House of Commons

Trade and Industry Committee

Marketing UK plc—UKTI's five-year strategy

Sixth Report of Session 2006–07

Report, together with formal minutes

Ordered by The House of Commons to be printed 22 May 2007

HC 557
Published on 6 June 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)
Roger Berry MP (*Labour, Kingswood*)
Mr Brian Binley MP (*Conservative, Northampton South*)
Mr Peter Bone MP (*Conservative, Wellingborough*)
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)
Mrs Claire Curtis-Thomas MP (*Labour, Crosby*)
Mr Lindsay Hoyle MP (*Labour, Chorley*)
Mr Mark Hunter MP (*Liberal Democrat, Cheadle*)
Miss Julie Kirkbride MP (*Conservative, Bromsgrove*)
Judy Mallaber MP (*Labour, Amber* Valley)
Rob Marris MP (*Labour, Wolverhampton South West*)
Anne Moffat MP (*Labour, East Lothian*)
Mr Mike Weir MP (*Scottish National Party, Angus*)
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 www.publications.parliament.uk/pa/cm/cmstords.htm

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/trade_and_industry.cfm.

Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), David Slater (Second Clerk), Robert Cope (Committee Specialist), Ian Townsend (Inquiry Manager), Anita Fuki (Committee Assistant), Jim Hudson (Senior Office Clerk) and John Staples (Secretary).

Contacts

All correspondence should be addressed to the Clerks of the Trade and Industry Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is tradeindcom@parliament.uk.

Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated in the form 'Appendix' followed by the Appendix number. The written and oral evidence will be printed as a separate volume entitled *The future of UK manufacturing*, Session 2006-07, HC 161.

Contents

Summary

UK Trade & Investment (UKTI) plays an important role in the Government's response to the challenges and opportunities of globalisation by promoting the UK as a destination for foreign investment, and by supporting current and aspiring UK exporters. We support both UKTI's functions in this regard. Through its trade development activities, UKTI can help raise the business performance of the domestic firms it supports. It also has a successful record in attracting high-value foreign business to the UK.

The way in which government promotes inward investment and trade development has undergone a number of strategic and organisational changes in recent years. UKTI itself is only four years old, and has had three separate strategies since its creation. With its new five-year strategy, *Prosperity in a changing world*, we hope the organisation will now be given time to carry out its work without further major changes in direction or structure.

We support many aspects of the new strategy, including its new sector strategies, the R&D programme, and its increased focus on emerging and high growth economies. It is important, however, that UKTI is able to demonstrate the value it is adding through its work in these areas. Also, key to its commitment to becoming a more "client focused" organisation will be the development of the skills of its staff and greater charging for its services. In both of these areas we believe UKTI has the potential to be more ambitious and innovative.

Finally, we are deeply concerned by the role of the English regional development agencies in promoting inward investment and, in particular, their presence overseas. We believe the profusion of offices abroad is diluting the 'UK brand' and confusing potential foreign investors. This is an issue that the Government should seek to address immediately.

1 Introduction

1. The process of globalisation is fundamentally altering the way in which the UK does business with the rest of the world. New communication technologies and falling transport costs are reducing barriers to trade and, combined with the emergence of high growth economies, such as China and India, promoting greater economic integration.[1] These changes present both opportunities and challenges to UK business, and to policymakers. For many UK firms it has become increasingly important to internationalise in order to remain competitive. The range of potential export markets available to companies is expanding. At the same time, though, many firms are choosing to outsource production overseas, while retaining high-value work, such as R&D, design and after-sales service in the UK. Meanwhile, foreign businesses are increasingly looking to establish a presence outside their home country, either through exporting to, or by investing directly in production within, their target markets.

2. The Government has an important role to play in seeking to maximise the benefits that greater cross-border trade and investment can bring to the UK. The main way in which it can achieve this is to establish the economic conditions that allow business to flourish. These include, among others, ensuring macroeconomic stability, maintaining light regulatory burdens, encouraging a strong skills base, and promoting innovation.[2] In so doing, the UK can present an attractive location in which foreign investors wish to do business, while, at the same time, domestic producers of high-value goods and services are better able to compete effectively in overseas markets.

