tradeshow Access Programme (TAP). The government has whittled down TAP funding over the past five years, to the point where it makes very little difference to our members. Restoring the programme to its previous level would encourage UK exporters to tackle far-flung or unfamiliar markets.

We set up and manage eight to 10 trade exhibitions a year around the world in the energy industry at our own commercial risk although we are a not-for-profit organisation. The largest of these is the Houston Offshore Technology Conference in May each year where our typical outlay for the event is around \$500,000. This is equivalent to 10% of our total annual revenues none of which comes from national, regional or local government. We receive no financial assistance for such exhibitions in contrast to say Germany where 50% of all costs of the organisers and the exhibitors, including hotel and travel, is funded by the German Government. Where we have been offered limited financial assistance (as recently for trade missions) the offer had strings attached that we felt unable to accept so the money was not made available.

There is a plethora of regional and national governmental organisations that seek to promote exports each with its own bureaucracy. In my view we should have a UK approach and pool all the financial resources. Also such disparate arrangement leads to inconsistencies between member companies from different regions. For example at OTC we organise the UK national pavilion (the equal biggest in the show) whereas next door to us is the Scottish Pavilion funded by Scottish Enterprise. Companies on that stand are heavily subsidised by the Scottish Government but how do I explain that to our members when all the funds are from the same tax pot? It also causes confusion to an international audience as to what is the UK!

I hope this will be useful as an immediate contribution to the work of your committee and will, as you recommend, follow up with your office on a possible future meeting to explore these matters further.

20 May 2009

Memorandum submitted by Engineering and Machinery Alliance

1. BACKGROUND

1.1 The Engineering and Machinery Alliance (EAMA) is a grouping of 10 like-minded trade associations:

- British Automation and Robot Association;
- British Paper Machinery Suppliers Association;
- British Plastics Federation;
- British Turned Part Manufacturers Association;
- Confederation of British Metalforming;
- Gauge and Toolmakers Association;
- Manufacturing Technologies Association;
- Printing, Papermaking and Converting Suppliers Association;
- Processing and Packaging Machinery Association;
- UK Industrial Vision Association.

1.2 These 10 associations represent 1,400 firms, mostly SMEs in mechanical engineering, with total sales of approximately £7 billion, split pretty evenly between capital goods and components for capital goods.

1.3 UK mechanical engineering turnover is some £37 billion, with 70% of it derived from sales overseas. According to the Office for National Statistics (ONS), mechanical engineering is one of only two manufacturing sectors that regularly contribute a positive trade balance to the UK economy—over £3 billion in 2008. (The chemicals sector contributed over £5 billion.)

1.4 Mechanical engineering companies typically supply “enabling technologies” to other sectors (eg automotive, aerospace, medical, power and food industries) in the form of machinery or packages combining services and products tied up as solutions. This is not just the preserve of the large company. There are also many innovative entrepreneurial SMEs pushing the boundaries of factory performance, extending the envelope of the physically feasible to new levels in terms of speed, precision and migration into novel technologies and materials.

2. THE CURRENT BUSINESS ENVIRONMENT

2.1 The recession isn't over in our sector. Real business to business demand remains depressed.

2.2 As a result companies' primary concerns are to find new customers and access to finance. The finance is doubly important, not just for them, but for their customers. Lack of availability has hit their sales as well as their ability to invest.

2.3 In June, alongside our monthly survey monitoring whether activity rose, fell or remained unchanged compared with the previous month, we asked firms how sales compared with a year ago.

Of the 80 firms that replied to this portion of the survey, 9% reported increases (from two to 200%), 11% no change and 80% falls (from 10 to 75%). Amongst the "fallers", over a third had recorded declines of 30–35% and over a quarter said business had dropped 50% or more.

TURNOVER COMPARED WITH A YEAR EARLIER

% fall on year ago	10	15	20	25	30	35	38	40	50	54	56	60	75
Number of firms	1	1	11	5	15	8	1	4	11	1	1	4	1
% of all "fallers"			17	8	23	13		6	17			11	

Source: EAMA Monthly Business Monitor (June 2009).

2.4 Our monthly Business Monitor continued to show a declining balance for export orders until a stuttering lift off the bottom in September and October. This came after some depressingly negative data in our August Monitor which were also subsequently reflected in ONS manufacturing reports for the month.

ORDERS % FIRMS COMPARED WITH MONTH EARLIER

	<i>Up</i>		<i>Same</i>		<i>Down</i>		<i>Up/Down Difference</i>	
	<i>UK</i>	<i>Export</i>	<i>UK</i>	<i>Export</i>	<i>UK</i>	<i>Export</i>	<i>UK</i>	<i>Export</i>
January	18	20	20	32	62	48	-44	-28
February	18	21	31	29	51	50	-33	-29
March	11	18	28	42	61	40	-50	-22
April	21	30	23	33	56	37	-37	-7
May	20	5	35	46	45	49	-25	-44
June	39	19	28	49	33	32	+6	-13
July	37	22	26	42	37	36	0	-14
August	33	22	23	41	44	37	-11	-15
September	51	34	26	43	23	23	+28	+11
October	40	23	43	56	17	21	+23	+2

Source: EAMA Business Monitor.

3. EXPORTING—FINDING AND DEVELOPING NEW CUSTOMERS

3.1 This is the area where there should be major potential to rebalance the economy and exit the recession.

3.2 Practical measures

3.2.1 Exporting is very hard work.

3.2.2 The UK used to have an export promotion service that fitted in well with the mechanical engineering sector's way of doing business. It can take several years and even many visits to establish market credibility before a company is prepared to try your machinery in their factory for the first time. Visibility and confidence development were central to the scheme, helping firms take their equipment to shows where they could display it and if it all went well make that initial sale.

3.2.3 Budgetary pressure on UKTI has reduced this capability, just as global competition is increasing and the UK is more dependent on trade than ever before (55% of UK GDP depends on trade according to the World Trade Organisation). Sometimes the pressure is so extreme that UK exporters are asked to pay for Embassy or Consulate room hire, as well as for market information, while major competitor economies have a more supportive and less penny-pinching relationship with their exporters.

Luckily, several EAMA associations have their own offices overseas to support their members' export activities.

3.2.4 There is a view that the UK lags both in its promotion of the UK brand and in the range of different services to involve companies of different sizes in exporting across the world as a positive benefit to the economy as a whole. Work is progressing, but:

- The UK needs a national agency that champions UK exports and exporters. To match the best in the world this agency should be totally separate from inward investment activities and staff.
- The regime should be far simpler, run with a national focus, not subservient to regional priorities.

- Companies should be supported when they show commitment and proper preparation, not on the basis of their exporting “virginity”.
- The Export Credit Guarantee Department’s cover needs to be remodelled to be competitive across a far wider range of business.
- Following the recent consultation on the letter of credit guarantee, we have urged the Government to implement it as soon as possible.

3.3 Trade Credit Insurance Top-Up

3.3.1 A main concern for all manufacturers, the withdrawal of trade credit insurance, has also hit mechanical engineering, because firms supplying into a particular sector have had to suffer the same conditions imposed on them as on their customers. This action, by German, Swiss and French based insurers, is affecting the home market as well as exports.

3.3.2 The Government sponsored Trade Credit Insurance Top-Up Scheme was very welcome in this regard, but was designed to help domestic business exclusively and not exporters.

3.3.3 However, take-up has been very limited. Certainly for our members with 70+ % of their turnover derived from sales overseas, this will be the reason why they haven’t used it.

3.3.4 But unfortunately that’s not the only damage. Invoicing discount houses and factors will refuse to make payment on goods as they leave the country for the export customer if there is no credit insurance cover. So the lack of cover cuts extra deep into cash flow as payment will be further delayed—creating a further drag on the upswing.

- The scheme should be amended so that it works for exporters. As a start it might be used for customers in the EU and the European Economic Area and some other well established markets, where the financial reporting systems are easily accessible to the insurers.

3.4 Guaranteeing the customer’s deposit and the Enterprise Finance Guarantee Scheme

3.4.1 In mechanical engineering it is standard practice for a customer to pay a 30% deposit to confirm their order. It happens all over Europe and in the USA. In return for the deposit, the customer expects to receive a guarantee, normally from a bank, that they will receive the machine they have ordered or their money back.

3.4.2 If the company making the machine is any good, this is all very low risk, for which the banks make a charge.

3.4.3 Whereas French, German and US banks provide the guarantee for a small (sometimes no) charge, UK banks often deduct the deposit from the company’s overdraft at the bank, so that the manufacturer is no better off for having received the deposit. There’s no benefit to company cash flow. Just think of the impact if your SME firm is regularly building £million+ machines!

3.4.4 And now some banks have doubled the interest they charge (to 3½%) and increased their administration charges. Others have placed ceilings on the total amount they will guarantee for any one manufacturer, effectively slapping a cap on the size of the firm’s order book, or forcing them to forego the benefit of the deposit, which opens them up to increased risk.

3.4.5 Faced with so much uncertainty, some companies report trying to use the Enterprise Finance Guarantee Scheme, which was conceived to help improve the availability of working capital for SMEs.

3.4.6 However, despite its conception to help innovative firms, the terms specifically exclude support for “individual export orders”. If a firm is 100% export, all their activity is excluded. In mechanical engineering it is quite common to find firms that are 90% export, which in practice means they too are excluded.

3.4.6 Apparently such difficulties do not arise in other countries, because they run a “Bond Support Scheme” with government backing, so that any orders where the deposit may be too big to be handled by the usual channels, can be covered competitively.

- If the UK is to develop a strong offer internationally it must be able to compete in the provision of such guarantees without putting its own manufacturers at a disadvantage.

17 November 2009

Memorandum submitted by The Law Society of England and Wales

1. The Law Society (“The Society”) is the professional body for solicitors in England and Wales representing over 115,000 solicitors. The Society represents the interests of the profession to decision makers within Parliament, Government and the wider stakeholder community, and has an established public interest role in law reform. The Society welcome the opportunity to respond to the Committee’s important inquiry into this matter.

Why do legal exports matter?

2. Legal exports are important to the UK economy because:
 - 2.1 They are an important source of direct export earnings which are not always effectively captured in trade statistics. Legal service exports can arise through the supply of services abroad by lawyers based in the UK, from the repatriation of earnings by the overseas offices of UK based law firms and from the purchase of legal services within the UK by overseas based clients. Whilst income from the supply of cross-border legal services from the UK was about £1.8 billion in 2007,⁴⁴ the Office of National Statistics does not yet effectively capture the other two modes of supply of legal services which are significant earners for the UK economy. The Society knows these are important because of the contribution that international clients make to the fee income of solicitors that are based entirely in UK and because of the growth in number of international offices of UK law firms.
 - 2.2 The legal sector is an important employer in the UK economy, accounting for over a quarter of a million jobs. The economic pressures of recession and ongoing structural change in the legal services market mean that export markets are playing an increasingly important part in the revenue and turnover of commercial law firms. This is particularly true of law firms in regional legal centres whose domestic markets have been harder hit than firms in London and who are looking to diversify their commercial base internationally, if they have not already begun to do so.
 - 2.3 The legal sector is an important enabler for other businesses wishing to expand internationally and a barometer of growth in different markets.

How does the Law Society promote legal exports?

3. The Law Society works to promote legal exports from the UK in four ways:
 - 3.1 First, the Society seeks to open markets for lawyers worldwide by lobbying for the removal of market access and regulatory barriers in other jurisdictions. This allows solicitors greater freedom to serve clients in other markets either on a fly-in basis, or by establishing an office on a stand-alone basis or in collaboration with local lawyers. The demand for this is driven ultimately by the client businesses who want the support of their trusted legal advisers as they invest in major infrastructure projects or Greenfield production sites, form joint ventures with local partners or enter new markets via distribution or agency agreements or simply seek to protect their IP. The strong growth of legal sector exports can be traced to the relationship of firms with their global and globalising UK clients. However, once these relationships have been established, UK law firms become trusted advisers to overseas businesses that are seeking advice and management of their legal needs and risks in third countries.
 - 3.2 Second, the Society promotes the purchase of legal services from the UK by overseas clients. The Society enables this by promoting both the advantages of England and Wales as a jurisdiction of choice for dispute resolution and the benefits of using English law in commercial contracts regardless of the parties involved. The attractiveness of the UK in this regard is well illustrated by the number of cases with no UK parties that are heard by the Commercial Court and by the volume of arbitration taking place in London. The Society also seeks to make more widely known, the particular specialist expertise that can be found in the legal profession in this country, which is second to none in its breadth and depth. This expertise includes both traditional areas of comparative advantage such as shipping and insurance law, arbitration and infrastructure/PPP as well as emerging legal disciplines such as Islamic finance and sports law.
 - 3.3 Third, the Society assists individual law firms with export-oriented business development by organising inward and outward trade missions, promotional speaking and legal consultancy opportunities, partner matchmaking sessions and sectorally or geographically themed conferences and seminars. In carrying out this activity the Society works closely with UK Trade & Investment (UKTI) and British posts abroad as well as with partner organisations in target countries and other organisations from the UK which have similar goals.
 - 3.4 Fourth, the Society works on creating a longer term affinity between other jurisdictions and the UK. The Society does this either by providing consultancy to other jurisdictions on their legal structures, systems and laws and by encouraging education and training links with the UK. The Society believes that the latter will reinforce familiarity with the English legal system and English law in particular, and that this will produce dividends in the longer run when foreign governments, corporations or even foreign law firms need to choose a source of legal advice, a governing law for their contracts or a forum for dispute resolution. Although this work represents long term investment for the UK economy as a whole, the Society is limited in what it can do given that any education and training programmes must either cover their costs directly or be supported by a third party. The potential benefits of such programmes is evidenced by the Lord Chancellor's Training Scheme for Young Chinese Lawyers which the UK Government has supported since 1990 and which has given UK law firms a strong position in the Chinese market.

⁴⁴ Office for National Statistics (2008) *United Kingdom Balance of Payments: The Pink Book* TSO

- 3.5 The Society carry's out these various strands of work around the globe. For example, in 2008 the Society organised 19 different events (trade missions, roundtables, conferences etc) in 14 countries on four continents, not including events in the UK.

The importance of the Middle East to the UK legal sector

4. The Middle East and the Gulf in particular, has been of growing importance to the Society's work on exporting legal services. This is due to the of growth and development in the region, and the Gulf in particular, because of the investment wealth generated from the region by natural resources and because of the attempts by various governments to become regional service sector hubs. This growing importance is reflected in the growth in number of English qualified solicitors resident in the region, which has grown by over 300% in the past five years. In 2008 there were 798 solicitors qualified in England and Wales holding practising certificates in the region. The Society also knows anecdotally that there are many more qualified or part-qualified solicitors practising in the region, either in influential roles as corporate counsel in multinationals and government agencies or as paralegals in Emirati law firms.

5. The relative importance of the strategic hub effect, which has been a major part of Dubai's economic strategy, now being emulated by its neighbours, can be illustrated by the fact that of the 798 solicitors practising in the Middle East, 655 or 82% were located in the UAE and the majority of these in Dubai. The Society does however, expect to see some correction in 2009 as the impact of the recession in Dubai shifts the relative importance of the different Emirates more towards Abu Dhabi.

6. In the near to medium term, the Society does not see any strong evidence that the UK legal sector has lost its commitment to the region. Although legal teams who have specialised in, for example, project finance and joint ventures have been having a leaner time since the fourth quarter of 2008, those who focus on dispute resolution are more upbeat. The Society also sees no evidence of any withdrawal of UK law firms from the region. Indeed it is aware of planned office openings by UK law firms in Dubai and Abu Dhabi as well as ongoing interest in Oman and Qatar.

7. Saudi Arabia is a market in which UK law firms should ideally have a much greater presence, given its size, resource base and ambitious economic plans. However, expansion into this market is difficult for UK law firms because of local rules which require a Saudi partner law firm, of which numbers are extremely limited. This will become more of a problem in time as Saudi proceeds with planned Chinese investment in new cities across the country. Recent years have seen a boom in legal work in Africa, driven to a great extent by Chinese investment in the natural resources sector. The Society might well expect to see the same phenomenon in Saudi Arabia driven by infrastructure investment but the full potential of this will only be reached for the UK legal sector if there is more flexibility introduced to the rules on foreign law firms by the Saudi government.

8. The Middle East and the Gulf in particular, also have a wider economic importance to the solicitor's profession because of their geographical pull outside the region. This is particularly true of South and South East Asia but also of North Asia and Africa. There are important links between Malaysia and the UAE, Dubai in particular, driven by Islamic finance and between India and the Gulf states driven by more general business expansion by Indian corporates. China, Japan and Korea are all investors in the region and this has enabled UK law firms with clients in those countries to expand into the Middle East.

The Law Society's work in the Middle East

9. The Law Society's work in the Middle East has involved all of the various strands of its export related activity:

- 9.1 Market access and regulatory work: The Society has fed its views into the Department of Business, Enterprise and Regulatory Reform and the European Commission on World Trade Organisation (WTO) accession negotiations for Saudi Arabia, and it has worked with the legal profession in both Lebanon and Libya to increase awareness of what a WTO commitment in this sector would mean. The Society has also worked on secondary regulations implementing market access commitments in a variety of Middle Eastern countries and believe these require particular attention. There is a large spectrum of measures that any government could undertake before necessarily triggering WTO concerns but such measures can nonetheless have serious consequences for foreign lawyers. Recent examples include proposals by the Qatar Financial Centre and by the Government of Oman to limit the access of foreign lawyers to local courts, on both of which the Law Society has lobbied the relevant authorities. The Society recognises that international law firms need to meet the concerns of local law firms that there should be some benefit to them from the opening up of their economies. This is most likely to be achieved when market access and secondary regulation are implemented as a partnership between the host and the foreign jurisdictions. The Society's experience in Abu Dhabi, where it is working closely with the Executive Affairs Authority of Abu Dhabi to clarify licensing provisions, is good evidence of this.
- 9.2 Promotional activity: In 2007 the Society published a brochure on the dispute resolution offer from England and Wales, entitled "Jurisdiction of Choice". This has been promoted in Dubai and will

shortly be translated into Arabic for wider dissemination in the region. The Society are also in the process of producing a promotional booklet on the strengths of the UK in the legal aspects of Islamic Finance.

- 9.3 Business development: The Society ran a successful trade mission to Dubai in 2007 and will run a well subscribed one to Qatar in May. The Society has held seminars and other events in recent years in Dubai, Lebanon, Jordan, Syria and Egypt.
- 9.4 Long term infrastructure: For the past two years, the Society has been running regular professional development courses in the UAE for English solicitors and these are now attracting local lawyers as well. The Society has also been approached by a number of countries in the region to assist them in looking at how they can upgrade their local legal qualifications in order to create lawyers who are able to work in an international commercial environment, although the Society's ability to assist depends on their ability to finance such work. The Society has also worked in partnership with a team appointed by the Libyan government to look at structural impediments to foreign investment and the results of this project are now being implemented. Amongst the longer term impacts of this project is a significant investment by the Libyan government in the training of a cadre of judges in common law.