3. In recent years, the UK has had a reasonably strong record in providing the conditions for business to prosper. The OECD ranks it as having the most stable output growth and inflation, and the most liberal product market regulation amongst the G7 countries. It ranks comparatively poorly, however, on measures of skills provision (5th) and R&D intensity (6th).[3] This overall performance is reflected in the UK's foreign investment and trade figures. The total stock of inward investment to the UK stood at $817 billion in 2005—second only to the US.[4] The Government estimates that the financial year 2005-06 saw over 1,200 foreign investment projects in the UK, creating over 34,000 jobs and safeguarding another 55,000.[5] Meanwhile, 2005 also saw UK export growth to India and China at 28% and 24% respectively, compared to overall export growth of 13.5%.[6] The UK is the world's sixth largest exporter, with goods exports equivalent to 19% of annual GDP.[7] As globalisation continues apace, however, it will become increasingly important to market

1 Appendices 15 (Department of Trade and Industry) and 28 (KPMG). All the written and oral evidence referenced in this Report may be found in a separate volume, *The Future of UK Manufacturing*, Session 2006-07, HC 161.

2 HM Treasury, *Long-term global economic challenges and opportunities for the UK*, December 2004

3 OECD, *Economic Survey of the United Kingdom*, 2005

4 UNCTAD, *World Investment Report*, 2006

5 UK Trade & Investment, *UK Inward Investment 2005-06*, July 2006

6 www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?_nfls=false&_nfpb=true#c; National Statistics

7 Office of National Statistics, *Quarterly National Accounts*, March 2007 and *Balance of Payments*, March 2007

the UK's attractiveness to foreign investors and for domestic firms to continue seeking new export opportunities, if the UK is to stay ahead of its competitors.[8]

UK Trade & Investment

4. The lead government organisation responsible for supporting exporters and encouraging overseas firms to invest in this country is UK Trade & Investment (UKTI). UKTI draws 1,900 staff from its two parent departments, the Department of Trade and Industry (DTI) and the Foreign and Commonwealth Office (FCO). Around 600 are employed at its London headquarters, with the rest based either in its overseas network or within the English regional development agencies (RDAs). The RDAs also play a separate role in promoting inward investment. While Scotland, Wales and Northern Ireland have their own organisations for international trade development and investment promotion, UKTI retains overall responsibility for promoting the UK as a destination for foreign investors and operating its overseas network. The organisation offers a range of services to potential exporters and foreign investors, including sales leads, bespoke research, advice on location and access to the UK's international network of Embassies, High Commissions and Consulates. For example, in 2005-06 UKTI helped more than 6,000 companies to move into markets that were new to them, and dealt with over 35,000 trade and inward investment related enquiries.[9]

5. In the 2006 Budget statement the Chancellor announced an enhanced role for UKTI in helping business respond to the challenges of globalisation. Its then new Chief Executive, Andrew Cahn, was given the responsibility of turning UKTI into "the most successful organisation of its type in the world".[10] The cornerstone of the revamped body was to be the setting of a new strategy for the next five years. As a result, in July 2006 UKTI launched *Prosperity in a changing world*, outlining the lead role it would play in marketing the UK overseas; boosting trade with emerging economies, such as China and India; promoting the City of London as the world's leading financial centre; and targeting R&D intensive companies both for inward investment and as potential exporters.[11] In order to enact the new strategy, UKTI is implementing a number of internal reforms. It is becoming more client focused and is seeking to bring in new private sector skills. It is also reallocating resources to the most promising emerging and high growth markets. At the same time, the organisation is increasing the income it derives from charging for its services, while reducing the number of its headquarters staff.[12]

Our inquiry

6. This is our second Report in a series of inquiries into manufacturing that we launched in July 2006. The first of these looked at the availability and provision of skills in the sector.[13]

8 Appendices 10 (Confederation of British Industry) and 12 (Deloitte and Touche)

9 Appendix 15 (Department of Trade and Industry)

10 *Ibid.*

11 UK Trade & Investment, *Press Notice 2006/47*, July 2006

12 Appendix 15 (Department of Trade and Industry)

13 House of Commons Trade and Industry Committee, Fifth Report of Session 2006-07, *Better skills for manufacturing*, HC 493

We also looked at the role of public procurement in supporting industry. In light of UKTI's recently launched strategy, we thought it timely to take stock of the changes being put in place by the organisation, and the extent to which they will enable it to serve its customers better, not just in manufacturing, but across all sectors. The following chapter considers the economic rationale for UKTI's work and the changes it has undergone in recent years, both in terms of organisation and strategic direction. Chapter 3 then looks at those aspects of the new strategy which we believe are most important.