Observations and recommendations

10. Based on the Society's experience in assisting and promoting the exporting of Legal Services, the Society would make the following observations and recommendations to the Committee:

- 10.1 The UK Government focus on target countries in the region is broadly right but this should not be allowed to crowd out opportunities in smaller markets. If a limited pot of resources were made available as a "regional challenge" fund, this would allow UKTI and overseas posts to support exploratory or longer term projects relating to the creation of eg regulatory or educational and training infrastructure to support exports.
- 10.2 The WTO has been crucial in helping to create a framework to support the export of legal services. Although the focus of international attention has been on the Doha round, the role of accession negotiations for new members of the WTO should not be underestimated—this has been particularly important in creating new opportunities in the Middle East. The Government should do whatever it can to encourage such negotiations.
- 10.3 Bilateral free trade agreements between the European Union (EU) and various parts of the world are also an important supplement to WTO package negotiations. As free trade agreement negotiations between the EU and the Gulf Cooperation Council seem to be going nowhere, the UK might consider recommending a more targeted bilateral approach.
- 10.4 Regulatory issues can be an ongoing problem for sectors like legal services, despite good WTO commitments. Greater awareness and attention to these issues from UK posts would be helpful to the longer term exporting effort.
- 10.5 The shortage of resource in the UK justice sector and particularly in the judiciary is a constraint in promoting UK legal exports. The Society is increasingly being approached by other jurisdictions seeking help in familiarising their judges with common law and international commercial practice. The lack of an international strand of work at the Judicial Studies Board means that it is difficult to meet these demands for assistance. In the longer run these are missed opportunities to grow a wider understanding of English and Welsh common law in civil law jurisdictions.
- 10.6 UK export strategy should pay more attention to its strength as a centre of excellence in areas like legal services which create triangulation opportunities. In other words, the Society is able to act as a source of advisory expertise on economic activity between businesses and governments in other countries without there being any direct link to UK business. Nonetheless this global hub effect can generate significant benefit in terms of export earnings for the UK.
- 10.7 Although great strides have been made in recent years by UKTI in understanding service orientated businesses, the fit is not yet perfect. Many of the products and services or categories do not comfortably fit a service business like law. One example of this is the categorisation of Small and Medium Enterprises (SMEs) on the basis of employment as well as turnover. As law is a human resource driven business, law firms will often hit the SME threshold for employment long before they hit the turnover limit. This effectively disqualifies the group of law firms most likely to benefit from government business support. A proper assessment of government assistance to business in the light of the latest research into the way in which service businesses work, could help to avoid such problems in future.
- 10.8 It has been common practice in recent years to organise outward trade missions, whether to accompany Ministerial or Mayoral parties or as part of regional or sectoral missions organised by other bodies. These outward trade missions have an important role to play but should perhaps be supplemented with more inward missions in which the Society seeks to encourage groups of

potential exporters, investors and business partners to come to the UK. This is particularly relevant for service sector businesses which often rely on more equal partnerships than the traditional manufacturing supplier relationships where it makes sense to identify a source factory etc.

- 10.9 There has also been much effort made by UKTI to promote coordination amongst the regions of the UK who are seeking to promote their own economies. Although progress has been made, there is still a sense, often picked up abroad that UK regions are competing against each other and this is creating confusion. It would be considerably easier to promote what each UK region has to offer if regional strengths were agreed and made, as far as possible, non-competitive.
- 10.10 Finally, the Society would like to see more recognition of the role that legal exports play. The legal sector is categorised in UKTI terms as a sub-set of financial services and the Society believes that this undersells the role that lawyers play in sectors ranging from infrastructure through to sports and media law.

Conclusions

11. The Middle East, and the Gulf in particular, are likely to remain important to the UK legal sector despite the recession. The recommendations and suggestions that the Society would make in order to increase the effectiveness of UK legal exports to this part of the world are nonetheless applicable around the globe.

20 April 2009

Memorandum submitted by Management Consultancies Association

1. The Management Consultancies Association is the trade body for the UK's management consulting industry. Our members must satisfy rigorous entry criteria, which, amongst other things, require firms to have been in existence for three years and to prove their financial stability, as well as provide convincing client references; members also have to adhere to a strict Code of Practice which demands high levels of transparency and integrity, as well as a commitment to putting the clients' interests first and delivering sustainable value. Between them, our 60 members employ 30,000 consultants, comprise 70% of the UK's £8.5 billion consulting industry, and work with 90 of the FTSE 100 firms, as well as almost all government departments.

2. The consulting profession is home to a number of firms with global reach, and this is reflected in the value of services exported by the industry. According to a recent MCA survey of consultancy firms, our members' exports were worth £631 million in 2008; this suggests that the industry as a whole exported services worth just under a billion pounds, or £901 million. This equated to about 10% of the fee income earned in the UK.

3. On the whole, consultancies have prospered of late. The shift towards a knowledge-based economy plays to their strengths, and an increasingly globalised environment suits British consultancies well: British firms' close links with both the American and emerging markets mean that they are well placed to manage and profit from the flow of new ideas throughout the world economy. However, there are some areas which would merit attention to ensure that this success continues. In particular four issues are worth considering.

- Ensuring and expanding the free movement of labour (paragraph 4)
- Expanding export credit guarantees to provide greater cover for exporters of services (paragraph 5)
- Providing reliable information about future growth trends by country and by sector (paragraph 6)
- Refocusing and better publicising the role of UKTI (paragraph 7)

4. Consultancies export services, and more often than not, this means transferring experts from one country to another for varying periods of time. This trend has been reinforced by the recent prevalence of delivery models such as off-shoring. As a result any legislation which facilitates the free movement of labour is welcome. Although the EU's "Four Freedoms" have helped, there is still scope for streamlining or improving the tax arrangements and processes involved in gaining work permits, especially for non-British employees working in Britain for British companies, who may then be sent overseas. Outside the EU the scope for improvement is larger still. In a period of reduced international trade and growing protectionist sentiment, it will be more important than ever to ensure that progress made in this area is maintained and extended.

5. One effect of the downturn reported by consultants has been a rise in defaults on payments by foreign counterparties. Although the export credit guarantee scheme covers "project-related services", and has recently become more supportive of the services sector, it has historically been more focused on capital and semi-capital goods. Given the importance of Britain's services sector, it would be worth extending the remit of the Export Credit Guarantee Department (ECGD) to provide more explicit support to exporters of services. In connection with this, it would also be worth publicizing the Department's activities more widely, as these are not especially well known.

Unlike its counterparts in Britain's competitor countries, the ECGD is obliged (by the Treasury) to make a profit. Whilst this might seem prudent, it means that the ECGD is more conservative than its international counterparts, providing coverage for fewer projects in fewer countries, and taking longer to respond to opportunities in emerging economies, with the result that British exporters prepared to seek out such opportunities are exposed to greater risks than their international competitors. Relaxing the requirement that the ECGD makes a profit would address these issues, although would obviously require funding at a time when the public finances are stretched.

6. One problem all businesses—but especially exporters working in unfamiliar markets—experience is gaining access to reliable economic data and predicting future trends. Consultants felt that anything the government could do to provide such information on a nation-by-nation and sector-by-sector basis would help them to stay ahead of their global competitors. The Embassies and High Commissions produce economic data on their host countries on a monthly basis, but this information is classified. It would be useful if this information could be made available to firms operating in foreign markets. The information which is currently provided under UKTI's Overseas Market Introduction Service (OMIS) is considered less useful, and also accompanied by a fee.

7. Consultants are not sufficiently aware of the activities undertaken by UKTI to promote British business abroad, a fact also noted recently in a report published in March by the Professional Services Global Competitiveness Group. The MCA endorses the Group's view that greater efforts to publicise UKTI's role and activities amongst British exporters of services would be beneficial, as would involving a larger range of firms in its activities. For example, there used to be a subsidy to enable small firms to accompany the Lord Mayor of London on his visits abroad to promote UK business; this has been cancelled, but would be worth reinstating. The range of businesses which take part in these visits could also beneficially be expanded.

A further issue is that, from the point of view of exporters of consultancy services, UKTI is overly focused on the Indian and Chinese markets; these are difficult markets for consultancy, as China has yet to develop significant demand for consultants' services, and Indian market rates are around a tenth of those paid in the UK. Exporters of consultancy would welcome an increased focus on markets which have the means and appetite to buy consultancy services, such as the Middle East, Australasia, and North America. At the moment, UKTI's activities in North America, for example, are more focused on attracting inward investment to the UK, than selling the UK's services industry.

Similarly, UKTI's efforts abroad are heavily geared towards promoting Britain's financial services sector. In the current climate, UKTI would benefit from expanding its efforts to focus on professional, rather than just financial services.

8. Although some MCA member firms had benefited from the fall in the value of sterling (ie been able to re-tender abroad at more competitive rates), most were sceptical of the value of relying on policies which promoted a weaker pound. Many consultancies are firms with global reach, so exchange rate fluctuations often have a greater effect on the local share of their business rather than its overall volume. Furthermore, in an era of increasingly globalised supply chains, any gains derived from a weak pound are offset by the fact that inputs sourced from all over the world become more expensive as sterling's exchange rate falls.

9. Some additional points of interest were raised recently by the Professional Services Global Competitiveness Group. Its report drew attention to the shortage of IT and language skills in Britain, both of which will be crucial for consultants in an increasingly competitive international marketplace. The report supports the inclusion of IT skills on the Shortage Occupation list, and advises that schools and universities should place renewed emphasis on language learning. These recommendations should now be followed up by the Government.

17 April 2009

Memorandum submitted by the Manufacturing Technologies Association

EXECUTIVE SUMMARY

1. The Committee's Inquiry is timely and the identification of the importance of manufacturing in the Call for Evidence welcome. The UK remains a leading manufacturing nation, although its industry is too often overlooked or misrepresented. Manufacturing is indeed well placed to take a lead in exporting out of recession

2. The Manufacturing Technologies Association represents over 270 companies involved in the production and supply of manufacturing technology. Key constituent parts of the sector include; machine tools, cutting tools, metrology (measurement tools) and software for computer aided design and manufacture.

3. MTA's members support almost all UK engineering-based manufacturing in some way. This unique range and diversity of interest gives the MTA a position at the heart of UK manufacturing.

4. The economic downturn that gained momentum with the onset of the Credit Crunch has presented serious challenges for UK manufacturing. Key sectors, notably automotive engineering, have experienced serious setbacks. This recession presents particular difficulties for sectors, such as the manufacturing technology sector, that are heavily capital intensive.

5. There are a number of areas of export policy that need to be addressed as a matter of urgency. Several are centred on the role of UKTI.

6. UKTI needs to re-focus on providing support directly to actual and potential exporters. An example of such direct support, which is in danger of being cut, is the valuable work UKTI does on overseas exhibitions.

7. The effectiveness of UKTI is hampered by its regional structure. It would be beneficial to organise it along sectoral lines.

8. UKTI needs to be more flexible in order to enable it deal more appropriately with the needs of SMEs.

9. Urgent action is needed to secure the availability of Credit Insurance for exporters.

10. The Export License system needs to be simplified and clarified.

INTRODUCTION

11. In its call for evidence the Committee was right to highlight the contribution to the national economy made by manufacturing. Too many people in the commentariat, and indeed Westminster and Whitehall do not fully appreciate that the UK remains the world's sixth largest manufacturer, lying significantly behind only larger countries; the US, China, Japan and Germany and comparable with Italy and France. The UK's manufacturing base has developed in such a way that our engineering sector is now focused on high technology, with high added value.

12. Partly as a result of the lack of recognition, there is always a sense the manufacturing has to justify itself with the mix of the UK economy in a way that seems incredible to our counterparts in Continental Europe, the Far East and indeed North America.

13. The present economic stringencies are such for the first time in decades politicians are talking about "industrial activism" and intervening directly in markets that are seen to be failing, most notably in the financial services sector. Manufacturing is not asking for a bail out, it does not need one, but it is asking for support from Government in order to play the role that it is capable of in driving the recovery. Exporting lies at the heart of that role.

14. At the MTA we are committed not only to helping our members build on their strong positions and exploit the positive opportunities that exporting offers but to showcasing UK manufacturing at its best.

15. Delivering enabling technologies, MTA members help improve efficiency and productivity in UK engineering based manufacturers. Much of what our members produce is exported overseas, but our members also deliver into UK component manufacturers and Original Equipment Manufacturers, whose production also is exported.

Manufacturing Technologies

16. The Manufacturing Technologies Association directly represents over 270 companies involved in the production and supply of manufacturing technology—some 90% of the core industry. They consist of manufacturers, importers (many of whom subsequently re-export) and companies supplying services to them. This sector is modest (circa £1.2 billion in value) in comparison to the manufacturing sector as a whole, but its position as the "enabler" means that it affects all engineering based manufacturing directly.

17. Manufacturing technology equipment is vital for the creation of all modern products, either directly or at some point in the manufacturing process. Machine tools are used across engineering (including aerospace, automotive, defence, railways, medical equipment, construction equipment, agricultural machinery, and consumer durables) and indirectly by almost every part of the manufacturing sector.

18. Alongside machine tools, cutting tools and work-holding equipment are also a vital part of this process. Other aspects of manufacturing technology such as metrology (measuring) equipment and computer aided design and manufacturing systems (CAD/CAM) combine with the machines, tooling and work-holding equipment to make up complete systems used to fashion components used in every part of our daily lives. The sector is fundamental to the nation's economy.

We draw our unique reach and insight into UK manufacturing from contact with the incredible range of companies that our members serve. Without the products made and supplied by our members UK manufacturing would not be able to function—we are embedded in its very heart. This gives us a second interest in manufacturing exports, one derived from the activities of the customers we represent. We estimate that turnover for the manufacturing technology sector in the UK is about £1.2 billion, of which more than 80% is exported. National data on the output of machine tools, cutting tools, and tool/work-holding equipment gives a total of around £850 million, of which about £750 million is exported.

19. Beyond this, we estimate that output of metrology equipment is worth in the region of £250 million, again with a high export ratio; and that finally, the turnover for other manufacturing technology is estimated at £100 million, giving the total of £1.2 billion.

20. Exports of machine tools grew in 2008 and reached their highest level in cash terms since 1999; the growth was concentrated in European markets, although there was also a strong improvement in shipments to both China and Brazil. Building these markets, and those in the other BRIC countries, is imperative to exporting out of the recession. MTA has dedicated offices in both China and Russia. The table below covers only the discrete Machine Tool market, for which reliable export figures are available. It is the largest part of the sector.

21.

LEADING EXPORT MARKETS FOR MACHINE TOOLS 2006–08
(by country of destination, values in £ million at current prices)

2006		2007		2008	
<i>Countries</i>	<i>Value</i>	<i>Countries</i>	<i>Value</i>	<i>Countries</i>	<i>Value</i>
All Countries	477.8	All Countries	471.7	All Countries	507.3
European Union	193.0	European Union	229.3	European Union	260.5
(15)		(15)		(15)	
1 U S A	71.1	1 Belgium	81.1	1 Belgium	88.1
2 Belgium	63.8	2 Germany	66.7	2 Germany	75.2
3 Germany	44.4	3 U S A	45.5	3 U S A	42.3
4 China	33.7	4 India	19.8	4 China	27.1
5 India	19.8	5 China	18.0	5 Poland	16.6
6 Irish Republic	17.2	6 Irish Republic	14.6	6 Spain	16.6
7 France	13.3	7 Iran	13.7	7 Irish Republic	14.9
8 Italy	12.6	8 South Korea	12.5	8 India	14.8
9 Spain	11.5	9 Spain	11.8	9 Italy	13.3
10 Japan	9.2	10 France	11.4	10 Brazil	12.4

Source: HM Revenue & Customs

NB the position of Belgium is inflated by the practice of re-export, largely to the rest of Europe, from that country.

THE MANUFACTURING CONTEXT

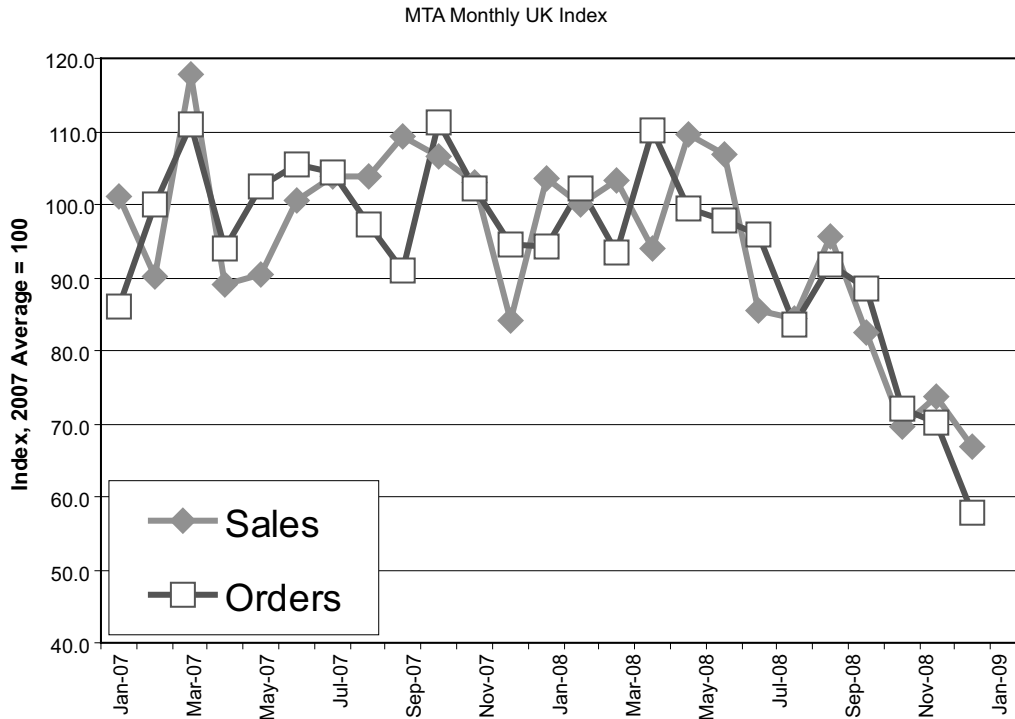
22. The size of the UK's manufacturing sector has reduced relative to the rest of economy over the past forty years. That decline has seen a consequent fall in the number of people employed in the sector and the fostering of a belief that UK manufacturing is struggling, if not dying. In fact UK manufacturing has been one of the country's success stories over the last decade, with an increasingly lean, entrepreneurial, edge.

23. We welcomed the publication of the Government's Manufacturing Strategy: New Challenges, New Opportunities in the autumn of 2008. We hope that it heralded a step change in Government's perception of manufacturing, which we believe, has been seen as a Cinderella Sector for too long. The report gave due praise to the increases in productivity that UK manufacturing has achieved in recent years.

24. The recent relative devaluation of Sterling has created a source of competitive advantage for many UK exporters. This provides an opportunity for a real step change in exports, if the support is right. The exchange rate is not the "be all and end all" of investment decisions and it is important to recognise that, while it will have positive effects for some, in and of itself this is not a magic bullet. The international nature of many of today's supply chains mean that many exporters are also importers of raw materials or other goods for use in the manufacturing process.

25. The dramatic change in economic circumstances in the final quarter of 2008 has changed the environment in which manufacturing is operating. There has been a substantial decline in activity. The graph below (Table 1) shows the decline in sales and orders for manufacturing technology towards the end of 2008 and at the beginning of 2009. The further graph below shows the decline in the sectors that are the heaviest end users of manufacturing technology.

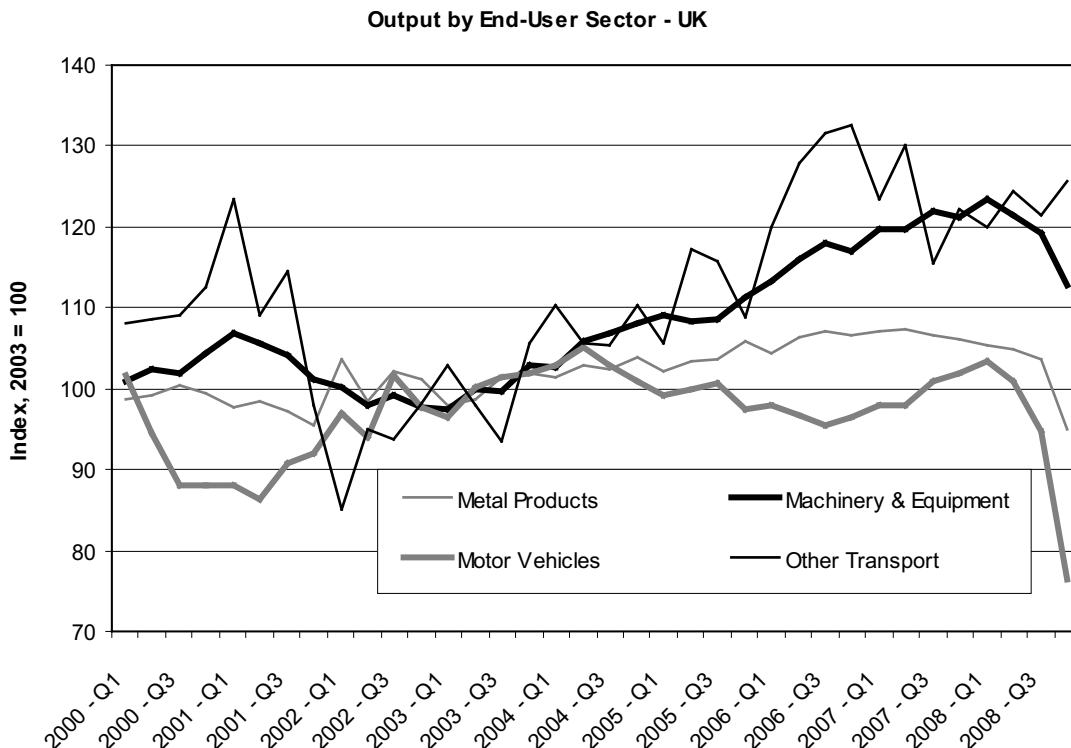
26. Figure 1



The relationship between orders and (subsequent) sales is complex. The pattern shown in January, with sales, agreed months in the past, outstripping Orders, for future delivery, can be expected to continue for some months as firms refrain from making investment decisions until absolutely necessary.