7. In the course of our inquiry we took oral evidence from representatives of employers and employees—the Confederation of British Industry; EEF, the Manufacturers' Organisation; the Trades Union Congress; and Amicus. We also took evidence from UKTI, and British Expertise, a trade association for exporters of professional services. We received 53 memoranda covering all three inquiries, including nine responses to a survey we sent to the English Regional Development Agencies (RDAs). We would like to express our thanks to all those who have contributed to our evidence-gathering.

2 The role of UK Trade & Investment

8. UKTI's overarching aim 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".[14] Through cross-border trade and investment, countries are able to focus on those activities in which they excel, specialising in their areas of comparative advantage. This process encourages competition and promotes innovation, which in turn contributes to economic growth. The UK has a long tradition of openness to trade and foreign investment, which has been actively encouraged by government. In recent years, the body responsible for their promotion has taken various guises, with UKTI representing the most recent incarnation. In this chapter we look at the economic rationale for government efforts to develop exports and promote inward investment, and the different ways in which it has done so in recent years, culminating in UKTI's new strategy.

Economic rationale for trade development

9. The Government's stated case for intervention to support both aspiring and existing exporters is based on three principles. These are: evidence that there are benefits to the UK from greater exporting; that firms experience barriers to exporting arising from the presence of market failures; and that government is able to intervene cost-effectively to address these barriers.[15] Recent academic research by Richard Harris and Q Cher Li analyses the benefits to UK firms of exporting.[16] They find that, in general, exporters have higher productivity than non-exporters. One reason for this is that only high productivity firms are really able to compete on the international stage. This means that in order to enter new overseas markets, they must first 'raise their game'. In addition, though, there is also evidence that once firms begin to export they also experience 'learning-by-doing' effects, which further raise their productivity performance. For example, recent estimates for the period 1996 to 2004 suggest firms that are new to exporting experience on average a 34% increase in productivity in the year of entry, whereas companies that stopped exporting saw a drop in productivity of around 7-8%. The better performance of exporting firms over non-exporters in turn contributes to greater overall UK productivity. Harris and Li estimate that 60% of UK productivity growth between 1996 and 2004 was attributable to exporting firms, including both established and new exporters.[17]

10. There are, then, clear benefits to exporting. Yet productivity performance alone is not enough to guarantee success in foreign markets. There are a number of market failures which may constitute barriers to entry for firms. Inexperienced businesses may lack information about the potential costs and benefits of exporting, or lack the skills to know how to go about entering new markets.[18] Information about potential market opportunities

14 UK Trade & Investment, *Departmental Report*, 2006

15 Department of Trade and Industry, *DTI Economics Paper No. 18, International Trade and Investment— the Economic Rationale for Government Support*, July 2006

16 Richard Harris and Q Cher Li, *Firm Level Empirical Study of the Contribution of Exporting to UK Productivity Growth*, March 2007

17 *Ibid.*

18 Q 206 (Amicus)

can also be comparatively costly to obtain, or they can be perceived as too risky to pursue, particularly for small firms.[19] In addition, government-to-government contact or lobbying through the diplomatic network may be required to overcome barriers in some markets.[20] In these situations there is often a unique role that the public sector can play in overcoming such market failures. Of course, some firms may not be able to enter export markets simply because they are not competitive enough. In these instances, the barriers to entry that they face are not the result of a market failure and the help they need is of a different nature.