27. There are four principal end-user sectors for the products of the manufacturing technology sector; the performance in terms of output of these sectors is shown in Table 2. Since the base year for the index series in 2003, the machinery and other transport (dominated by aerospace in the UK) sectors have seen the best performance, while metal products has seen only modest growth and motor vehicle output struggled to get above the level seen in 2003. The recent, well known, problems in the automotive sector are clearly shown in the chart, with output collapsing from the middle of 2008.

28. Table 2



29. The customers of the manufacturing technology suppliers are, in turn, often also producing capital goods; this means that those who supply capital goods (ie machine tools and some aspects of the metrology industry) suffer more than most from cycles of demand in the economy. Being dependent on investment means that confidence (which is hard to measure or predict, more so now than ever), finance and capacity utilisation are the principal drivers of demand. In addition, there is often a time lag between a recovery in demand and investment, as well as one between orders and shipments within the industry. This makes large parts of the manufacturing technology sector highly cyclical and, therefore, significant percentage changes in business from year to year are common, even under “normal” business conditions.

SPECIFIC AREAS WHERE ACTION CAN AND SHOULD BE TAKEN ON EXPORTS

30. Intro

The role of UKTI

31. UKTI has made strides forward in recent years and in some areas, notably in organising unified, catalytic, UK presences at international trade shows, MTA—and other Trade Associations, such as SBAC with whom we have collaborated—are working more closely with the organisation. A recent example of such cooperation was a joint UKTI/MTA presence at CIMT, an international manufacturing technology show in Beijing. A similar arrangement is being carried forward for Metalloobrabotka, the principal Russian manufacturing technology show, which will take place in May of this year.

32. However there remain substantial concerns with the operation and strategy of UKTI. These are outlined below.

We are concerned at the reductions in UKTI’s budget for exhibition support and the over emphasis on inward investment (which, while welcome, sees profits go overseas) rather than on export support which can help British companies identify new opportunities and markets for exports. We believe this will inevitably put us at a competitive disadvantage. We would like to see a level playing field with our competitor nations, many of whom invest more in trade promotion. For instance at the CIMT show in Beijing, mentioned above, both Italy and Switzerland had better funded presences than the UK. Synergies and savings can be achieved by UKTI through working with Trade Associations; however there is scope for a considerable increase here with isolated good practice needing to be applied more evenly. The MTA runs its own exhibition, MACH, on a bi-annual basis. This exhibition, which attracts substantial foreign interest is a key shop window for British manufacturing technology.

33. There is a perception that UKTI spends a substantial part of its budget on non-core activities, which lack the relentless focus necessary to push export success. An example is the undertaking of seemingly generalised and unfocused marketing campaigns (one member recently reported seeing an UKTI billboard advertisement on a suburban railway platform in North London—it was unclear to what purpose).

34. It is widely felt that the regional structure of UKTI is unhelpful. The inability of the International Trade Advisors to offer advice to companies outside their regions, even if they are sector specialists in the relevant sector, is a wasteful and leads to considerable duplication of provision. We would be very supportive of any moves towards adopting a more sectoral approach, which looked to provide coverage across the UK. This would help the organisation to be more market led—investing in the right people to deliver relevant strategies to the sectors they represent.

35. Many SMEs believe that export support that does exist is not well configured to support them. This is especially true of 2nd and 3rd tier companies in complex supply chains. Companies of this size will often initially follow a major company into a market as part of their supply chain. Where help could be given is to exploit subsequent, secondary, opportunities in the new market.

36. UKTI, not unreasonably, looks to exploit new and developing markets. However this approach can tend to overlook the export opportunities that exist on our doorstep in Europe. For many SMEs, perhaps with little experience of exporting, Europe is a natural first step.

Credit Insurance

37. Credit Insurance is a pressing issue, and one that has become even more so since the onset of credit crunch. Credit Insurance has a vital role to play in getting the world economy up and running again. Government stepped in when there was a crisis of confidence in the banks but that crisis has had knock on effects that have damaged businesses’ confidence in each other.

38. For companies engaged in capital intensive international trade this is particularly acute. Delivery lead-times can commonly be up to 12 months, or even longer. The issue has become particularly acute for those serving certain sectors on which the weight of the economic slowdown has disproportionately fallen, notably the automotive sector. Members report credit insurance providers ruling whole sectors unfit for cover. It is widely reported that HMT is considering providing some sort of cover—such moves will be welcome, provided they are properly resourced and easily accessible to the widest possible range of companies.

Export Licensing

39. This is an area which has been problematic for many MTA members over the years. MTA believe the Government needs to be more transparent in the whole process of issuing export licenses.

40. In practice it can be unclear at times what the criteria are. Of course we recognise that the specific circumstances in relation to given countries may change, but there is a lack of transparency about when and how such changes are made. Member companies report that they have been able to gain a license, perhaps after some difficulty, when an overseas order is initially placed but then are later rejected for the same order. We would like to see the Government give a full explanation of why this happens.

CONCLUSION

41. As an industry we are potentially well placed to take advantage of the UK's economic recovery. Historically manufacturing technology has led the curve, as companies place orders with our members in anticipation of swelling order books. There are advantages too in the relative devaluation of sterling that has occurred. We at MTA believe that once again our sector will be a crucial one for "green shoots spotters" to watch. It is more important than ever before that in order to facilitate the "exporting out of recession" that this Inquiry anticipates Government stands ready to support, with renewed impetus, those companies that are prepared to do so.

42. It is very welcome that the Committee has chosen to look at this subject now, while we are in recession and when its recommendations can be acted on in time to have some effect. However the necessity to submit evidence before the budget means that there is a danger that such evidence will date very quickly. We would welcome the possibility of submitting addendum evidence after the contents of the budget are known. There may be impacts on things that have been raised in this submission and new issues may arise.

21 April 2009

Memorandum submitted by the Middle East Association

The Middle East Association is the UK's premier organisation for promoting trade and relations with the Middle East, North Africa, Turkey and Iran. The members of the Association cover all sectors of industry and commerce including: Banking, Finance, Law, Consultancy, Manufacturing, Retail, Education and Training, and are responsible for the vast majority of all UK investment and trade with the region. Small and Medium Enterprises are particularly encouraged to join the Association.

Mr Michael Thomas, Director General

Mr Robin Lamb, Director of Trade & Government Relations (lately HM Ambassador Bahrain, 2003–06; Director Business Group 6, Trade Partners UK, 1999–2001)

Note: In presenting its written evidence to the Committee, the Middle East Association wishes to record its appreciation for the collaboration and invaluable support for its activities provided by UKTI, British Ambassadors and overseas staff. The points made in our written evidence are intended as positive recommendations to strengthen the ability of Government to deliver the support for trade and investment to which they are clearly committed. The MEA's proposals in no way detract from the its regard for the work done by UKTI and British Embassies.

What should be done to sustain and increase Britain's export strengths? Is there more the Government or UKTI could do to support exporters, to identify key sectors or to reprioritise markets?

1. The IMF reported in May 2009 that the global economic downturn was not significantly affecting Middle East & North Africa (MENA) countries through direct exposure to financial stress or toxic assets. But it was having an indirect effect on oil producers⁴⁵ through a sharp drop in oil prices and the impact on exports of the contraction in global demand. Together these meant that MENA oil revenues in 2009 would be less than half what they were in 2008 (comment: it should be noted that the price of oil has strengthened appreciably since the IMF report was published).

2. Furthermore, the tightening of international credit markets and lower investor appetite for risk was depressing local asset prices and reducing investment. This affected regional oil importing countries too which were also experiencing reduced FDI, tourism and remittances. Growth was slowing in both exporting and importing countries—but with a lag and more moderately than in advanced economies.

3. But both oil exporters and importers were benefitting from lower import costs and reduced project management and factor costs as a result of steep falls in the price of steel and other commodities and services. Middle Eastern oil importers (and some exporters, such as Libya) had generally developed relatively limited links to global financial markets so their financial institutions and economies escaped the worst ravages of the global financial crisis.

⁴⁵ Oil exporters in MENA region account for 65% of global oil reserves and 45% of natural gas reserves. They play a leading role in the international trade in hydrocarbons.

4. As a result, the IMF projected continued average economic growth of 2.3% for MENA oil exporters and 3.2% for oil importers. Many MENA oil exporters were expected to maintain their spending programmes (thereby contributing an important stimulus to global demand) and their sovereign wealth funds (SWF), which had built up substantial assets before the global economic downturn, were continuing to pursue profitable investment opportunities abroad in real estate, retail and finance.

5. The IMF predicted that MENA oil exporters and importers between them would import goods and services in 2009 approaching \$1 trillion in value.

6. In 2008, UK visible exports to MENA countries amounted to £12.7 billion. The size of both the market and the UK share suggest that even in the downturn, there are significant opportunities in the Middle East for UK exporters of goods and services, offering both absolute opportunities and opportunities to compensate for the contraction of markets in other parts of the world suffering more directly from the global economic crisis.

7. UK exporters should be alerted to these opportunities. The Government should reduce pressures on businesses which inhibit their ability to pursue those opportunities and should ensure that information and support is provided efficiently and in a way that facilitates, rather than adds to the costs of, market entry.

8. This is an additional reason why the Government should lighten the regulatory burden on all SMEs, be they exporters or domestic suppliers.

9. In the information age, much published information is available on the Internet. The Middle East is a region which is liberalising its economies and increasing transparency but individual countries are doing so at variable rates and accurate commercial information can be hard to come by (as evidenced by the prices specialist media and political risk analysis companies can charge). There is therefore an opportunity for Government & UKTI to reduce costs for SME exporters by complementing information available on the Internet.

10. UKTI already provides the Overseas Market Information Service (OMIS) but charges companies who use it. This does not reduce but increase costs for SME exporters. This can only discourage potential exporters and reduce the competitiveness of established exporters, at a time when the credit crunch has constrained the availability, and increased the costs, of commercial credit.

11. HM Treasury should recognise there is at least a temporary market failure and permit UKTI to provide OMIS services to exporters, particularly SMEs, free of charge until the banking system is able to provide the credit exporters need.

12. UKTI imposes targets on staff overseas for the generation of OMIS reports. These targets are linked to revenue generation but their effect is often to prevent staff from getting out of the Embassy to establish networks and acquire the information OMIS customers need. This threatens to undermine the quality of OMIS reports and the value UKTI staff can add to information available on the internet.

13. The removal of charging is likely to increase the demand for OMIS services. But removing charges and targets will reduce staff time spent on filling in forms and returns and allow them to return to their core function and to provide more proactive and better informed support for UK exporters.

14. UKTI should absolve their staff overseas of their current OMIS targets.

15. In oil producing and exporting countries, in particular, where natural resources are owned by the state and revenue accrues to the central government, the role of the government remains central to even a diversified economy and governments continue to be a major customer for goods and services as well as the source of significant contracts. To varying degrees, major Middle Eastern government purchasing decisions will in part be influenced by bilateral political relationships and the funding arrangements of partner governments (as when the US Government gifts defence equipment to foreign governments).

16. Middle East society, and therefore government and business, is one where the family, personal relationships and individual decision makers matter more than institutions. Moreover, status is important in the Arab world where decision making is concentrated in the most senior government and business hands: there is little delegation. Senior Arab visitors can be dismayed by being received by a junior Minister or executive, both on their own account and because of the way this will be seen in their home countries—let alone their instinctive assumption that the junior person meeting them will not have full decision-making authority.

17. Foreign governments and businesses therefore need to devote time and resources to identifying and cultivating the right contacts in Arab governments and businesses to support their exporters.

18. This is recognised by the UK's competitors in their use of Presidential, Ministerial and senior politicians' time and the deployment of concerted lobbying efforts (eg US Government and Congressional visits and visits by senior government figures with established personal connections to Arab decision makers). Visiting Heads of State also receive high level and flattering public attention in Washington, Paris and other capitals.

19. In London, British Ambassadors can find it difficult to obtain the time of the Prime Minister to receive the Head of State of their host country, even once a year. Similar difficulties are often encountered in securing a Secretary of State's time to receive a senior Ministerial visitor. This perceived neglect or slight can affect business for UK exporters in markets where government and private sector buyers will take note of, if not a direct lead from, government attitudes to a foreign country.

20. 10 Downing Street should allow the presumption that an Arab Head of State visiting London even privately would be received by the Prime Minister once a year. A government representative at Ministerial level should call on a visiting Arab Head of State at his place of residence in London. Ministers should make themselves available for a meeting with the equivalent Arab Minister when the latter visits London. These courtesies are particularly important during the current economic difficulties but beneficial at all times.

21. Overseas visits by the Prime Minister and Cabinet Ministers are particularly effective: Arab governments frequently complain of British neglect and contrast it with the attentions of competitor governments. While pressing for as many senior Ministerial visits as can be managed to Arab countries, the MEA recognises the real constraints on senior Ministers' time. Attention paid to visitors in London has less impact but mitigates the sense of neglect while taking less time than an overseas visit. Periodic telephone calls are also an effective adjunct in the intervals between face-to-face meetings. Letters lack the personal touch and emails are rarely read.

22. The Middle East Association staged a high profile conference on the financial services sector relationship between the City and the Gulf on 25 June. The conference was delivered on behalf of the City Corporation and was partly intended to support the City's action to promote the City's services to the Gulf market. The Rt Hon The Lord Mayor of the City of London delivered a keynote speech and the event was sponsored by the Qatari Government's financial services as well as HSBC and Europe Arab Bank. The conference is the fourth annual event in a series and has been in preparation for over six months. The Government declined to provide a Ministerial speaker for the occasion and the Minister of Trade instead addressed a simultaneous conference organised by the "World Union of Arab Banks", a Lebanese-based organisation with the global reach of US baseball's "World Series".

23. The Government have also declined to provide a Ministerial speaker for an MEA conference on infrastructure in Egypt (sponsored by Invensys Rail & Skanska) and a third conference on Libya (sponsored by the law firm Trowers & Hamblins and the Europe Arab Bank).

24. The British Government should apply the priorities it assigns to overseas markets also to the events Ministers will support when there is a conflict of dates between events addressing priority and other markets. The Government should also decide in these circumstances whether it should support a UK export-focussed event supported by significant UK firms seeking to win business in overseas markets or a foreign body using London as a venue with questionable UK export benefits arising. This decision should have been clear when the City Corporation's support for the MEA's City & GCC conference showed the financial service sector's own assessment of relative merits.

25. These and other examples point up a growing weakness of coordination between and within Government Departments. In addition to Ministerial time being allocated in a way inconsistent with the authorities' own priorities, the ability and even the intent of relevant Departments to coordinate UK export support activity towards individual markets is increasingly wanting. When the MEA, for example, is organising a trade mission to a particular market in a specific period, the mission's prospects and commercial viability are undermined when another organisation proposes a similar action in the same market and timeframe. This is competition. But when the MEA's plan is known to a Department and another division of the same Department subsequently initiates or supports a competitive project, the Government directly undermines the export activity of the MEA and the UK firms who are members of the MEA mission.

26. Government Departments should coordinate export support activity within and between themselves to ensure that they do not compete and so undermine private sector efforts. They should seek to ensure differentiation in the focus, location or timeframe of UK export activity they support.

17 July 2009

Memorandum submitted by Midlands World Trade Forum

The Midlands World Trade Forum (MWTF) is the largest international trade organisation in the West Midlands representing the voice of more than 750 SME's. For the last six months we have been asking our members to voice their concerns about the issues affecting their businesses during the current economic climate and so are well placed to submit comments to the BERR Select Committee Enquiry on "Exporting out of the Recession".

EXPORT PROBLEMS

Members have cited a wide range of problems including currency fluctuation, pressure from customers to extend payment terms/provide more favourable delivery terms, the global economic slowdown affecting existing export markets and the lack of credit insurance. The latter in particular occupies the concerns of many of the companies surveyed and has prompted comments such as those detailed below:

“The problem is escalating in so far as the longer we go without the insurance the higher the value of the uninsured debtors becomes. So far we have taken the view that we will try and manage the risk on debts due from our long-standing customers and try to get some sort of advance payment or LC cover from new customers. The risk to us and to UK exporters in general is that companies that are otherwise sound and profitable may be put at risk by factors that are essentially beyond their control.”

“We opted some time ago to have a tracker account into which we would put regular deposits and keep this to cover bad debt. We have depleted our savings to fund a shortfall in working capital during a particularly expensive period and we now need to build this fund back up again. We chose to do this because of the high cost of insurance and the fact insurers are not prepared to cover all customers. We hear from suppliers and others in our sectors that insurance companies are being ever more selective in the companies they will cover and premiums are continuing to rise for a lower level of cover”.

GOVERNMENT HELP

Whilst much has been written about increased help for exporters and help in general most companies are still unsure of what is available in terms of additional funding or credit for investment. They are unsure whom to approach in order to find out and the whole area is too complicated and lacking in resource. If a source of help is identified the bureaucracy involved in applying for funding makes any gain worthless.

Suggestions on how the government could help include:

- Provide underwriting to established credit insurers to enable risk to be shared.
- Re-introduction of financial help to assist participation at overseas trade shows.
- A tax reduction on any profits generated from overseas business in order to actively encourage companies to export.
- Provide a linked network of fully translated, internationalised websites for individual sectors, perhaps based on regional Cluster Groups.
- Provide cheaper access to an online overseas credit checking service.

HELP IN ACCESSING NEW MARKETS

Members feel that the focus on new and emerging markets is to the detriment of strong and potentially safer more lucrative markets such as Europe and the USA. Consideration should be given to re-targeting the initiatives in this area. The structure of OMIS, one of UKTI's key services promoted by International Trade Teams, should be reviewed—its upfront payment without guaranteed return makes it an unattractive commercial proposition to many companies.

8 April 2009

Memorandum submitted by Pipe Supports Ltd

Pipe Supports Limited, a wholly owned subsidiary of Hill & Smith Holdings Plc has been supplying equipment to Iran both directly and indirectly through large EPC's for many years without problem. In recent months we have faced considerable delays due to increased resistance by BERR to grant export licences; we have been refused two applications one of which took three months to process.

We face tremendous export prospects to Iran and at the moment we are aware of several major projects in Oil & Gas; a UK company has the EPC contract for a large tranche of the Iranian LNG project with major equipment orders already placed on German suppliers and several other significant contracts appear to be moving forward with European suppliers. The Iranian LNG liquefaction technology is being supplied by Linde AG.

We exist in a highly competitive environment where service and response time means the difference between success and failure—the inability to bid a project in the confidence that we will be able to supply the goods is seriously curtailing our opportunities to the point that we have presently withdrawn from the Iranian market.

Our scope for the Iran LNG project will most probably be ordered from the UK by the EPC and if successful will mean substantial work for both our UK and Thai factories. What guarantee can we get that if we spend many hundreds of man hours preparing our offer, provide extensive support to our customer and hopefully secure orders the British Government will not block the export of our goods to Iran???

Can the Department for Business, Enterprise & Regulatory Reform actually make a clear statement as to their position on trade with Iran?

- Is trade being encouraged, supported or actively blocked?
- Is there any particular area of our market that should be avoided—Power Generation, Oil & Gas extraction, processing and transmission?”

9 April 2009

Memorandum submitted by The Scotch Whisky Association

EXECUTIVE SUMMARY

Scotch Whisky is a major UK export interest worth £3 billion in 2008.

Notwithstanding this success, action by the UK Government in certain clearly defined areas, as set out below, would greatly assist the industry to consolidate and even enhance its export potential in the current global economic downturn.

Trade Policy and Market Access. The Government should concentrate responsibility and expertise for trade policy and market access work in one government department so as to maximise the UK’s influence on EU external trade issues.

EU Single Market. The Government should not adopt any policies that impede the free movement of goods in the Single Market, especially in areas such as labelling where a common approach by Member States is needed; it should also seek to ensure that EU procedures for the movement of excisable goods under duty suspension work efficiently and effectively.

Support from Posts Overseas. The Government should provide the maximum possible in-market assistance to UK industry with a view to enhancing its export performance; support on trade policy and market access should invariably be provided free of charge, while support for trade promotion should be provided free of charge wherever possible.

Alcohol and Health. The Government should adopt an evidence-based approach to the national and international debate on alcohol and health so as not to inadvertently damage a major UK export interest.

Excise Taxation in the UK. The Government should set a positive example to the rest of the world by moving towards a fair tax regime under which all alcohol is treated similarly regardless of the form in which it is presented to the consumer.

Regulation and Competitiveness. The Government should ensure that all regulation is subject to rigorous assessment of its likely impact on business in order to avoid damaging competitiveness, also that it is implemented in the most industry-friendly way possible.

Transport Infrastructure. The Government should ensure adequate investment in maintaining/enhancing the country’s transport infrastructure so as to facilitate the export of goods from the UK to world markets.

INTRODUCTION

1. The Scotch Whisky Association (SWA) is the industry’s officially recognised representative body. Its 54 member companies, all of whom are distillers, blenders, bottlers, brokers or exporters of Scotch Whisky, together comprise over 90% of Scotland’s distilling and blending capacity. The main purposes of the Association are to protect and promote Scotch Whisky at home and abroad.

2. With some 90% of Scotch Whisky sales being overseas, one of the Association’s key priorities is the export environment in which its members operate. Our principal objective is to ensure that Scotch Whisky may be sold without undue restriction and on equal terms with all other spirit drinks in world markets. This includes:

- Pursuing the removal of tariff and non tariff barriers to trade, and
- Promoting, supporting or opposing legislative or other trade-related measures impacting on the international trade in spirit drinks.

3. The success of Scotch Whisky exports is vitally important to the UK’s export performance. Annual exports of some £3 billion mean, for example, that Scotch Whisky accounts for 25% of UK food and drink exports and is consistently among the United Kingdom’s top five manufactured export earners. It is often the UK’s single biggest export to key markets, for example Korea and Taiwan.

4. The impact of these exports in Scotland is highly significant, with exports representing 20% of total Scottish goods and services exports and 80% of Scottish food and drink exports. This strong export performance helps to support over 40,000 jobs across the industry and the wider UK supply chain.

5. In 2008, in spite of the gathering economic downturn, industry exports showed considerable resilience. Provisional figures suggest that despite these conditions, annual exports surpassed £3 billion despite lower shipment volumes and a marked decline in the final quarter.

6. It is recognised, however, that 2009 will be even more challenging. At a time when export-oriented sectors have a key role to play in supporting the UK's balance of trade and driving the economy out of recession, the Association welcomes the opportunity to participate in the Committee's inquiry.

TRADE POLICY AND MARKET ACCESS

7. The Scotch Whisky industry exports to some 200 world markets and, in spite of its considerable success, still faces a large number of tariff and non tariff barriers to trade. To be precise, an analysis in early 2009 identified 614 barriers to trade in 187 markets. While some are relatively inconsequential, such as low level tariffs and administratively burdensome licensing requirements, others such as India's 150% import tariff or Turkey's discriminatory excise tax arrangements are serious impediments to market penetration. As a result, significant commercial opportunities are being lost.

8. The Association therefore fully supports the priority that is being accorded by the Government to trade policy work. The United Kingdom is a major trading nation and has long supported the principle of open markets. The WTO Doha Round and the ongoing free trade agreement (FTA) negotiations between the European Union and its major developing trading partners such as Korea, India, ASEAN and Mercosur are therefore important for securing further trade liberalisation which, in addition to enhancing UK exports, helps generate economic activity and reduce poverty in third countries. The global economic downturn simply adds urgency to the need for these negotiations to be successfully concluded. Given the protectionist tendencies of some influential EU Member States, particularly in certain important sectors such as agriculture, automotive and chemicals, it is essential that the UK provides effective leadership for a group of free trading Member States in the EU's Article 133 Committee and elsewhere.

9. Although trade policy is extremely important in terms of creating new opportunities for the Scotch Whisky industry in developing markets, the impact of the day to day market access problems of getting goods to nearly 200 world markets should not be underestimated. The Association therefore welcomes the Government's enthusiastic commitment to the European Commission's market access strategy which is proving increasingly effective at resolving market access problems across many sectors in key export markets.

10. Given the importance of both trade policy and market access issues to the Scotch Whisky industry, the Association has some concerns about splitting the responsibility for the former between the Department for International Development (DFID) and the Department for Business Enterprise and Regulatory Reform (BERR). At a philosophical level, notwithstanding the importance of development to the international trade agenda, we believe that trade policy should be the responsibility of a single government department together with all the other trade functions such as market access, trade defence and the EU internal market. In brief, we do not believe it is necessary to have split responsibilities in order to achieve joined-up government (policy making). It should be emphasised that this does not imply any criticism of officials in either DFID or BERR, who are invariably helpful and pro-active on Scotch Whisky issues.

THE EU SINGLE MARKET

11. Around 40% of all Scotch Whisky is sold in the internal market. Harmonised trading rules within the 27 country bloc ensure Scotch faces the same regulatory framework as all other EU spirits. Most of the legislation affecting Scotch Whisky in the EU is agreed centrally rather than nationally; whether in relation to tax structures, bottle sizes or spirits definitions, a single set of laws applying throughout the EU has greatly facilitated the free movement of our product. As the EU expands, the benefits our sector derives from Single Market rules are widened to the acceding countries.

12. Nonetheless, the Single Market is not perfect. Despite the principles of free movement we face two issues in particular that deny us genuine border-free trade opportunities: labelling and strip stamps. While labelling law is fixed at EU level, Member States also retain the right to introduce national legislation going beyond the requirements of the EU Directives. Many Member States apply both national and EU laws and it is consequently impossible for Scotch Whisky to move freely throughout the EU using the same label. Regrettably a proposal for a new EU labelling Regulation looks set to complicate this further by making it even easier for Member States to introduce national measures.

13. Separately, over half of all EU Member States require a form of fiscal mark, often a strip stamp, to be applied on bottles as evidence of excise payment. These complicate, slow down and add costs to the bottling process and any bottle bearing a strip stamp no longer benefits from free movement: it can only be sold in the Member State that supplied the stamp. The administration of stamps is cumbersome and there are serious doubts as to the effectiveness of the strip stamp regimes. We favour the use of more sophisticated controls, such as the "Electronic Movement and Control System".

14. There is a further regulatory issue concerning the movement of excisable goods, which is impacting adversely on the industry's operations in the EU. Duty-suspended movements to EU Member States are subject to EU law. Currently, a common EU-specified paper document—the Administrative Accompanying Document (AAD)—is required to accompany the goods during the entire movement. Members have reported inconsistencies in the way in which the data requirements of the AAD are interpreted in different

Member States. This inconsistent approach has led to loads being seized by Customs authorities and fines, over €20,000 per container in some cases, being imposed. Over and above the fines themselves, seizures increase administrative costs for exporters, while delays to movements are not good for business.

15. Some of the problems associated with the paper-based system should disappear with the introduction of the pan-EU electronic Excise Movement & Control System (EMCS) when it becomes operational in 2010, although there will still be scope for Member States to interpret the data requirements differently. The Association is confused and concerned that a late amendment to the revised holding and movement directive (2008/118) appears to require a paper copy of the electronic message to accompany the goods, thereby potentially perpetuating the current difficulties.

16. In order for the Single Market to deliver the intended commercial benefit to the Scotch Whisky industry, it is essential that the UK Government addresses these important issues in conjunction with the governments of other EU Member States.

SUPPORT FROM POSTS OVERSEAS

17. The Association is in frequent communication with British Embassies and High Commissions on a wide variety of trade related issues. Staff from the SWA also travel to a number of our priority markets each year and invariably make a point of calling on Posts to discuss topical issues for Scotch Whisky in the market. The response and the support provided by Posts overseas is generally excellent.

18. However, it has become apparent over the last 18 months or so that UK Trade & Investment, which now has overall responsibility for Commercial Sections in Posts, is looking to charge for trade policy/market access work under the Overseas Market Introduction Service (OMIS). OMIS is designed primarily to help UK exporters to establish themselves in export markets by providing advice and reports on business opportunities, and helping to arrange visits including introductions to prospective customers/partners. It is not intended to cover Posts' trade policy work carried out in the wider UK economic interest, even when requests for help originate from business.

19. Usually, the Association has successfully resisted requests for payment under OMIS on the basis that its work on behalf of the industry is almost exclusively related to trade policy or market access. However, twice in the last six months, we have been obliged to pay for assistance from Posts. In each case, we have accepted that delivering on our request would involve Embassy staff in a considerable amount of work and we have therefore agreed to pay for these services.

20. In sum, we strongly believe that Government should be doing everything possible to encourage and help UK exporters, particularly in the present global economic downturn. Many companies are finding the business environment extremely tough, with customers having difficulty obtaining credit and consumer demand depressed by recession in many important markets. It seems particularly inappropriate that UK business should be asked to pay for services that it might expect to be provided by Government from general taxation. In this connection, it is instructive that the US Government has funded promotional activities for US distilled spirits, especially Bourbon and Tennessee Whiskies, in selected export markets for a number of years.

ALCOHOL AND HEALTH AGENDA

21. It is regrettable and undeniable that there is a problem with alcohol misuse in the UK and in many other countries around the world. The Scotch Whisky industry promotes the moderate and responsible consumption of alcohol and is fully committed to working with Government to tackle alcohol related harm. However, it is deeply concerned that blanket, untargeted alcohol and health policies have the potential to damage an important UK export interest while doing nothing to reduce alcohol misuse.

22. The World Health Organisation (WHO) is currently in the process of drafting a global strategy to reduce the harmful use of alcohol. The industry is recognised as a valid stakeholder in this process. However, some WHO member states and a range of health advocacy groups appear to have their own pre-determined agenda on what the strategy should comprise. This includes removing alcohol from the normal rules and disciplines governing international trade, as well as from the scope of all future negotiations on trade liberalisation. This position is justified on the misrepresentation that WTO rules prevent members from taking effective action to protect public health against the harmful use of alcohol.

23. In reality, WTO members are free to implement whatever measures they deem appropriate to regulate alcohol, provided they respect the core principles of most favoured nation and national treatment. Moreover, since only 8% of recorded spirits production is traded internationally, it follows that measures targeted at imported brands would have only a very limited impact on public health. Indeed, there is sound evidence that the products most prone to misuse are cheaper domestically produced spirits, especially those sourced on the illicit market.

24. In the face of this challenge to an important UK export interest, it is essential that the Government adopts a proportionate, evidence-based approach to the alcohol and health agenda, both in the WHO and in its UK policy. In this latter regard, the industry welcomes the Prime Minister's rejection of introducing

minimum pricing for alcohol, which has the potential to cause major damage in export markets because governments in third countries might easily adopt similar policies in a protectionist manner. We also believe minimum pricing would be illegal under EU and international trade rules.

EXCISE TAXATION IN THE UK

25. The Association's longstanding position on excise taxation is that alcohol is alcohol and should be taxed at the same rate according to alcohol content regardless of the form in which it is consumed, ie beer, wine or spirits. The UK Government's example of taxing spirits 37% more heavily than beer and 18% more than wine in terms of alcoholic strength is unhelpful to the attainment of this long term objective.

26. Similarly, the excise duty escalator introduced in 2008 is unhelpful in itself because it is likely to encourage other governments to adopt measures that will raise taxation well above the rate of inflation. This will be particularly damaging in countries that use *ad valorem* as opposed to specific tax methodology. Moreover, the escalator will widen the already large differential between the drinks categories, to the huge disadvantage of the UK's top export earner in the sector. We do not believe it makes sense for the world's foremost spirits exporter to pursue such policies.

REGULATION AND COMPETITIVENESS

27. There is no doubt that compliance with government regulation involves cost to business, no matter that it may be framed and enforced in the most business-friendly manner; also that the competitiveness of business is ultimately reflected in these costs. As a matter of principle, it is therefore essential that the effect on competitiveness is placed at the heart of all regulatory impact assessments conducted by the Government.

28. Moving from the general to the specific, the Association has particular concerns that the industry's future competitiveness will be eroded by the EU Emissions Trading Scheme, which places Scotch Whisky at a disadvantage vis-à-vis other spirits with geographical indications such as Armagnac, Cognac and Plymouth Gin.

29. Specifically, by 2020 the Scotch Whisky industry will be faced with estimated increased costs of around £30 million for the purchase of emission allowances because, as a result of the way in which the scheme's eligibility criteria are laid down in the legislation, its high volume production sites are captured by the scheme whereas those of its main competitors are not.

30. There is also a security-related matter, which has the potential to cause considerable disruption to trade unless it is addressed urgently. Under the provisions of EU Community Customs Code changes, from 1 July 2009 exporters will be required to provide electronic pre-notification of goods that are exported from the EU, as part of the security amendments to the Code that were developed following the 2001 terrorist attacks in the US. Unfortunately, however, the detailed EU implementing regulations are still to be published and the Association is concerned that its members will face unrealistic timescales to make systems changes in order to comply with the new requirements.

TRANSPORT INFRASTRUCTURE

31. The industry exports 95 million cases⁴⁶ of Scotch Whisky each year. Consignments destined for many European markets tend to move by road using a variety of ferry crossings from the UK to the continent. Goods destined for markets further afield are carried in containers by road or rail to the UK's deep water ports, including Felixstowe, Liverpool, Southampton and Tilbury for onward movement by sea either directly to the destination country or via one of the major European "hub" ports such as Rotterdam or Antwerp. It is therefore essential for the Government to continue to invest in the UK's road and rail infrastructure so that goods can be transported quickly and efficiently from production and warehousing sites in Scotland to the ports for onward movement by ferry/cargo ship. Any degradation in the transport infrastructure would have potentially serious consequences for Scotch Whisky exporters.

SUMMARY

32. As the representative body of one of the UK's most important export industries, the Association welcomes the opportunity to make this submission to the Committee. The issues raised here all appear to be of direct relevance to the Committee's inquiry and are matters of current concern to the Scotch Whisky industry. The Association hopes the Committee will find this submission both clear and helpful, and stands ready to provide in writing any further information that may be required.

17 April 2009

⁴⁶ One case contains 12 bottles of Scotch Whisky.

Memorandum submitted by Sims Metal Management, Sims Recycling Solutions

Exporting issues affecting the UK metals recycling sector

BACKGROUND:

The UK metal recycling sector directly employs over 8,000 people. The sector is a major export success story, accounting for 45% of Europe's 10 million tonne global trade. The UK exports recycled metals to markets across the world, using detailed raw material specifications agreed with consumers. It is also home to the main commodities market, the London Metal Exchange.

UK metal recyclers don't just recover metals. Because the industry has taken the lead in meeting ELV and WEEE targets, it is also at the forefront of developing new separation techniques and markets for other materials, such as recovered glass and plastics.

ISSUES:

1. In the export of recycled materials, it is the area of regulated flows (those flows having cost imposed by recent legislation—notably ELV and WEEE) that suffer at times of extreme market conditions.
2. This is particularly notable in the area of newer recyclates driven by legislation; for example plastics from both ELV and WEEE treatment.
3. Markets for these materials are predominantly in the Far East.
4. The recycling of polymer materials from such streams is a highly complex process. It is also a necessary process if the UK is to meet its recycling obligations for these streams under EU Directives. Such recycling initiatives are therefore deserving of complete support from regulators.
5. We find that there are inadequate resources (or will) by Government Regulatory Agencies to address the “illegal operators” who take advantage of these market conditions by cutting environmental corners to the detriment of responsible treatment operators. Poor audit standards by regulators are failing to drive out illegal export of wastes (for example inoperative electronic goods—the subject of press attention recently). Such export deprives responsible treatment operators of materials for processes which produce recyclables that are genuine substitutes for virgin materials (for example, polymers and glass from TVs and monitors). This impacts on the sector's ability to achieve genuine sustainability through export of recyclable materials.
6. Transfrontier shipment constraints on such materials need to be massively simplified to facilitate easier export. Such constraints manifest themselves in several ways:
 - (a) The UK is one of only two EU Member States whose regulators insist on the concept of proof of equivalent standard of recycling in non-EU countries. This means that UK exporters are forced to request that potential non-EU customers provide detailed evidence in order that they can be approved as customers for UK exporters by UK regulators. In these constrained times the majority of these customers have more supply on offer than their demand. Quite simply they therefore choose to purchase materials from other areas of the world where they do not have to jump through regulatory hoops in order to do so (for example the USA and the Member States who do not subscribe to the “equivalent standard” requirement). This unfortunately leads to UK exporters being severely disadvantaged and significantly missing out on sales of such materials.
 - (b) EU legislation is often conflicting. The WEEE Directive prescribes recycling levels for WEEE goods that require the recycling of plastics from these goods (generally by export). Further legislation in the area of brominated flame retardants in these plastics could prevent such export. Austrian regulators are currently agitating in the EU for such crippling legislation which is unfounded in science. Representations and evidence in this area have been made strongly to DEFRA but industry still has much legislative uncertainty which leads to lack of process development for the export of polymers.
 - (c) In the UK such recycled materials are designated as waste. Some overseas customers are based in countries where the import of waste is prohibited. But often such countries regard such material as product, or at the very least secondary raw materials. It is therefore the description of such materials rather than any environmental risk from such materials that prevents export sales into such countries. The UK and EU remain inflexible and insist that such materials must be described as wastes.
 - (d) The EU's “note verbale” system is ridiculous. It operates by asking all non-OECD countries which “wastes” they wish to receive from the EU. But if they don't buy “wastes” as above then they respond in the negative so the market becomes closed to UK operators. If they choose not to respond to the EU then the system defaults to the negative and that market becomes closed also.
7. The net result of all these issues is that UK exporters of newer recyclate streams find themselves disadvantaged at the hands of unregulated exporters of illegal waste materials, have markets severely restricted by poor EU regulation subsequently “gold-plated” in the UK and struggle in those markets they do have access to due to less regulated competition from other countries (when such regulation has little grounding in science or environmental risk). In these constrained times, the regulatory snowball continues

to grow at the same pace as always and such regulations are genuinely causing severe difficulties for exporters of new recyclates from the UK in the face of severe competition for market share from the rest of the western world.

16 April 2009

Memorandum submitted by Society of British Aerospace Companies

1.1 SBAC is the UK's national trade association representing companies supplying civil air transport, aerospace defence, security and space markets. Together with its regional partners, SBAC represents over 3,000 companies across the UK supply chain.

1.2 The UK has a 17% global share of the aerospace market, 10% of the defence market and is well placed to provide the equipment and necessary expertise to take a lead in the increasingly more important security sector. In 2007, 62% of the UK aerospace and defence industry's turnover came from export.

1.3 Aerospace, defence, security and space are vibrant, innovative industries, well equipped to contribute to the economic recovery. However this success should not be taken for granted and there are some short-term liquidity issues which threaten to cause problems for the sector. Continuing investment is required in skills and R&D if UK industry is to maintain and build on its current global position for the future. As these sectors are closely inter-related and in some cases overlap, a number of recommendations mentioned in one section below can also be applicable to other sectors.

1.4 SBAC members recognise the support and backing they receive from Government and in particular UKTI, however SBAC has identified opportunities where Government support could help encourage and strengthen export potential within our sectors and we therefore welcome the opportunity to contribute to this inquiry.

2. CURRENT OPERATING OUTLOOK IN THE AEROSPACE SECTOR.

2.1 The low availability of commercial credit is having a growing negative impact on airlines, affecting the potential purchases of commercial and corporate aircraft. The numbers of used aircraft on sale has increased significantly in recent months with the number of new orders coming through substantially decreasing. Civil aerospace "backlogs" are being found to be fragile as more and more purchasers seek to defer or cancel orders. The situation is being exacerbated by aircraft finance which is virtually non-existent on the markets. ECGD's support for the civil aerospace sector has therefore become even more important over recent months.

2.2 The Export Credit Guarantee Department (ECGD) has implemented new processes and reviewed resources to enable it to meet increased demand in the current market from aircraft and engine customers for funding provided under ECGD's guarantee. At present financial institutions have limited capability or appetite to provide loans covered by ECGD or other sovereign ECA guarantee as most are in the process of deleveraging their balance sheets and the major European lenders find it difficult and costly to commit US dollar based lending over the 12 year ECA loan term.