11. As the lead organisation for trade development, UKTI offers a range of services to businesses entering new export markets. These include tailored packages of practical assistance to help firms develop their skills and capacity to trade internationally. UKTI also provides information to companies about specific opportunities for products or services in particular overseas markets. In addition, it runs trade fairs, seminars, and organises trade missions, as well as providing a range of publicity services. Finally, UKTI may also carry out political lobbying in overseas markets on behalf of UK firms.[21] In this regard, HRH Prince Andrew, Duke of York plays an important role as the UK's special representative for international trade and investment. Through these various activities the organisation has a significant impact on the companies it supports. For example, UKTI estimates that about 35% of the new-to-export businesses it currently helps improve their performance, in terms of productivity and profitability, within two years. For established exporters this figure rises to 57%.[22]

12. **There are significant productivity benefits to the UK from firms seeking to move into export markets. Where they face barriers to entry as a result of market failures, there is a role for government to play in helping them overcome these. UKTI is able to offer aspiring and established exporters a range of services to assist them in entering overseas markets and which, in many cases, lead them to improve their business performance. We therefore strongly support the case for a publicly funded service of the kind provided by UKTI to exporters.**

Economic rationale for inward investment promotion

13. Foreign direct investment (FDI) can take one of several forms. An overseas firm may establish a branch or subsidiary in a host country, injecting start-up capital in the process. This is often known as 'greenfield' investment, an example of which is the Nissan car plant in Sunderland. Alternatively, a foreign company may take over or merge with an existing domestic firm, either in full or in part, such as in the case of Spanish firm Telefonica's acquisition of O_2. Also, an aspiring multinational may invest capital in an existing foreign subsidiary, or else allow it to retain and reinvest its profits, rather than returning them to the parent company.[23] In 2005-06, the UK received more than 1,200 new inward investment projects. About 40% of these were new, i.e. 'greenfield', investments to the UK,

19 UK Trade & Investment, *Departmental Report*, 2006

20 Q 364 (British Expertise)

21 Appendix 15 (Department of Trade and Industry)

22 UK Trade & Investment, *Departmental Report*, 2006

23 House of Commons Library, *Economic Indicators, Research Paper 06/52*, November 2006

with another 25% representing expansions on existing projects. The remaining 35% were the result of mergers and acquisitions.[24]

14. In the same way as for trade development, the economic case for promoting foreign direct investment (FDI) must be based on evidence of the benefits that such investment can bring to the UK; identification of market failures that result in the level of FDI being sub-optimal; and the ability of government to intervene to overcome them cost-effectively. The benefits of inward investment to the UK accrue through various channels. So called 'greenfield' investments usually entail the injection of new capital and creation of jobs within the local economy.[25] Foreign-owned companies based in the UK also tend to have higher productivity levels than domestic firms by about 20-25%.[26] This is primarily because in entering a new market, a foreign firm often brings with it new ways of working and technical innovations—factors which underlie the reason why it has become a multinational in the first place. In addition, though, inward investment can give rise to secondary benefits. For example, foreign-owned firms can intensify competitive pressures on domestic firms, forcing them to 'raise their game'. In addition, the presence of multinationals can also result in 'knowledge spillovers'. This is where domestic firms acquire technical knowledge from the new entrant through, say, the interchange of employees via the labour market, resulting in the sharing of best practice, or as a result of being part of the company's supply chain.[27]

15. We received evidence that was sceptical of the economic value of some forms of FDI, particularly where a foreign firm takes over a domestic business, but does not then invest in developing that company's potential.[28] UKTI does not provide support for foreign firms seeking such takeovers or mergers. In general, though, inward investment is seen as being economically beneficial, which is why the UK government has traditionally taken a somewhat sanguine attitude towards the acquisition of UK firms by foreign competitors. This openness to cross-border investment flows has also contributed to the UK becoming the second largest outward investor in the world, with a stock totalling $1,238 billion in 2005—50% greater than the current stock of foreign-owned investment in the UK.[29]

16. Some of the market failures, which may lead to the level of inward investment in the UK being less than it otherwise might, are similar in nature to those affecting exporters. Without government intervention, investors may have difficulty finding information about opportunities in the UK, or accessing the right contacts in order to enter a market.[30] In addition, because competition and knowledge spillover effects may well not be taken into account by an overseas firm when making their investment decision, companies may

24 UK Trade & Investment, *UK Inward Investment 2005-06*, July 2006

25 Appendices 3 (Institution of Engineering and Technology) and 10 (Confederation of British Industry)

26 See for example, Ralf Martin and Chiara Criscuolo, *Multinationals, foreign ownership and productivity in UK businesses*, 2002; or Rachel Griffith and Helen Simpson, *Characteristics of foreign owned firms in British manufacturing*, March 2001