2.3 SBAC members have expressed concern that the UK Government has yet to reassure customers and the supply chain, including many SMEs, that the UK will support its average 25% share, by country content, of the financing requirement generated by the European ECAs issuance in 2009 which is expected to be c.\$12 billion worth of guarantees. The French Government has conditioned its recapitalization of some French financial institutions to a commitment by those institutions to provide backstop funding for up to EUR5 billion of the French share of Airbus aircraft exports (that have a considerable British content). However it is anticipated that this amount will not be sufficient to fund the number of deliveries that require funding this year, especially as the UK and German ECA shares are not, as of today, supported by a similar funding backstop in the UK and Germany. US EXIM has twice demonstrated recently its capability to fund customers directly, without reliance on commercial banks for provision of the underlying loan. This is a significant competitive threat to UK companies in an important export market.

3. LONGER TERM SECTOR OUTLOOK IN CIVIL AEROSPACE WHERE DEMAND FOR GREATER EFFICIENCY IS DRIVING GROWTH

3.1 The aerospace industry is forecast to grow at 5% per annum for the next 20 years, with the Middle East, India and Asia Pacific expected to show particularly strong growth. This forecast is expected to prove valid for the long term, though it is anticipated that this growth will temporarily slow over the next three years. Deliveries of new aircraft show significant cyclicity, but the overall trend is for strong growth, with forecasts predicting a requirement for between 29,538 new fixed wing aircraft worth \$2.6 trillion up to 2026 (Airbus, Demand for Passenger Aircraft 2007–26) and 29,400 aircraft worth \$3.2 trillion up to 2027 (Boeing summary outlook, 2008–27) and 30,000 rotorcraft worth around \$300 billion up to 2027 (AgustaWestland figures). It has to be noted that part of this strong growth is forecast to meet forthcoming environmental regulations and considerations that will come into play during the same time scale as well as meet demand for ever more fuel-efficient aircraft from customers.

3.2 The UK currently holds strong positions in the market on propulsion, airframe and aircraft power and control systems resulting in the UK's current 17% share of the aerospace market. The UK's prominence in the aerospace export market stems from prudent identification of key sectors and investment opportunities in the past, sometimes up to and over 20 years ago. Typical aerospace programmes involve extremely long timescales, which allow for a steady engineering effort over the product's lifetime, with the peak being during the initial production and remaining steady during the lengthy support "tail". Consequently if the industry is to maintain and secure the skills and employment levels developed during a product's life cycle in the long term, a "pipeline" for new programmes is required.

4. COMPETITIVE CLIMATE CHARACTERISED BY LARGE SCALE INVESTMENTS IN RESEARCH FUNDING

4.1 Civil aerospace is characterised by heavy up front investment and exceptionally long programme lives, which during its evolution, has seen aerospace primes and tier 1 and 2 organisations increasingly sharing development and programme risk within their supply chains. The result has been that the risk sharing load has been spread across a wider selection of companies, meaning that while a greater number of companies have the potential to share in an industry's success, the reverse is also true should the UK lose its leading position. This trend has significantly increased the exposure of UK SME's to investments in major long term programmes.

4.2 For the UK industry to maintain and increase its presence in the global civil aviation markets, the solution inevitably starts before export and must reside in the stabilisation and support of the industry. It is important to preserve the skills base and to increase the level of financial support, in particular for research and development activities. Market driven R&D is vital for the industry to be able to prepare the next generation of aircraft and deliver the amount of support necessary for the UK to maximise the benefits of this immensely valuable future market as outlined above. R&D investment will help in two areas: first, by making new products more fuel efficient and therefore more environmentally friendly; and second, many of the skills & capabilities in the aerospace industry can readily be applied to clean technologies (eg wind farms, civil nuclear etc).

4.3 Aerospace is one of the few industries in the UK that has taken the initiative to develop a national strategy for Research & Technology with help from DIUS, in particular in supporting the Aerospace and Defence Knowledge Transfer Network (KTN). SBAC has developed a technology route-map that identifies where investments need to be made, in particular for the low carbon technologies required for future aircraft, rotorcraft investment and investment in Unmanned aerial systems. This ensures that the maximum output can be delivered from any additional government investment in technology.

4.4 SBAC is concerned that due to constraints on its budget funding from the Technology Strategy Board (TSB) will not adequately sustain the pace of investment needed. With such stringent targets to meet against an international and competitive timetable. SBAC recommends that the pace of technology development needs to be increased further. This will ensure that technology is well advanced and that the greatest carbon reduction can be achieved. To be ready for future programmes industry forecasts that Government needs to substantially increase the budget for the TSB to increase the pace of investment in collaborative research and development funding.

5. MAINTAINING UK SUCCESS IN DEFENCE EXPORTS

5.1 The UK defence sector was the top global defence exporter in 2007 with a record £10 billion (US\$19 billion) of new business and a 33% market share. Support for defence manufacturing therefore aligns well with the national economic recovery strategy which places strong emphasis on export-led growth. A key factor in the success of UK defence exports has been the MOD defence R&D programme which underpins the innovative capability of the equipment. There is a direct correlation between the quality of military capability of a nation and the levels of investment it has made in Research and Technology (Defence Industrial Strategy (2005)). SBAC is therefore extremely concerned that investment in defence R&D will be cut further after several years of continual decline. SBAC understands that this year's Research & Technology budget is expected to be cut by 7%. Should such a reduction be implemented it will have a major impact on industry's ability to develop capability and quality systems, and subsequently damaging its prospects for exports in the next 20 years. SBAC recommends that defence R&T and R&D investment should not be cut any further than current levels, and where possible it should be increased.

5.2 SBAC recognises the excellent work which UKTI DSO does towards promoting the UK defence industry however it is believed that a stronger senior ministerial presence in promoting the defence sector would greatly enhance prospects for UK exports. Competitor nations regularly benefit from the direct intervention and support of heads of Government and senior ministers. The UK Government needs to do more in trade promotion in this regard if the UK is to retain its global leadership role in exports.

5.3 Maintaining UK defence industry's excellent export record will also depend on avoiding a reversion to protectionist measure owing to the current recession. SBAC supports efforts by governments, legislatures and industries, especially in the EU and US to facilitate cross border trade in defence. In particular UK industry would like to see early ratification by Congress of the UK US Defence Trade Co-operation Treaty.

6. SECURITY

6.1 UK industry is well placed to provide the technology and equipment that will give the best support in the fight against international terrorism. With the right approach, UK industry could supply equipment to other nations and develop exports for a market that is growing significantly and which has great potential for the acquisition of niche technologies.

6.2 SBAC noted the establishment in 2008 of the UKTI Defence and Security Organisation's (DSO) "Security Directorate" which provides specialist support to companies within the security sector. UKTI DSO has also established a Business Development Directorate which deals with events, exhibitions, provides market analysis and specific support for SME companies. This support is essential for industry in the UK in the context of the current economic downturn and the potential for new opportunities within emerging international security markets.

6.3 SBAC has welcomed UKTI DSO's proactive engagement of the security industry through the UK Security and Resilience Industry Suppliers' Community (RISC) International Group and DSO's bespoke Security Sector Advisory Group (SSAG).

6.4 UKTI DSO's decision to develop analysis on how to access overseas markets and assess the strength of competition within them has been warmly received by industry. SBAC considers it essential that RISC is provided with the findings of UKTI DSO's analysis at the earliest possible opportunity.

6.5 SBAC members benefited from the UKTI DSO's presentation to the RISC International Group in March 2009 on its initial research identifying seven target security markets, and we would recommend that there be continued engagement of this sort.

6.6 Industry would wish to make the point that regular engagement of industry will be vital to helping ensure that the UK makes the most of the new opportunities that are arising in the global security market.

6.7 SBAC recommends that UKTI DSO develops a shared strategy with industry to enable the UK security sector to access new markets. DSO should ensure that this strategy is linked to priorities arising from within the domestic security agenda. It should for example take a lead in promoting the need for export considerations in security procurement decisions across government departments, recognising that industry develops capability according to the needs of the customer. Exportable technology reduces long-term costs on government and thus derives greater value.

6.8 SBAC recommends that Government and industry should develop a joint approach to take full advantage of the EU's €1.4 billion budget (2007–13) available to Government agencies, academia and industry for research and development investment in the security field.

7. SPACE

7.1 The UK is a global leader in space-related commerce, industry and research, and is host to some of the most profitable and technologically advanced enterprises in the world. Its capabilities support investment across a range of activities that rely on space technology including, the world's most profitable global mobile communications provider, the world's leading capital market for satellite and application financing, the world's first public/private partnership for secure military satellite communications and Europe's most successful satellite-based TV broadcaster. All the current evidence is that the world's dependence on satellite systems is growing rapidly. The UK is already estimated to have 7.3% share of the global market which should reach \$3 trillion by 2020 (Case4Space report, October 2006), and there is potential for this to grow significantly if the UK continues to be innovative and competitive.

7.2 To ensure that the UK industry is well positioned to develop innovations and exportable products for this investment SBAC supports the need for the development of a UK space strategy developed by cross government stakeholders and representatives of industry and academia. The Aerospace Innovation and Growth Team was crucial in identifying the key markets for the UK aerospace industry to focus on, and it is firmly believed that a similar process is necessary to enable UK space to achieve its full potential.

29 April 2009

Memorandum submitted by the Sponsors' Alliance

SUMMARY OF REPORT

1a) The current economic crisis requires the UK Government to provide an urgent and significant investment to boost export activity and encourage UK companies to engage in, or increase their international sales efforts. Resources should be targeted towards business schemes which directly benefit exporters across all industry sectors and directly encourage them to enter overseas markets. The focus must be on those schemes which bring the largest financial return on investment.

2a) UK Trade & Investment's (UKTI) current trade support policies and infrastructure are neither relevant nor viable in the present economic climate. UKTI's structure is over—burdened by internal staff, overheads and administrative costs, which utilise around 75% of its operating budget. Its trade development policy is focused on capacity building among UK exporters, marketing the UK's business strengths, and focusing on certain “key” business sectors and target markets.

3a) UK Trade & Investment must reduce its cost burden, by:-

- reducing staff and administrative budgets, including use of consultants.
- eliminating inefficient regional networks and duplication of resources and activities.
- dramatically reducing its marketing budget and activities.
- reducing expenditure on activities to promote foreign direct investment into the UK.

The resulting cost savings should be channelled into export business schemes which directly benefit UK exporters.

4a) UKTI can reduce the cost of delivering business schemes by greater use of existing industry intermediaries, such as trade associations and chambers of commerce. Many of these successfully offer export-related services and benefits and already undertake overseas exhibition and mission activities in conjunction with UKTI. Further cooperation with not-for-profit industry organisations allows both parties to leverage existing services and activities and create greater efficiencies.

5a) Opportunities exist for trade associations to play a greater role in delivering overseas market information services, and in providing advice, mentoring and support on behalf of UK Trade & Investment. These industry associations are keen to play a greater role in delivering export promotion services in partnership with UKTI.

THE SPONSORS' ALLIANCE:

1.1) The Sponsors' Alliance is an independent, national, multi-sectorial alliance of member-based industry trade associations and chambers of commerce, who engage in export promotion activity. These associations provide export-related services, support and benefits to their members and others, and engage in export promotion activities. These include organising overseas exhibition groups and overseas market visits (trade missions) in conjunction with UK Trade & Investment (UKTI). Many Alliance members also work with UKTI and regional organisations on sector—or regionally-based export promotion activities.

1.2) Sponsors' Alliance members work closely with UKTI on its Tradeshow Access Programme (TAP) to support UK companies exhibiting at overseas exhibitions. Members make up ~ 45% of active “Accredited Trade Organisations” working with UKTI, organising 59% of the events in the 2008–09 TAP programme⁴⁷ and utilising more than 61% of the TAP programme budget. The TAP programme provides an excellent example of an efficiently delivered trade promotion activity. It leverages existing activities of trade organisations to deliver a popular and cost effective scheme at very low expense to the taxpayer.

UK TRADE & INVESTMENT

2.1) UK Trade & Investment (UKTI) is the government organisation with lead responsibility for trade and investment services. It brings together the work of the Department of Business, Enterprise and Regulatory Reform (BERR) and the Foreign & Commonwealth Office (FCO). Its published objective is

“To enhance the competitiveness of companies in the UK through overseas trade and investments; and attract a continuing high level of quality foreign direct investment”⁴⁸

2.2) UKTI operates with a team of ~ 1,700 directly employed staff within the UK and overseas⁴⁹ (although staff are actually employed by BERR or FCO). This resource is then supplemented by a team of around 400 staff in International Trade Teams,⁵⁰ located within the nine English regions, who are employed as independent operatives through UKTI's regional partners, and by extensive use of secondees from industry and independent consultants.

The Value of UK Trade & Investment's Services

2.3) UKTI offers a wide range of services for new and experienced exporters. Most business schemes are targeted at SME businesses and fall loosely into the following categories:

- Help and advice: From international trade teams, Posts etc.
- Mentoring and Support—eg Passport to Export.
- Market Research— eg Online Market Introduction Service and Export Marketing Research Service.

⁴⁷ Source: Sponsors' Alliance membership information: UKTI 2008-09 TAP programme listing.

⁴⁸ Source: UKTI Report & Accounts: 2007/08—p11; 2.1

⁴⁹ Source: UKTI Report & Accounts: 2007/08—p90

⁵⁰ Source: UKTI Report & Accounts: 2007/08—p24

- Support to companies to enter markets—eg Tradeshow Access Programme, Overseas Market visits, some sector-based activities.

UKTI also offers services and support to access “high growth” markets and to support innovative and Research & Development intensive industry sectors.

2.4) Many of UKTI’s services are highly valued by individual companies and by industry intermediaries. Passport to Export is considered an excellent service, providing a systematic approach to ongoing mentoring; the Tradeshow Access Programme provides an excellent pathway which encourages new and experienced exporters to enter new overseas markets. Recent UKTI announcements suggest that UKTI is currently on target, during 2008–09, to help 20,000 companies, who are expected to generate an additional £3.6 billion in revenue. UKTI enjoys high levels of positive customer satisfaction in their service feedback surveys—no doubt due in part to UKTI’s ongoing marketing campaign to increase customer awareness of the organisation’s role.

2.5) Despite these positive indicators, experienced industry representatives continue to question whether UKTI generates sufficiently high returns on taxpayers’ investment and whether it provides adequate value for money through its operating methods. A recent report from the National Audit Office found that only 30% of UK companies helped by UKTI reported that this intervention generated some financial benefit.⁵¹ It is worth noting that UKTI’s own figure of £3.6 billion of additional business generated represents just 1% of the UK’s export value.⁵²

UKTI Export Promotion Policy

2.6) UKTI’s current policy was primarily established by two documents; a White Paper, produced by Patricia Hewitt (then secretary of State for Trade & Industry) in 2004, and the 2006 document “Prosperity in a Changing World”

2.7) The White Paper called for a greater regional role in trade development, and led to the establishment of a customer focused network of regional “International Trade Advisors”. It also argued that export promotion was not best served by providing exporting companies with financial assistance, but by building capacity through provision of help, advice and support to companies to correct a “market failure” caused by inability to understand the benefits of international trade.

2.8) The 2006 document established UKTI’s priorities and objectives for the five year period up to 2012,⁵³ and dictated that UKTI would focus resources into:-

- Marketing the UK’s business strengths.
- Promoting key industry sectors, such as ICT, financial services, biosciences, creative industries and advanced engineering.
- Focusing efforts onto key emerging markets, and reducing resources from traditional markets.
- Marketing the UK as a centre of Research and Development, and promoting R & D intensive sectors and companies overseas.

2.9) As a consequence, UKTI resources have been transferred away from activities which provide companies with financial assistance (such as overseas exhibition support). These have been redirected into services which “build capacity” by providing mentoring and advice, or which promote the strengths of the UK indirectly (ie by marketing, or generic “soft” promotion). Much of the staff, administration and programme budget has been redirected towards priority industry sectors and target markets. As a result, UKTI commercial teams in established and successful markets, such as Europe and North America have seen dramatic reductions in resources. This has affected service levels for clients, whilst budgets for mainstream business schemes have been dramatically reduced.

Analysis of UK Trade & Investment Budget

2.10) UKTI’s overall operating budget for the 2007–08 budget year (the most recent full year figures which are publicly available) was around £294.9 million.⁵⁴

2.11) An analysis of UKTI’s overall operating costs for the 2007–08 budget year reveals that staff costs for directly employed staff (DTI [now BERR] and FCO) amounted to approximately £63 million,⁵⁵ with an additional £16.4 million to maintain the International Trade Teams in the English regions,⁵⁶ plus a further £0.5 million for international business specialists, seconded from industry. Administrative and overheads costs, both in the UK and overseas, account for a further £144.1 million.⁵⁷

⁵¹ National Audit Office report HC 297: “UK Trade & Investment: Trade Support”, published 2 April 2009: P 23, Para 2.25.

⁵² National Audit Office report HC 297: “UK Trade & Investment; Trade Support”, published 2 April 2009: Summary, P 4, Para 1.

⁵³ Prosperity in a Changing World: issued 2006.

⁵⁴ UKTI Annual report & Accounts 2007/08—p 92; Para 5

⁵⁵ UKTI Annual report & Accounts 2007/08—p 90

⁵⁶ UKTI Annual report & Accounts 2007/08—p 95

⁵⁷ UKTI Annual report & Accounts 2007/08—p 91

Altogether, UKTI staff, administrative and overheads expenses amount to approximately £224 million, which is around 76% of its overall operating budget.

2.12) Within the overall operating budget, funds allocated directly for export trade support business schemes which directly benefit UK exporters is less than £30 million.⁵⁸ These schemes include the Tradeshow Access Programme (TAP), which encourages UK companies to participate in overseas trade shows or seminars or visit overseas markets (budget £8.5 million), Passport to Export (budget £4.9 million), sector specific trade promotion activities (budget £9.3 million) and the Online Market Introduction Service (OMIS)—(nett cost £0.9 million).

UKTI spent less than £1 in £9 of its overall operating budget on direct customer-facing international business schemes in 2007–08.

2.13) UKTI's overall budget is split between its two principal operating objectives ~ 75% for export trade support activities, and ~ 25% for the promotion of foreign direct investment into the UK.⁵⁹ Within the latter inward investment budget for 2007–08, some £17.2 million was delivered in grants to Regional Development Agencies, and a further £15.4 million was spent to promote the UK as a location for foreign direct investment.⁶⁰

Regional Activities

2.14) Much of UKTI's export promotion activity is focused on their network of regional offices based in the nine English regions. In Scotland, Wales and Northern Ireland they work through business support infrastructures in the Devolved Assemblies.

2.15) Regionally based export activities include the management of the network of International Trade Teams, which deliver the “Passport to Export” programme and promote the Online Market Introduction Service (OMIS), organise regionally-based market visits and trade missions, and operate or manage projects. These are usually based around local industry “clusters”, often working in cooperation with other local agencies, such as Regional Development Agencies (RDAs). Supporting and maintaining these activities requires the establishment of a number of duplicated staff and management infrastructures around the country.

This ineffective use and duplication of resources represents an unnecessary waste of valuable UKTI resources and budget.

2.16) Many regional infrastructures operate export promotion projects—overseas trade missions or exhibition participation, seminars and meet the buyer events. These may be multi-sector or focused on a specific industry sector or local cluster. In numerous instances, these activities have conflicted with nationally focused events in the same sector or market. It has not been uncommon in recent years to find regional pavilion groups at overseas trade exhibitions, often in competition to a national UK pavilion. This undermines the impact of UK national branding and confuses overseas buyers.

2.17) Regional initiatives are often able to draw funding from other sources (such as EU or Regional Development Agencies), which allows organisers to offer participating companies considerably more favourable packages or higher financial support than is available under UKTI national business schemes. This creates resentment and inequality of opportunity among UK companies.

2.18) The Sponsors' Alliance believes that export promotion is fundamentally a national UK activity, and that any regionally-focused export activity should be made secondary to a national strategy and programme.

International Trade Teams

2.19) The UKTI International Trade Teams serve two main functions:

- acting as UKTI's front-line “customer service team”, promoting UKTI business schemes to companies in their region.
- dispensing export-related advice to companies in their specific region.