27 Q 204 (Amicus); Appendices 10 (Confederation of British Industry) and 21 (EEF, The Manufacturers' Organisation)

28 Appendix 5 and Q 376 (British Expertise)

29 UNCTAD, *World Investment Report*, 2006

30 UK Trade & Investment, *Departmental Report*, 2006

choose not to invest when doing so would actually be beneficial to the UK.[31] In the context of these market failures, government has a possible role to play in encouraging inward investment, championing the UK as a place to do business.[32]

17. UKTI offers a range of services to potential foreign investors. It provides specific information on matters affecting their investment decisions, including company registration, immigration, available financial incentives, transport, regulatory issues, etc. It will also supply regional and local analysis to help overseas companies choose where to set up, and provide introductions to sector networks, such as industry leaders, universities and other R&D centres. In addition, once established, UKTI offers 'aftercare' support, particularly to key high-value investors, which is aimed at retaining firms and encouraging them to make further investments in the UK.[33] One of UKTI's performance targets is for it to secure 374 successful inward investment projects in the year 2005-06, rising to 440 in 2006-07 and 524 in the last year of the 2004 Spending Review period, 2007-08. Commendably, the organisation is on course to achieve these targets.[34] Additionally, of the inward investment successes achieved by UKTI in 2005-06, 74% of these were in knowledge-driven sectors or technologies.[35]

18. **The UK can benefit from different forms of foreign direct investment not just in terms of the creation of jobs, and the injection of capital, but also through the competition and 'knowledge spillover' effects that inward investors have on the rest of the economy. UKTI has an important role to play in promoting the country as a location for FDI, and has had a successful record in recent years in attracting high-value foreign business to the UK. We agree that its emphasis should be on encouraging 'greenfield' investment where the economic advantages are more certain, and not takeovers.**

Is there an economic rationale for outward investment promotion?

19. As with FDI, investment by UK companies abroad can take various forms, from the setting up of a subsidiary in a host country to the outright takeover of a foreign firm. The returns on such investments can be beneficial to the UK if they are sent back to the parent company, thus representing a capital inflow. Furthermore, often it is only by making such overseas investments that UK companies can build or even maintain their international presence and market share. In the context of increasing globalisation one of the primary ways in which outward investment is currently helping UK firms is in allowing them to outsource or offshore some of their lower value activities to countries that have cheaper labour and rental costs.[36] Perhaps the best known example is the move by several banks and insurance companies to outsource call centre work to places such as Bangalore in India. While such actions are often seen as 'exporting British jobs', EEF told us that in

31 Department of Trade and Industry, *2004-05 Study of the Relative Economic Benefits of UK Trade & Investment Support for Trade and Inward Investment*, March 2006

32 Q 161 (Confederation of British Industry)

33 Appendix 15 (Department of Trade and Industry)

34 UK Trade & Investment, *Departmental Report*, 2006

35 *Ibid.*

36 Appendix 10 (Confederation of British Industry)

markets open to competition from relatively low-cost economies such investment has "often been the key to survival".[37] Moreover, and with much less public attention, while outsourcing in a wider range of more sophisticated IT services has expanded massively in recent years, the UK continues to see growth in exports in the sector, with total employment of 670,000 in 2005, increasing above the UK average.[38]

20. The market failures that may result in there being less outward investment than would occur without government intervention are essentially the same as for inward investment. These involve difficulties in finding information and then accessing opportunities to invest abroad, and also the fact that competition and technological spillover benefits that may accrue to the host country are not taken into account in the investment decision. The extent to which it is the role of UK government to address these market failures is debatable, though. Rather, given that the benefits of outward investment largely accrue either to the investing firm or the recipient country, it is arguably the case that this task should fall to investment promotion agencies in other states.