2.20) International Trade Teams are the core staff of UKTI regional operations, and comprise some 300 International Trade Advisors (ITAs), supported by assistants and Government office staff.⁶¹ ITAs are employed under contract, at a cost of £16.4 million in 2007–08,⁶² allocated from UKTI's “programme” budget. They are in reality an indirect staff cost, and are part of UKTI's overall staff and administrative cost burden.

2.21) The effectiveness of ITAs in promoting UKTI services is open to question. The two principal business schemes which they promote and manage, Passport to Export and Online Market Introduction Service (OMIS) have a combined programme budget of £7.9 million. In a commercial environment, a staff cost which is *twice that of the programme cost it delivers* would not be considered acceptable.

⁵⁸ UKTI Annual Report & Accounts 2007/08—p 95

⁵⁹ Advised by UKTI CEO Andrew Cahn to meeting of Sponsors' Alliance 21.05.08

⁶⁰ UKTI Annual Report & Accounts 2007/08—p 95 Annex B

⁶¹ UKTI Report & Accounts 2007/08—p 24

⁶² UKTI Report & Accounts 2007/08—p 95; Annex B.

2.22) Anecdotal feedback from exporters consistently indicates that the quality of ITAs varies enormously in terms of their ability to dispense information and advice. Where ITAs are seen to be of value to exporters, or to deliver significant benefits, it is frequently due to their ability to access UKTI resources or funding to “make things happen”, as much as the quality of their advice. The regional international trade teams act as a front-line sales force for UKTI, but *they do not necessarily provide the most cost effective method of delivery of services.*

UKTI BUSINESS SCHEMES

Overseas Tradeshow and Mission support

3.1) Industry feedback received by Sponsors’ Alliance members indicates that exporters place highest value on those business schemes which help them to actively penetrate overseas markets; these include the Tradeshow Access Programme (TAP), Trade Missions and sector specific activities.

3.2) Recent UKTI policy has directed a reduction in expenditure on these business schemes. In 2004–05 UKTI’s budget for overseas exhibition support and sector activities was £31.1 million, while the comparable budget for the same schemes in 2007–08 was £17.8 million⁶³—a reduction of 43% in four years.

3.3) In the 2004–05 budget year, UKTI’s overseas exhibition programme supported some 8,000 UK companies who exhibited at overseas trade shows, but by 2007–08 this had reduced to round 3,500 companies.⁶⁴ In 2004–05 the scheme’s budget was £19.5 million; in 2007–08 it was £8.5 million.⁶⁵

3.4) The consequence of this policy has been a dramatic fall in the number and size of UK groups at major international exhibitions, with a corresponding loss of profile for UK industry in important international markets. This contrasts strongly with our European competitors, notably Germany, whose budget for the equivalent business scheme in 2009 is €38 million (£34 million), *more than four times greater than the UK.* This investment has achieved a consistently high profile in international markets, supporting a strong industrial base of SME companies (Mittelstand).

3.5) Just as the overall budget for overseas exhibition funding has fallen, so too has the level of financial support offered to individual exporters been reduced. Furthermore the eligibility criteria which control an exporter’s access to funding have been tightened, at the expense of experienced exporters, who are most likely to succeed in international markets.⁶⁶ Whilst aspects of these eligibility criteria have been relaxed in recent months, budgets have not been increased to support the increased demand. As a result many companies are now eligible to apply, but unable to receive tradeshow support as no funds will be available.

3.6) This reduction in funding has occurred despite UKTI’s own feedback, demonstrating that this scheme achieves a good return on investment. The 2006 Vicky Price report indicated that UKTI’s overseas exhibitions and missions programme achieves additional customer benefit of around £29.50 per £ invested.⁶⁷ This compares favourably with a return of around £15 per £ invested for overall UKTI activity.⁶⁸ This scheme is particularly cost effective as it is administered by trade associations in their role as UKTI’s Accredited Trade Organisations, leveraging their own activities and resources, so imposing minimal operational costs onto UKTI.

3.7) The benefit derived by industry increases exponentially, year on year as companies are supported at exhibitions on an ongoing basis, further increasing the return on investment for taxpayers. This relatively low investment by UKTI in UK exporters, in the form of a simple exhibition grant also creates a belief within industry that they are individually valued and supported by government, and that government is encouraging them in breaking into markets by offsetting a proportion of their initial financial risk.

3.8) *The Sponsors’ Alliance believes that expenditure on proactive business schemes must be reinstated, and that programmes for overseas exhibition and trade mission support should be thoroughly overhauled and funded. The budget for this scheme should be reinstated to at least the level which was in place six years ago. Schemes should be accessible and effective to support both new and experienced exporters in breaking into overseas markets. Schemes must be guided by the needs of exporters, rather than by the Government or UKTI policy.*

⁶³ UKTI Annual Report & Accounts 2007/08—p 95; Annex B: 2004–05 expenditure: SESA = £19.5 million, sector support = £11.6 million: Total £31.1 million. 2007–08 expenditure: TAP = £8.5 million, sector support = £9.3 million: Total £17.8 million.

⁶⁴ UKTI Annual Report & Accounts 2007/08—p46; Table 5,

⁶⁵ UKTI Report & Accounts 2007/08—p 95; Annex B:

⁶⁶ Review of Evaluation of Trade Promotion document—Report to UKTI by SQL, 2005: Executive summary page (ii): “The evaluation was doubtful about the efficacy of focusing on ‘new to export’ firms and suggested targeting those firms with the potential to export/export more (Export Explorer Missions).”

⁶⁷ Vicky Price Report 2006, Chapter 5, Appendix A, P98, Box 5.A.1: Trade Fairs & Outward Missions: Total cost = £27.7 million, Total customer benefits £817.7 million: Overall customer benefit £29.52 per £ invested.

⁶⁸ UKTI Website: https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/aboutus?_nfls=false&_nfpb=true “How we add value”

Other Business Schemes

i) Provision of Export Advice

3.9) Within the current UKTI infrastructure, export-related advice and support is generally provided by the regional International Trade Teams. In the current economic climate, the Sponsors' Alliance believes that this is not the most efficient method of delivery. ITAs rarely have relevant experience in a client company's industry sector. Those advisors with relevant experience in specific industry sectors are constrained by the boundaries of UKTI's regional infrastructure, and are unable to support and advise companies outside of their region. Better value for money and more effective services can be provided through greater use of third parties, such as trade associations.

3.10) General non-sector export advice, including "start-up" advice can be delivered most efficiently at a regional level, where local contacts and immediacy of response is a positive factor. In contrast, sector-specific advice and ongoing mentoring of companies requires a sound knowledge of the client's sector, and is best delivered by advisors who have sector-specific export experience.

3.11) Generic export advice could be delivered by a local business support network (such as regional chambers of commerce or Business Links). This would be considered a general business support service, in the same way as advice on websites, HR or general marketing.

3.12) More detailed, sector specific export advice and ongoing mentoring could be delivered by trade associations and chambers of commerce under contract to UKTI—utilising their in-depth experience of their industry sectors and specific knowledge of overseas markets. Many associations already deliver much-valued export advice as a part of their offerings to members and others. The more capable international trade advisors, particularly those with specific industry knowledge could be absorbed, possibly on secondment, to chambers and industry associations.

ii) UKTI Market Information Services:

3.13) UKTI offers two mainstream market information services for exporters, the Online Market Introduction Service (OMIS), and Export Marketing Research Scheme (EMRS). The Export Marketing Research Scheme provides a comprehensive and detailed market research resource, both for exporters and for industry associations. The OMIS service is intended to provide sector relevant background information and identify potential business partners for companies who are preparing to enter a new market.

3.14) The Sponsors' Alliance believes that the OMIS scheme is not currently effective. Feedback from exporters regularly suggests that the quality of OMIS reports is variable, and often does not meet customers' expectations, even at a subsidised rate. Although the uptake of this scheme is growing, much of this increase derives from "forced sales" of OMIS reports in connection with overseas events. The promotion, implementation and delivery of this service ties up considerable time and resources of UKTI international trade teams and the overseas commercial network. Whatever the level of staff input, this cannot be justified by the £2.3 million of revenue which is earned by UKTI by charging for the OMIS service.

3.15) The EMRS service generally achieves a high return on government investment, in contrast to OMIS.⁶⁹ This service is operated by an external industry-based service provider, the British Chambers of Commerce, at little cost to UKTI.

3.16) The Sponsors' Alliance calls for a review of UKTI's market information services, to create a programme which is more in tune with the requirements of exporters. Specifically, the OMIS scheme should be replaced by a more efficient and cost effective method to enable exporters to access specific market information and business contacts prior to market entry. It should make greater use of private sector research and the existing resources of industry associations. It could be facilitated through a combination of financial assistance for independent research and advice and support from existing business organisations, (possibly using the model of the EMRS service).

iii) Passport to Export

3.17) Many exporters value the "Passport to Export" scheme, and the key value of the programme is the ability to "make things happen" by accessing UKTI services and funding. This service depends on the quality of advice and support offered by the mentor. A sound knowledge of the client's industry sector, both at home and overseas, is an important element of this. Geographical proximity is not a requirement in delivering this scheme.

3.18) The Sponsors' Alliance believes that trade associations and chambers of commerce could deliver the "Passport to Export" programme effectively and efficiently by leveraging their own resources, activities and knowledge base. Trade association staff could be accredited by UKTI to necessary standards and existing International Trade Advisors might be taken on secondment by associations. Where necessary,

⁶⁹ Vicky Price Report 2006, Chapter 5, Appendix A, P98, Box 5.A.1: EMRS Service total cost £2.3 million, estimated total benefits to customer £151.2 million = £65.7 customer benefit per £ cost. OMIS Service total cost £21.1 million, estimated total customer benefits £128.2 million = £6.08 customer benefit per £ cost. All figures taken from 2004-05 budget year.

trade associations within an industry sector could liaise or pool resources to ensure an even and consistent coverage. An independent organisation could manage the scheme, and ensure cooperation between organisations within the scheme.

Industry Associations could deliver Passport to Export and other mentoring business schemes.

UKTI Marketing Activities

4.1) A considerable proportion of UKTI's operating budget is allocated to marketing and promotional activities, which includes promoting "Brand Britain"—both in relation to inward investment and also in export promotion—as well as publicising its own activities and successes. In the 2007–08 budget year marketing activities accounted for around £18.8 million;⁷⁰ and, in addition, accounted for a substantial part of UKTI's staff and administrative budget. This level of marketing and staff expenditure is too high in comparison with UKTI's expenditure on customer-facing business schemes.

4.2) While fundamental business programmes are insufficiently funded, UK industry cannot afford such a high level of expenditure on "soft activities". Marketing is not a substitute for direct sales. Promoting "Brand UK" is not effective if the number of UK exporters entering the marketplace falls, and if companies are not able to pursue sales directly.

UKTI marketing activities must be reduced, and the cost savings ploughed back in to business schemes.

Economic Situation;

5.1) Recent UK government policy, as outlined above, has dictated that UKTI should act as a facilitator and advisor, rather than a provider of financial assistance to exporters. This has led to successive reductions in expenditure on international business schemes such as tradeshows and missions, but to a corresponding increase in UKTI expenditure on staff, overheads and advisors. Even before the start of the current economic slowdown in late 2007 and the world financial crisis from autumn 2008, the effects of this policy were being witnessed. UK attendance at overseas tradeshows has decreased and proactive export activity has fallen in many industry sectors. The collapse of the UK's financial services industry, one of UKTI's key "crown jewel sectors", and the increasing difficulties facing UK SME companies in the current economic and financial climate mean that UKTI's policies must change. The organisation's structure must also change to accommodate this change in direction.

5.2) Since the third quarter of 2008, UK Government policy has become increasingly interventionist in its response to the world financial crisis. Enormous sums of credit have been committed in order to shore up the UK's banking and financial institutions. The government has identified the UK's SME industry base as a key factor in the UK's recovery, and has undertaken to support the SME community through the current economic slowdown and credit crunch. As part of this process, the government must support SME companies more effectively as they attempt to trade their way out of recession in international markets. This support must include a greater focus on direct financial support through business schemes.

5.3) Many emerging markets, targeted as priority key markets by UKTI have been affected more severely than the established Western economies. The decline of the UK financial services sector and the worldwide effects of the financial crisis demonstrate the need for a UK trade development policy which supports a broad base of industry sectors. This must allow companies to break into whichever markets they recognise as being the most appropriate for their sector. A policy which focuses resources only onto certain industry sectors and markets will not provide meaningful support to industry at large.

5.4) Following the government's intervention to support the UK's banking and financial sector, strains on the UK's public expenditure and the growing budget deficit are likely to place increasing pressure on public funding. UKTI must seek more cost effective delivery of direct business programmes within its limited budget. Its structure must be reshaped, with resources transferred away from staff and administration costs, and into business schemes which directly support SMEs to penetrate new markets. It is vital that UKTI makes better use of worthwhile intermediaries in order to achieve this.

6.1) The Justification for Working with Industry Associations as Intermediaries:

- Industry associations are predominantly not-for-profit, or industry-owned organisations and are not focused on generating short-term profit at the expense of clients or taxpayers, unlike commercial consultants.
- Many industry organisations already offer export-related services with synergies to UKTI services, allowing delivery of export schemes at little operational cost to UKTI.
- Industry associations and chambers of commerce provide a comprehensive national network across industry sectors and geographical boundaries.
- Industry associations have sector credibility—UK companies value their service offerings and are willing to subscribe continuously to gain access to them.

⁷⁰ UKTI Annual Report & Accounts 2007/08—p 95, annex B; Trade Development marketing activities £3.4 million, Inward investment promotional expenditure £15.4 million.

- Accredited Trade Organisations (ATOs) have a track record of working with UKTI and an infrastructure of cooperation is already in place.
- Most trade associations already have relationships with networks of business service providers, who offer export-related services relevant to export business schemes. These are usually more comprehensive and flexible than equivalent UKTI networks.

Conclusions:

7.1) The current UKTI policy is no longer relevant in the current economic climate.

Its current staff and administrative structure is no longer viable. At a time when government expenditure will come under increasing scrutiny, business and taxpayers will no longer tolerate an organisation which requires a £300 million budget to deliver £30 million of direct business schemes, with such a high proportion of its programme budget spent on marketing.

7.2) Government must review UKTI's policy on export trade support,

It must reconsider its strategy of "capacity building" among UK SME exporters. In the current economic climate, urgent action is required. Government must move quickly to inject a considerable additional investment of funds into business schemes which place exporters directly into contact with overseas markets, such as overseas exhibitions and missions.

7.3) UKTI's infrastructure requires a thorough overhaul.

It must reduce its staff, administration and overheads burden by utilising industry associations more effectively. The new-look organisation must focus on delivering business programmes of direct benefit to exporters. It must deliver these business schemes in the most cost effective manner, using intermediaries who are not interested in making a profit out of the role, ensuring that budget revenue is used for its primary purpose.

7.4) Export promotion business schemes must be re-evaluated openly and honestly.

Industry must play a leading role in directing policy and managing business programmes. Funding must be focused towards those business schemes which offer the best return on investment, which are most valued by exporters. The promotion of overseas inward investment should be separated from the role of export trade development.

7.5) High staff and administrative costs and regional duplication of resources must be reviewed.

These should be eliminated in order to free up resources to be reallocated to customer-facing business schemes. Regional networks should be significantly reduced and limited to those elements of export business support where local intervention is a key factor. Services must be rationalised, and overseas staff and administration costs reviewed from top to bottom. Costs must be dramatically reduced, while the most important and valued elements of services to clients should be retained—if necessary on a commercial basis, but services should be restricted to what is most important to exporters, as agreed by them.

7.6) UKTI should focus its activities on a directorial and project management role.

UKTI must delegate operation of certain business schemes to trusted and credible third parties, such as industry associations. Trade associations and chambers of commerce are able and willing to help to deliver export promotion services, such as market research, export advice and mentoring programmes, including Passport to Export. They could deliver programmes more competitively using their existing resources, and reduce the cost burden on the UK export programme.

20 April 2009

Memorandum submitted by Trades Union Congress (TUC)

INTRODUCTION

1.1 The TUC is the voice of Britain at work. Our overall objectives are to raise the quality of working life and promote equality for all. The TUC represents nearly 6.5 million workers in 59 unions. That means that one worker in every four belongs to a TUC affiliated union. Trade unionists include factory workers and computer programmers; office staff and shop workers; bus drivers and airline pilots; teachers, soap stars and fashion models.

1.2 The TUC welcomes the opportunity to give written evidence to this inquiry. We have taken a close interest in the fortunes of British companies, including their ability to export, over many years. We are represented on various Government bodies, including the Ministerial Advisory Group on manufacturing and the Learning and Skills Council. We have submitted evidence to various inquiries and consultations,

including the implementation strategy for “The Race to the Top: A Review of Government’s Science and Innovation Policies”, along with “A vision for science and society”, both conducted by the Department of Innovation, Universities and Skills. We also contributed to the Leitch Review of Skills.

1.3 In his Budget Speech on 22 April 2009, the Chancellor of the Exchequer told the House of Commons that the UK is the world’s sixth biggest exporter of goods and its second largest exporter of services. Moreover, the TUC agrees with the view of the Select Committee, set out in its call for evidence, both that exporting companies enjoy higher productivity than their non-exporting counterparts, and that exporting can increase a firm’s productivity still further. However, we take the view that exports will not simply “happen” as a result of the hidden hand of the market. We cannot “wish” for more exports. Rather, the TUC shares the view, set out in recent academic literature, that there are exporting countries and there are consuming countries. Whichever category a country finds itself in, it is not there by accident, but by strategy.

1.4 To this end, we do not believe that the UK can simply export its way out of recession in the short term. We recognise the discussion, for example in Lord Digby Jones’s oral evidence to this inquiry, that UK Trade and Investment (UKTI) has an important role to play and we are open to the idea that UKTI, as well as Foreign Office and BERR operations, on trade missions and elsewhere, could be improved. That might marginally improve our export performance, but it will not fundamentally change the way in which our economy, its aims and objectives, are structured.

1.5 Instead, we believe the current economic crisis provides an opportunity to restructure the shape of the world economy. That forms the first argument of this submission.

EXPORTERS AND CONSUMERS

1.6 The writer that is, perhaps, leading this discussion is the Financial Times commentator, Martin Wolf. In his article, “Why Obama must mend a sick world economy”, published on 20 January 2009, Wolf quotes Michael Pettis of Peking University, who has divided the world into two economic camps: “in one are countries with elastic systems of consumer finance and high consumption; in the other are countries with high savings and investment. The US is the most important example of the former. China is the most significant example of the latter. Spain, the UK and Australia were mini-versions of the US; Germany and Japan are mature versions of contemporary China.”⁷¹

1.7 Wolf explores this theme in much more detail in his book, “Fixing Global Finance”. Describing China, Wolf says: “Despite having the highest investment rate of any significant economy in history, China has a huge excess of savings over investment ... The sources of Chinese savings are also fascinating, because they are so different from what many believe them to be. Chinese households save enormously. But the core of the Chinese savings story over the past five or six years has been the rise in corporate savings ... the government itself is also a large saver. China has about 800 million poor people, yet the country now consumes less than half of GDP and exports capital to the rest of the world. This is highly peculiar. It is also why the country has such a huge current account surplus.”⁷²

1.8 In European terms, the eurozone has been in balance. Germany had a large surplus of savings over investment (5% of GDP in 2006), while Spain had a huge deficit (of around 9% of GDP in 2006). Moreover, Germany, with its historic (and understandable, in the light of its 20th century history) fear of inflation, is happy to keep things this way. Speaking to the Financial Times, the German Chancellor, Angela Merkel, argued that Germany is an over-indebted, export-oriented economy with an ageing, shrinking population. It cannot boost consumption at the expense of exports. “The German economy is very reliant on exports, and this is not something you can change in two years. It is not something we even want to change”, argued Merkel.

1.9 So what of the United States? As Martin Wolf points out: “A number of large and important regions have an excess of savings over investment. The United States has, in turn, been absorbing about 70% of the surplus savings in the rest of the world, with the difference accounted for not by increased investment but by higher consumption and a lower rate of savings.”⁷³

1.10 This leads to an interesting paradox. In her Financial Times interview, Angela Merkel argued that the global financial meltdown is the result of countries, the US but also others, pumping ever cheaper money into the financial system, thereby living beyond their means. “After the Asian crisis (of 1997) and after 9/11, governments encouraged risk taking in order to boost growth. We cannot repeat this mistake. We must anchor growth on firmer ground.” The problem with this argument is that, if the US and others did not consume in the way they did, Germany would not be able to sell its exports and its economy would come under even more threat.

⁷¹ “Why Obama must mend a sick world economy”, Martin Wolf, Financial Times, 20 January 2009.

⁷² “Fixing Global Finance”, Martin Wolf, 2009, p. 69.

⁷³ Ibid, p. 76

The dangers of a strategy based on export-led growth

1.11 In a nutshell, the TUC's message in this submission is "balance in all things". Below we make the case for exports, given the UK's balance of trade deficit. From the perspective of our economy, there are too many imports relative to exports. This could lead the observer to conclude that exports are, by themselves, the answer. It is true that exports are a sign of industrial strength. They are most certainly a good thing. But an export-led strategy, to the exclusion of other economic objectives, is problematic.

1.12 As noted above, Germany's economy is based on exports, and it is seductive to believe, given Germany's economic strength throughout much of the post-war period, that this shows the way forward. However, writing, once again, in the Financial Times, Ralph Atkins explains that the current economic downturn, the result of reckless lending by many banks, should not, in theory, have caused too much damage in Germany. Yet, as is so often the case, economic theory lets us down.

1.13 Atkins quotes Jorg Kramer, chief economist at Commerzbank in Frankfurt: "From a structural point of view, this recession should never have happened.". Atkins goes on to say: "With hindsight, however, Germany was a sitting target after the collapse of Lehman Brothers investment bank in mid-September. Its exports were equivalent to more than 47% of GDP last year—compared with less than 20% in Japan and about 13% in the US. It's industrial base is skewed towards producing machinery and equipment—'investment tools' account for more than 40% of its exports—and towards emerging economies ... after Lehman's failure paralysed banks, and confidence nosedived globally, companies around the world shelved investment plans—leaving German factories turning out goods nobody wanted to buy."⁷⁴

1.14 Gustav Horn of the Hans Bockler research foundation makes the crucial point: export dependency "was always a problem to some extent because it was at the cost of domestic demand". Bart van Ark, chief economist at The Conference Board, the New York based business research organisation, argues that a large economy cannot be run on "export fuel" only in the long term: "the dominant effect of Germany's manufacturing efficiency is that consumers abroad benefit from lower prices of goods the Germans produce."⁷⁵

1.15 German trade unions have made this point repeatedly. The export-led policy of the German Government stresses wage moderation in order to work. It has become customary, whenever unions talk about higher wages, for commentators to fear inflationary wage claims and to paint frightening scenarios reminiscent of the UK in the 1970s. Yet wages have not fuelled inflation in recent years, in the UK or in major European economies. Furthermore, not only is it socially just that workers are paid a decent wage for the job that they do, but wages are also, of course, the primary factor determining demand. Germany has sought wage moderation and then has wished to sell its products in export markets. Now that those export markets have dried up, consumers at home cannot afford to buy the goods produced in German factories. Put simply, during the good years, Germany squandered the chance to boost real wages.

1.16 For all of these reasons, an export-led UK economic policy is not what the TUC seeks. We do seek more UK exports, but we also seek the production of goods and services for domestic consumers. The inflationary threat at present is of low inflation, perhaps deflation, rather than high inflation, (at the time of writing, RPI was already negative, although CPI remained above the Bank of England's central target of 2%) but we must not be complacent. However, we are clear, as were the Treasury and the Bank of England, that the inflation suffered in recent years was the result of high food and oil prices, not high wages. We therefore believe there is no prospect that our proper role, to bargain for good terms and conditions for our members, would bring the threat of inflation. Indeed, proper pay for workers is not only just, it is necessary for a well functioning economy.

1.17 Finally in this section, Martin Wolf argued on 31 March that G20 leaders would fail to deal with the big challenge that they faced at the London Summit: "What is needed is both a large increase in aggregate demand and a shift in its distribution, away from chronic deficit countries, towards surplus ones. On both points, progress will be far too limited"⁷⁶

1.18 The TUC believes the G20 summit was a success, although we concede that the issue of deficit countries and surplus countries has not been dealt with. Given that Germany believes its export led policy keeps it safe from high inflation, and given the fear of inflation seared on the German psyche, this issue will not be dealt with quickly. Turning China into a greater consumer of Western goods, and moving the US away from consumer of last resort, will all take a long time. However, if we have a once-in-a-generation opportunity to reshape the world economy, moving from chronic deficits and chronic surpluses, to greater balances among all economic players, is a project that must be pursued.

WHITHER UK EXPORTS?

2.1 According to the "Pink Book",⁷⁷ the balance of payments draws on a series of balances between inward and outward transactions, provides a net flow of transactions between UK residents and the rest of the world and reports how that flow is funded. Economic transactions include:

- Exports and imports of goods, such as oil, agricultural products, other raw materials, machinery and transport equipment, computers, white goods and clothing;

⁷⁴ "Policy of containment", Ralph Atkins, Financial Times, 7 April 2009.

⁷⁵ Ibid.

⁷⁶ "Why G20 leaders will fail to deal with the big challenge", Martin Wolf, Financial Times, 31 March 2009.

⁷⁷ "UK Balance of Payments: the Pink Book", Office of National Statistics, 2008 Edition.

- Exports and imports of services, such as international transport, travel, financial and business services;
- Income flows, such as dividends and interest earned by foreigners on investments in the UK and by the UK investing abroad;
- Financial flows, such as direct investment, investment in shares, debt securities, loans and deposits;
- Transfers, which are offsetting entries to any one-sided transactions listed above, such as foreign aid and funds brought by migrants to the UK.

2.2 The Pink Book notes: “The UK has recorded a current account deficit in every year since 1984 ... Since the last surplus was recorded in 1983, there have been three main phases in the development of the current account. In the first phase, from 1984 to 1989, the current account deficit increased steadily to reach a high of £25.5 billion in 1989 (equivalent to—4.9% of GDP); during the second phase, from 1990 until 1997, the current account deficit declined to a low of £1.0 billion in 1997; in the third phase, since 1998, the current account deficit has widened sharply. The deficit in 2007, at £52.6 billion, is the highest recorded in cash terms but only equates to—3.8% of GDP, which is a lower percentage than in both 1988 and 1989.”

2.3 The TUC believes that current account deficits began when the government of the day stopped believing in the importance of manufacturing industry. The 1980s was the decade when the service sector was elevated in importance, alongside flagship manufacturers and inward investors. The growth of financial services, especially the primacy of the City of London, was to follow. Following the economic downturn, many commentators are starting to argue for a strong manufacturing base once more. For example, almost exactly a year ago, Ruth Sunderland, the business Editor of the Observer, wrote: “Some observers think ... without any hard evidence I have seen, that the possible departure of a few hundred non-doms is more important than tens of thousands of lost jobs in industry. I don’t. Quite apart from the social and human consequences, manufacturing does matter to the economy: now that the credit crunch has exposed the folly of entrusting our prosperity to a bunch of bonus-grabbing bankers, it matters more than ever.”⁷⁸

What do we export?

2.4 Speaking in the House of Lords on 31 March 2008, Baroness Vadera told peers that manufacturing accounts for 50% of UK exports. The TUC has identified defence, aerospace, pharmaceuticals and motor cars as strategic manufacturing industries in the United Kingdom. Indeed, Shriti Vadera told peers in the same debate that “we have the best pharmaceuticals, aerospace and electronics industries and are now manufacturing twice as many cars as we were 25 years ago”,⁷⁹ suggesting that she shares the TUC’s analysis.

2.5 According to BERR, the UK aerospace industry exported 67.1% of its total sales in 2007, worth £14.28 billion, and contributed a net £628 million to the UK’s trade balance.⁸⁰ Trade union members working in the aerospace industry are proud of the contribution they make to this industry’s success.

2.6 A House of Lords debate on the motor industry on 19 January 2009 was told, by Lord Harrison, that 73% of cars and vehicles made in Britain are sold abroad as exports, principally into Europe. However, 86% of motor cars sold on the domestic market in Britain are imported. Lord Rowe-Beddoe told the same debate that the Ford engine plants at Bridgend and Dagenham produce 25% of Ford’s worldwide engine requirement, a major export. Nissan and Toyota are consistently numbers one and two in the European productivity league. In productivity terms, Vauxhall’s plant at Ellesmere Port is one of General Motors’ best performers, if not the best, in Europe.⁸¹

2.7 Indeed, the TUC endorses the view of Lord Mandelson: “[The motor] industry is not a lame duck... The industry has been transformed over the past decade. Productivity has risen, catching up and overtaking that in both France and Sweden. In Britain today, we have some of the world’s most productive car plants.”⁸² Of course, there is an issue of overcapacity in motor vehicle production at the moment that must be addressed. Nevertheless, it is important to hold onto the skills, the research and development and the innovation of motor manufacture, ready for when the economy moves out of recession.

What should we export?

2.8 The TUC rejects protectionism. So if we are importing more cars than we are exporting, for example, there is clearly room for improvement. A “Buy British” message will not work. Some people renew their cars regularly, but for most, a car is an expensive, big ticket item that is bought only once in many years. People will buy the cars they wish to buy, based on performance, comfort, safety, design, price and, increasingly, emissions. The future of motor manufacture is in green vehicles. Of course, companies and workers producing older fashioned cars must be protected, as production moves gradually in a more environmentally conscious direction. However, consumers are becoming more and more environmentally aware. This is not a reason for pessimism. On the contrary, the UK has all the attributes to be a leader of the low carbon industrial revolution.

⁷⁸ “We need to make it up to manufacturing”, Ruth Sunderland, “The Observer”, 27 April 2008.

⁷⁹ Lords Hansard, 31 March 2008, col. 719.

⁸⁰ See www.sbac.co.uk/pages/36004275.asp

⁸¹ House of Lords Hansard, 19 January 2009, col. 1519.

⁸² House of Lords Hansard, 27 January 2009, col. 178

2.9 The question should really be “what can we export?” The answer is that we can export goods and services which we have the skills and capacity to produce at a level which is desired by overseas consumers. To put the question another way: What are we good at? And what can we become good at?

2.10 In his report, “The Race to the Top: A Review of Government’s Science and Innovation Policies”, published in October 2007, the former Science Minister, Lord Sainsbury, provided a helpful list of potential industries in which the UK could succeed in the future:

2.11 “It is not possible to predict where the new jobs will emerge in the future but it is possible to see many opportunities for UK companies to create new products and services, and new industries in areas as diverse as aerospace, pharmaceuticals, biotechnology, regenerative medicine, telemedicine, nanotechnology, the space industry, intelligent transport systems, new sources of energy, creative industries, computer games, the instrumentation sector, business and financial services, computer services and education.”⁸³

NEW INDUSTRY, NEW JOBS

3.1 The TUC welcomes the publication of “New Industry, New Jobs”, on 20 April 2009. Indeed, we have welcomed the intervention of Lord Mandelson and his pursuit of a policy of “active industrialism” in recent months. The TUC has been a lonely voice in arguing that the absence of an active industrial policy in recent years has been hugely damaging to UK economic performance. We have used our membership of the Manufacturing Forum and its successor, the Ministerial Advisory Group on Manufacturing, among other bodies, to press for an active strategy. We were, therefore, a little disappointed that industrial policy was described as a dialogue between Government and business, with no mention of the contribution of trade unions, but we supported the development of policy nonetheless.

3.2 Responding to the publication of “New Industry, New Jobs”, the TUC welcomed proposals to use procurement, regulation and a focus on green growth to help sectors with potential. However, it is Chapter Five of the document, and the summary of next steps, that offers the real development in government policy.

3.3 In Chapter Five, entitled “Unlocking our potential through targeted measures”, the document argues: “there is often also a very strong case for tailoring what Government does to reflect the different circumstances of different markets, sectors and places”. This reflects two powerful but simple truths:

- “the scale of the economic opportunities for the UK, here and internationally, are different from one area of the economy to another, as are the challenges faced by individual sectors;”
- “the ability of Government to make a positive impact through its actions can vary markedly across sectors and markets.”

3.4 The document goes on: “This becomes even more important in an area of global specialisation. Business and Government alike will need to focus more on, and prioritise, areas where the UK holds, or realistically can gain, lasting advantages. This need to tailor policy has been recognised before, but too often in a way that has been over-cautious or reluctant... it is certainly possible to identify areas where the UK has or may have comparative strengths. By sharing the expertise of business and government, we can also identify broad areas of technology, products or services within which there may be opportunities for UK-based businesses.”⁸⁴

3.5 This is exactly the philosophy that the TUC has championed. Furthermore, in the summary of next steps, the paper sets out plans for a low carbon industrial strategy, the development of ultra low carbon vehicles, the pursuit of the “Digital Britain” project, the publication of a Life Sciences and Pharmaceuticals Strategy and the prioritising of a number of areas of advanced manufacturing. Such areas include: aerospace, specifically engine and wing design and manufacture, which must adapt to the low-carbon age; the shift from metal to composite materials, which will have important applications in the automotive, marine, aerospace, wind and wave, construction, oil and gas, and medical equipment sectors; industrial biotechnology and the redefining of chemical manufacture in the 21st century; and plastics electronics.

3.6 The Government plans to assess the opportunities and constraints in these industries, and whether there is a role for Government in unlocking competitive potential in the UK in these industries, in the next few months.

3.7 Most of these industries are highly unionised and it is critical that the Government consults with trade unions, along with businesses and other stakeholders, in taking this workstream forward.

3.8 Furthermore, Budget 2009 included the provision of £750 million for a Strategic Investment Fund, to support advanced industrial projects of strategic importance. £250 million of this fund will be earmarked for low-carbon investments, a further £50 for the Technology Strategy Board and £10 million for UK Trade and Investment.

⁸³ “The Race to the Top: A Review of Government’s Science and Innovation Policies”, Lord Sainsbury of Turville, October 2007, p. 8.

⁸⁴ “New Industry, New Jobs: Building Britain’s Future”, HM Government, April 2009, p. 28.

3.9 The TUC welcomed this announcement, but we also set this test: Government money should be provided for strategic industries, in high skill, high value sectors, that are job intensive. It is important to move away from the laissez faire ideology which supposes that so long as we get the fundamentals right, the jobs will follow. The TUC firmly believes that job growth will not necessarily happen by accident. It will only happen if the Government identifies it as a priority and allocates funding accordingly.

3.10 The TUC also believes that the UK needs a definition of industrial success, to act as a target and a weathervane. Different stakeholders will have different priorities, but the TUC believes that unless industry is providing high quality jobs, it cannot be regarded as successful, whatever its shareholder value or other indicators of success.

3.11 From the point of view of this inquiry, it would also be helpful if export potential is considered among the factors defining how Government support is offered to these industries as part of future industrial strategy.

3.12 In summary, the sectors identified as strategic in New Industry, New Jobs, and the sectors that are able to access the £750 million of Strategic Investment Fund support, should be required to demonstrate their job creation and their export potential.

THE “GREEN” ECONOMY

4.1 No discussion of potential growth sectors would be complete without a consideration of the role and potential of the green economy. Quite simply, the environmental threat is one of the biggest and most important global challenges that we face. Whilst even 10 years ago, the science was questioned, there are no serious voices minimising the extent of the challenge we face today. Moreover, the election of a US President committed to a new approach to sustainability across the Atlantic gives further momentum to this issue.

4.2 The environmental goods and services (EGS) sector includes such areas as air pollution control; cleaner technologies and processes; decommissioning and decontamination of nuclear sites; energy management and efficiency; renewable energy; waste management, recovery and recycling; and water supply and wastewater treatment.

4.3 The EGS sector was estimated to be worth \$548 billion globally in 2004, with 94% of this value residing in the EU, US and Japan.⁸⁵ In the UK, the size of the sector in 2005 has been estimated at £25 billion. It is further expected to expand in the UK by over 40% between 2005 and 2010, and by 84% between 2005 and 2015, when it is projected to generate £46 billion. The sector currently employs 400,000 people in the UK, a figure that could more than double in the next few years.⁸⁶

4.4 Of course, there is more to greening the economy than the EGS sector. Other manufactured products will need to be made greener. Most obviously, the motor industry is producing more and more environmentally friendly cars, a trend that is set to continue, both in order to meet environmental regulations and to satisfy consumer demand.

4.5 The UK has benefited from the growth of the green economy, but we lag well behind European neighbours such as Denmark, Germany, the Netherlands and Spain. This is particularly evident when the employment records of the sectors in different economies are compared. For example, Germany has generated half a million jobs in its renewable energy sector alone, while the UK has managed just 7,000. And whilst our 400,000 green economy jobs are vitally important, Germany’s figure of 1.5 million jobs is more impressive.

4.6 There is inevitable TUC concern about the decision of Vestas, the world’s biggest maker of wind turbines, to cut more than half its UK jobs, as reported on 29 April 2009.⁸⁷ Ditlev Engel, the Chief Executive of Vestas, told the Financial Times: “we had been planning additional investment in the UK [because of Government targets to increase renewables]. But the UK is probably one of the most difficult places in the world to get permission [for wind projects].” The reason for the decision to cut jobs was the inability of the Government to deliver the conditions needed for renewables growth, according to Engel.

4.7 In our view, Government has a key role to play in setting the right policy framework to ensure that UK businesses are best placed to take advantage of the national and global transition to a low-carbon economy. Specifically, our competitor economies recognise that the state has a central role to play in stimulating the green economy. This is not about “picking winners”, but is about having the boldness to set clear direction and incentives to kick start a key sector. Furthermore, levels of investment in technology, research and development and green innovation in the UK lag behind those in other countries.

4.8 The TUC, therefore, applies its “test” of Strategic Investment Fund support to the green sector. As noted above, £250 million from the Strategic Investment Fund announced in Budget 09 was allocated to low carbon investments. This, in itself, is a sign of the growing priority of the green economy among Ministers. However, this £250 million must be spent on green businesses and sectors with high job growth and export

⁸⁵ J Selwyn and B Leverett, “Emerging Markets in the Environmental Industries Sector”, UK CEED, 2006.

⁸⁶ According to the Prime Minister, speaking at the Prince of Wales May Day Business Summit in 2008.

⁸⁷ “Wind turbine maker to axe 600 jobs”, Fiona Harvey, Environment Correspondent, Financial Times, 29 April 2009.

potential, in order to maximise its value to the economy and wider society. Anyone seeking to access money from this funding stream must be able to demonstrate how it will be used to develop high skill, high value jobs in the environmental sector.

HOW COULD WE IMPROVE THE EXPORT POTENTIAL OF UK PRODUCTS?

5.1 A number of factors might make products more export friendly. Cost is obviously a factor, but cost is not necessarily the same as low price. People might buy a white T-shirt on the basis of its low price, but that rule does not apply to people who buy an Italian suit. Similarly, for those buying a new car, design will be important. Quality will be a factor, as will safety, performance and comfort. As stated above, emissions will increasingly be a factor as well, both because lower emissions cars are cheaper (for example, in terms of fuel consumption and vehicle excise duty) and because consumers are increasingly environmentally conscious.

5.2 From a trade union perspective, the best way to increase the export potential of UK products is to build a highly skilled and adaptable workforce, to ensure the quality of our manufactured products; to recruit or train excellent managers, to get the best out of those workforces; and to invest in design, research and development, to ensure that our products are at the cutting edge of both performance and environmental friendliness.

5.3 Of course, we need Ministers to bat for Britain, business leaders (and trade union leaders) to champion British companies, and Government support, through Foreign and Commonwealth Office and BERR Officials (including UKTI officials) to be at the top of their game.

5.4 We must also continue to invest in science, which is vital if industry is to reach its full potential. The TUC warmly welcomed the Prime Minister's pledge, in his Romanes Lecture at Oxford University on 27 February, that "we will not allow science to become a victim of the recession but, rather, focus on developing it as a key element of our path to recovery."⁸⁸

Skills

5.5 "New Industry, New Jobs" states: "We require a skills system that not only responds to demand but is also able to anticipate future growth in the economy in areas such as low carbon or bioscience, or in those driven by broader demographic change such as the care, hospitality and leisure sectors."⁸⁹ On this basis, the skills recommendations in the report quite rightly build on recent commitments by Government to develop a strategic skills strategy closely tied to an active industrial strategy, which is very welcome.

5.6 It is especially welcome that the significant potential for procurement and associated levers to underpin a strategic skills strategy is fully acknowledged in the report. It states that it will be important to ensure that "public procurement, regulators and regulatory frameworks all make a full contribution to raising skills levels".⁹⁰ The TUC has welcomed new government guidance on skills and procurement published last month, but we are pressing for this new approach to be rolled out as quickly as possible. For example, the new requirement on successful bidders for public construction contracts to provide training and apprenticeship opportunities should be extended to other major areas (such as large IT contracts in the public sector) as rapidly as possible.

5.7 There are some tensions on skills policy arising from the twin demands of supporting the unemployed to re-enter the labour market whilst also enabling individuals to acquire the necessary sustainable skills to build a skills base for new growth areas. For example, the Budget announced that the Government will be allocating "over £260 million of new money" to help young people get training and work experience in sectors where there is likely to be strong jobs growth over the longer-term. For this approach to succeed, it is imperative that these young people are given genuine opportunities to achieve the necessary skills over the longer-term to achieve sustainable employment in new growth areas and are not simply dragooned into undertaking short pre-employment training courses, as so often happened in previous recessions.

5.8 It is also important that major skills programmes, such as Apprenticeships and Train to Gain, are planned and delivered in the context of the new industrial activism, so that young people and adults can be confident that work-based training is equipping them for future industrial change. Government plans for the implementation of the forthcoming Right to Request Time to Train must also ensure that individuals can be empowered to access training that will enable them to achieve sustainable skills, especially where their employer is not supportive of this.

5.9 The report highlights that later this year the Government will be publishing a Higher Education Framework and an "active skills" paper further detailing how education and skills policies will be supporting the new industrial activism. The TUC will be engaging in discussions with Government on the development of both these strategies.

⁸⁸ Romanes Lecture, Gordon Brown, Sheldonian Theatre, Oxford, 27 February 2009.

⁸⁹ "New Industry, New Jobs: Building Britain's Future", HM Government, p. 15

⁹⁰ "New Industry, New Jobs: Building Britain's Future", HM Government, p. 16

Innovation

5.10 “New Industry, New Jobs” highlights two weaknesses in British innovation performance. The first is that, although those businesses that do invest in innovation do so successfully, both UK-based businesses and the Government itself continue to invest less in R&D as a percentage of GDP than other comparative economies. The second is that our excellence in generating knowledge is not consistently translated into innovative and commercially successful goods and services.

5.11 “New Industry, New Jobs” goes on to state: “encouraging closer ties between the UK’s growing pool of scientific and engineering researchers and industry and private investors is now key to ensuring that we are able to benefit economically from groundbreaking science.”⁹¹

5.12 Meanwhile, the Department of Innovation, Universities and Science has made clear the Government’s commitment to the science and research budget ring-fence. Research Councils have been asked to develop plans over the next few months to refocus their research programmes for 2010–11 into new priority areas such as the green economy, life sciences, the digital economy, high-value manufacturing systems and services and cultural and creative industries.

5.13 The TUC welcomes this example of joined up government between HM Treasury, DIUS and BERR. We further agree that these are the correct priorities for UK industry, including industries with export potential. We offer one small caveat, which is that recognition of the value of pure science, ie “science for science’s sake”, must continue.

5.14 The industrial spin-offs of the US mission to put a man on the moon in the 1960s is well known. The invention of the internet at CERN in Geneva is one more recent example of how scientific endeavour has led to industrial outcomes that could not have been predicted in advance. The UK’s future as an exporter will be greatly assisted by science, both pure and applied.

CONCLUSION

6.1 In conclusion, the TUC does not seek an export led economic strategy, but we seek more exports, given the UK’s balance of trade deficit. We also see exports as one sign of a healthy economy, so long as export policy is not being pursued to the exclusion of internal demand or on the basis of lower wages for manufacturing workers here in the United Kingdom.

6.2 However, exports are only one sign of a healthy economy. The TUC urges the Select Committee to try to promote a debate about the nature of the economy. For example, how would we define a successful economy? What components would be needed for an economy to be described as successful? In the TUC’s view, one key component would be the capacity to create a large number of high skill, high value jobs, in strategic industrial sectors. But other actors will have other priorities. At present, Regional Development Agencies are charged with delivering regional economic strategies, but there is no overarching national economic strategy, setting out the Government’s objectives and describing a road map to achieve them.

6.3 Rather, the Government sets out different economic measures and then uses them to describe the economy as successful. For years, the economy was considered to be successful because inflation was low and growth was steady. Those are certainly important achievements, but are there other necessary factors before we conclude that an economy is successful? With the benefit of hindsight, many commentators now say that the UK economy was unhealthy, because of its over-reliance on the financial services sector and a housing bubble. So was it successful, but unhealthy? And if an economy is successful but unhealthy, is it sustainable?

6.4 None of this is to criticise the Government, but as we begin to look towards a post-recession economy, and commentators argue about how the economy must differ from the one that existed before the recession, a Government definition of a successful economy, agreed by No 10, HM Treasury, BERR, DIUS, DECC and other interested government departments, would be helpful. Stakeholders, including businesses and trade unions, should be invited to contribute to this definition, as well as the road map setting out how we are to achieve it.

6.5 The TUC will not attempt a draft definition here, but any definition must include jobs, in terms of both quality and quantity, as well as commitments from companies to skills, innovation and investment. A successful economy, in our view, will also have a healthy trade balance, so world-class companies must be in a position to export quality goods and services, as well as meet demand from consumers at home. Unless Government targets exports, and backs this commitment with policy support, we may marginally increase exports in some sectors, but there will be no step change in our performance.

6.6 The world economy is unbalanced. It is not sustainable for countries such as China, Japan and Germany to rely so much on exports, expecting other countries, most obviously the United States but to a lesser extent the UK, to continue buying their goods. Speaking to the *Financial Times* on 28 April 2009, Berthold Huber, the Head of IG Metall, Germany’s biggest trade union, said: “Germany was always an

⁹¹ “New Industry, New Jobs: Building Britain’s Future”, HM Government, April 2009, p. 14.

export nation but the question is: to what extent. Over the past decade we have neglected domestic consumption. Of course, Germany must remain an export nation. But in the long term I think this kind of dependence on exports in this extreme form is not sustainable.”⁹²

6.7 It is, of course, beyond the power of the Select Committee to change the balance of the world economy, but the message must continue to be sent to government that pressure to this end, through the G8 and G20, must continue.

1 May 2009

Memorandum submitted by The West Midlands Chambers of Commerce

BACKGROUND

The West Midlands Chambers of Commerce was launched in January 2002. It was the first dedicated business support organisation for the whole of the West Midlands.

Our aim is to enhance the collaborative working of the seven chambers of commerce in the West Midlands and to provide a comprehensive, powerful and influential voice for businesses in the region.

The West Midlands Chambers brings together the following chambers of commerce: Birmingham and Solihull, the Black Country, Coventry and Warwickshire, Herefordshire and Worcestershire, North Staffordshire, Shropshire, and Southern Staffordshire. Our collective strength is based on grass roots links to businesses in towns, cities and rural areas across the region. We are business owned and business led.

In the West Midlands, the Chambers of Commerce are UKTI’s delivery partner for International Trade Services across the Region.

CONSULTATION

1. *What export problems have your members faced since the economic downturn began?*

Those companies that are well-established exporters and which operate in a number of countries feel that there are limited opportunities for them to benefit from export support and consequently they have not changed their strategy or approach to international trade as a result of the recession. Given the global nature of the recession, both traditional and emerging markets are encountering similar constraints—a lack of available money in the marketplace. Customers are delaying placing orders and are reluctant to commit, which is having a direct impact on the export order books and sales of UK companies.

The downward spiral of falling prices and the prospect of prolonged deflation are inhibiting spending amongst businesses and consumers and for the UK, this is being exacerbated by the weak pound. Volumes, particularly in the US are down and there are currently more international trade opportunities in Europe as a result of the exchange rate.

While manufacturing sales in the UK have been slowing for some considerable time, a number of businesses in the West Midlands have maintained output and found considerable success by selling their products in international markets. The strength of the Region’s manufacturing base puts us in a strong position to benefit from the manufacturing downturn in foreign markets such as China.

It is now becoming more competitive in terms of cost, lead times and transportation to manufacture products in the UK, especially as exchange rates are making it more expensive to buy from “low cost countries”. Black Country manufacturers can now compete in terms of higher quality goods and due to the value of the pound against the Euro.

Exporters have undoubtedly been helped by the weak pound and the expansion of European and Middle Eastern markets, as well as the recent downward trend in oil and commodity prices, but businesses need to be supported to benefit from the opportunities that these external factors present.

As well as a lack of export credit, credit insurance remains a significant problem for businesses’ domestic transactions as well as exports and this is likely to become an even greater problem next year, as the rates will be based on the atypical 2008 performance. This is likely to compel even more small companies to rely on invoice discounting for working capital, but as sales slow, the levels of finance through invoice discounting also fall, often at a faster rate than small businesses can cope with. As a result of the lack of credit insurance available businesses have to decide whether to take on the risk themselves, thereby increasing the cost of borrowing.

We support the Government’s announcement in the Pre-Budget Report that the Export Credits Guarantee Department, in conjunction with the banks, would introduce a temporary guarantee scheme to support a £1 billion facility providing smaller exporters with better access to short-term working capital. However, export credit insurance is still not working, as there is evidence that insurers are taking a country-wide approach to assessing risk, as opposed to looking at the particular business needs. Romania has been

⁹² “Export reliance ‘not sustainable’ for Germany”, Chris Bryant, Financial Times, 28 April 2009.

highlighted as one of the countries for which credit insurance is no longer available. It has also been suggested that is a problem most pertinent to the UK and that as credit insurance in foreign countries is more accessible, UK exporters are further disadvantaged.

Local manufacturing supply chains are also being damaged by late payments from large foreign-owned companies. In some cases, local businesses are not being paid for 60 or 90 days.

Local businesses have also highlighted problems with using Letters of Credit (L/Cs), as foreign banks are not accepting L/Cs from UK banks. Given that L/Cs should eliminate the seller's risk, it is particularly concerning that UK businesses are being placed at a competitive disadvantage as a result of this.

Supporting and encouraging exporters will help to bolster the UK economy.

2. Have your members received any help from the government or government bodies?

Experience of receiving support directly from Government, or Government Agencies is mixed. UKTI, Chambers of Commerce and Advantage West Midlands were highlighted as providing good support, particularly providing grants for overseas visits and exhibitions, as well as market surveys and assistance in identifying new agents.

Local businesses have also been helped by the recent HMRC support scheme and flexibility on payments.

For those firms that meet the eligibility criteria, the support appears to have been effective. However, there are numbers of businesses who have requested funds for foreign visits, but have not received anything.

Some businesses criticised the lack of assistance through ECGD and the fact that when they had sought help, they were simply referred to the website, or to Business Link.

The West Midlands operates a region-wide structure to deliver UKTI support to business, through Chambers of Commerce as well as RDA/EU projects and initiatives in developing international market opportunities. This structure facilitates close working with other regional agencies in ensuring a coherent approach to providing support and guidance to businesses.

3. Could the government do more to help businesses exporting in a recession? If so, please provide suggestions as to what.

Whilst exporting should be a long-term commitment and any knee-jerk reaction to the recession would not be advocated, there are a number of things that could be done to help get the international economy moving again.

The Government should consider underwriting all existing credit insurance debts for the short term to support those businesses whose credit facilities have been withdrawn. We do not believe that the Government's proposal to underwrite 50% of credit insurance payouts goes far enough, given the scale of the problem and the considerable impact throughout the supply chain, particularly manufacturing. The plans, administered by the credit insurers, are likely to cost more than ordinary policies, which will only increase the overall cost to business in the longer term. We are also concerned about the suggestion that the scheme will be offered to medium-risk companies, as at present, credit insurers are branding most small manufacturing companies a high risk.

Government support for exporters must be flexible enough to take advantage of the opportunities provided by changing global economic circumstances. The Government could support the redistribution of resources by UKTI to facilitate access opportunities according to where local businesses may have a competitive advantage.

Relaxing the eligibility criteria for export assistance would also be welcomed. Businesses require ongoing financial support to continue to export/return to markets, as well as support for first-time exporters. There is a perception that active exporters are penalised.

There is concern that in the current climate, protectionism will increase. The Government should continue to resist protectionism, whilst influencing overseas governments to reduce import duties.

The Government should encourage foreign Governments to put pressure on their local businesses to adopt payment policies of at least 30 days or less.

Companies need working capital to pay duty and VAT so transparency agreements with other countries would also help.

More needs to be done to increase confidence and stimulate demand in the UK economy. The car scrapping scheme in Germany for example, has been a considerable success, with sales increasing by nearly a quarter in February and Volkswagen reached its highest sales figures ever for February of 120,000 vehicles and UK based components and automotive manufacturers constitute a significant proportion of the global manufacturing supply chain.

There is also a perception that SMEs do not have the same access to Government funds as the internationally-recognised brands, such as Jaguar Land Rover. Many smaller companies also invest considerably in R&D and are equally critical within the supply chain.

In the longer term, more should be done nationally to promote British designed and manufactured products overseas.

4. *Do your members know of and understand all the help available from the government?*

The West Midlands enjoys a joined-up communication strategy as it is Chambers of Commerce that deliver UKTI services. This strategy encompasses stakeholders such as Business Link, the LSC, Manufacturing Advisory Service as well as other regional trade and commerce multipliers. While the business community is largely well informed of international trade advice and assistance we cannot be complacent and so seek mechanisms of continuous communication—relaying and emphasising the message.

Although many companies are aware that there is much assistance for exporting in place, those that are most knowledgeable are those that are already engaged in Chambers of Commerce and/or UKTI. There is concern that small businesses with little prior knowledge find the numerous schemes complex and struggle to understand quickly exactly what support is available to them individually.

There is concern that for businesses that are not actively involved through their local Chamber of Commerce, or similar body, the information from central Government does not always filter down through the various agencies.

It seems that there are many excellent support schemes available, more could be done to raise awareness amongst more “hard to reach” businesses and to clarify to novice exporters what exactly is available to them. Additional resources to provide a more tailored and segmented package to individual businesses would work well.

5. *Do your members who have just begun exporting or wish to start exporting feel they are getting the help from the government they need?*

For those companies that have recently starting looking into exporting opportunities, some are discouraged by the perceived minefield of legislation, so greater encouragement to begin this process and to navigate the complexities of exporting would be welcomed. An initiative not unlike UKTI’s Export Explorer Programme—a project that encouraged new and novice exporters into “starter” markets—with considerable guidance and support would achieve this.

Many local businesses have received substantial help, mainly from UKTI. However, there are still companies that are not aware of any available support and who have funded their own overseas visits and materials to market their company overseas.

A number of companies would welcome financial assistance for marketing, particularly given that marketing can be one of the first areas to cut back on during difficult economic times.

Like many government programmes the perennial problem of outputs being structured by so many schemes is a considerable barrier when the output target is reached. We would prefer to see a budget allocated to each area for them to deliver the assistance that firms actually need, rather than having to disappoint clients once the allocation is reached.

6. *Would your members like more help from the government to access new markets? If so, what kind of help?*

Overall, businesses would like to see more help from the Government to access new markets, although a number of businesses have raised other concerns, such as the need to provide a long term strategy and framework for the manufacturing sector and the need to reduce the regulatory burden in the UK so that businesses are not at a competitive disadvantage.

UKTI offers substantial support, but reductions in the UKTI budget would be concerning, particularly given that exhibitions have seen the largest reduction in funding over recent years, yet this is one area that has been highlighted to help businesses access new markets.

Marketing and company promotion are particularly high on the list of priorities, particularly within Europe. Support for website development and creating a company presence overseas would be particularly beneficial. The costs of overseas promotion and winning business are often prohibitive without Government support.

There could be greater engagement with business, to provide clarity on what help is available and guidance on potential market opportunities. Increased trade missions and market surveys would also be welcomed.

There is however, some concern about the focus on “new markets” and that there should be increased support for the markets that companies are already concentrating on. A business that already exports a large proportion of their goods or services has reduced opportunities to find new clients.

7. *Do you have any other comments?*

Government funding should only be available to companies who put in the effort—proper planning should be part of the application process but this must not create too much increased admin for ITAs.

7 April 2009

**Letter from the Chairman of the BIS Select Committee to Lord Davies of Abersoch,
Minister for Trade and Investment**

I have just returned from a visit to the Middle East (Dubai, Abu Dhabi and Saudi Arabia) with the Business and Enterprise Committee. We had an excellent and illuminating visit, which will provide vital background for our inquiry into exporting out of recession. We are extremely grateful to the staff of the FCO and UKTI in the embassies concerned for arranging such a rewarding programme, and working so hard to support us while we were with them.

I would not normally write about a substantive issue in advance of the Committee report, but we received such a consistent message from local business about the scale of the demands on UKTI staff in Saudi Arabia that I feel I must draw it to your attention. Without exception, everyone we met was unstinting in their praise of the team, but they all expressed concern that the demands on the post had increased hugely over the last year, and staff were severely overstretched. I myself am aware that Saudi Arabia has been included as part of the Fiscal Compass programme, and that there has been a steep increase in the number of official delegations which, although welcome, must require a significant amount of work.

The recent BERR memorandum to our inquiry says:

“Targets are linked closely to resource and, where resources are showing signs of stretch and we believe there is scope to do more for customers, we move some additional resource there.”

I believe you should consider urgently the case for allocating more resources to Saudi Arabia. Our recent visit suggests that this should not be at the expense of the UAE, which also, in my view, is a most rewarding market.

I am copying this letter to Sir Andrew Cahn and Sir William Patey.

30 April 2009

**Letter from Lord Davies of Abersoch, Minister for Trade and Investment to the Chairman of
the BIS Select Committee**

Thank you for your letter of 30 April, about exporting out of recession.

I am pleased that you found your visit to the UAE and Saudi Arabia so useful and I appreciate your positive feedback on the support that the Select Committee received from the Embassy teams in Abu Dhabi, Dubai and Riyadh. Interest from UK companies in business opportunities in the Middle East—and particularly in markets such as Saudi Arabia, Abu Dhabi and Iraq—is strong and is certainly increasing.

UK Trade & Investment’s overseas resource is kept constantly under review with a view to ensuring, as you point out in your letter, that the staffing in our network of Embassies and Consulates overseas relates strongly to demand for UKTI’s services. We are aware of the pressures on the UKTI team in Saudi Arabia at the moment and are already looking creatively at how that team can be reinforced within the bounds of existing resources. I can assure you that making resource savings in the UAE to compensate for additional UKTI resource in Saudi Arabia is not an option. Despite the current check on Dubai’s growth, the UAE continues to offer huge opportunities for British companies. However, an increase in resource in Saudi Arabia may have to be compensated by savings made elsewhere in the UKTI network.

I would like to reassure you that we are dealing with the issue of UKTI staffing in Saudi Arabia as a matter of urgency. I look forward to receiving the Select Committee’s full conclusions in due course.

8 June 2009

**Letter from Lord Davies of Abersoch, Minister for Trade and Investment to the Chairman of
the BIS Select Committee**

When we corresponded in June last year following your visit to the Gulf, I indicated to you that UK Trade & Investment (UKTI) would look creatively at how it could reinforce its resources in support of business with Saudi Arabia. I also indicated that this would not be at the expense of existing UKTI resources in the United Arab Emirates. I know that the Select Committee is very close to agreeing its final report on “Exporting out of Recession” and I wanted to update you on developments since then.

I am delighted to be able to confirm that, since our exchange of letters, two additional locally-engaged members of staff have been appointed in Saudi Arabia: one in UKTI's team in Riyadh and the other in Jeddah. UKTI has also created a Marketing Hub for the Middle East in Dubai, comprising two locally-engaged members of staff, which will support our efforts to increase business between the UK and the whole of the Gulf Co-operation Council (GCC), including Saudi Arabia. Finally, efforts in the UK to focus British companies on Gulf markets have also been boosted through the expansion of UKTI's Middle East team in London—with two graduate entrants appointed towards the end of last year.

As you may be aware, I led a large business delegation to Saudi Arabia in early December and saw for myself the major opportunities for British business that exist in the Kingdom. I am confident that the additional resource allocated by UKTI to the region over recent months will help to generate even more business between the UK, Saudi Arabia and wider Middle East.

12 January 2010