21. In the evidence we received, it was unclear to us what role UKTI plays in supporting domestic firms wishing to invest abroad. The organisation's overarching aim to "enhance the competitiveness of companies in the UK through overseas trade and investments …" suggests that it should perform this function.[39] Indeed, many of the case studies highlighted to us in UKTI's memorandum as examples of business internationalisation, involved some form of overseas outsourcing—although it was not clear whether UKTI had provided any support in these cases. In evidence UKTI told us it "did not have schemes designed to encourage British companies to invest overseas".[40] It did say, however, that staff "provide assistance to British companies if, for example, they are trying to take over an overseas company".[41] Its Chief Executive stated that he saw it as UKTI's "duty to help a British company". [42] Yet the organisation's website portal suggests it is focused only on trade development and inward investment promotion. The Scottish Council for Development and Industry argued in its memorandum that UKTI should be more explicit and active in the support it provides to businesses seeking to undertake outward investment projects, where there are clear benefits to the UK economy in terms of maintaining the competitiveness of individual firms.[43]

22. **As globalisation intensifies the pressures faced by UK firms, there is a growing trend for them to outsource back office and certain supply chain activities to lower cost economies. This is to be expected if they are to remain competitive with emerging market rivals. We do not believe that there is a market failure rationale for UKTI using its resources to support such outward investment as this task is already fulfilled by other countries' investment promotion agencies. Any clarification or advice sought from UKTI in such matters should be charged for.**

37 Q 42 (EEF, The Manufacturers' Organisation)

38 Office for National Statistics, *Labour Market Trends Report*, 2005

39 UK Trade & Investment, *Departmental Report*, 2006

40 Q 553 (UK Trade & Investment)

41 *Ibid.*

42 *Ibid.*

43 Appendix 40 (Scottish Council for Development and Industry)

23. **The role that UKTI should play in helping UK companies expand in overseas markets by investing in manufacturing or service capacity is more contentious. We recommend that the DTI and UKTI garner research to clarify the role such investment plays in increasing UK competitiveness and, consequentially, the role that it should play in supporting firms wishing to invest abroad. We recommend, too, that if UKTI is to offer such services to domestic firms, then it should charge them the full cost of doing so.**

Recent policy to support exporters and promote FDI

24. The way in which the UK government has gone about promoting inward investment and supporting export development has undergone a number of changes in recent years. In the 1990s these tasks were undertaken separately, and with fairly poor co-ordination, by the Foreign and Commonwealth Office, Department of Trade and Industry, and other government departments, as well as the Government Offices and Business Links. In 1999, a review conducted by then Cabinet Secretary, Sir Richard Wilson, recommended the creation of a body bringing together the export and investment work of the DTI and the FCO. This led to the establishment of British Trade International (BTI), acting as an umbrella for two 'service brands'—Trade Partners UK (supporting trade development) and Invest UK (promoting FDI).[44] This multiple branding was widely seen as confusing. As such, in 2003 the decision was taken to re-brand BTI with a single name and identity—UK Trade & Investment. Working as a single organisation, the integration of government efforts to support exporters and inward investors was intended to reflect the close relationship between both types of work in overseas posts and the English regions; create greater awareness of the UKTI brand; and provide cost savings through increased economies of scale.[45]

25. Despite its new branding only four years ago, UKTI has already undergone a number of changes in strategic direction, as well as much organisational upheaval during its existence. The body's *Strategy 2006*—the result of its 2002 Spending Review settlement—envisaged an organisation that would be "more focused, more responsive, more professional and more connected to the needs and requirements of customers".[46] Two years later, the 2004 Spending Review (SR04) settlement saw a reduction in UKTI's annual budget by £35 million to £253 million—the bulk of which was to be found by reducing the number of posts in its London and Glasgow offices. Part of SR04 also saw the reallocation of resources within UKTI away from trade development activities and into investment promotion, roughly doubling the amount spent on the latter, which now accounts for about one third of the organisation's programme expenditure. The resulting reduction in support for trade development met with much criticism from representatives of exporters at the time.[47] So too did UKTI's new emphasis on targeting new-to-export firms and the reallocation of some of its resources to the Regional Development Agencies—issues, which

44 House of Commons Library, *Standard Note: UK Trade & Investment SN/EP/795*, January 2007

45 *Ibid.*

46 UK Trade & Investment, *Departmental Report 2004*, June 2004

47 Appendices 10 (Confederation of British Industry) and 21 (EEF, The Manufacturers' Organisation); Q158 (Confederation of British Industry)

we discuss in more depth in the next chapter.[48] All of these measures were the outcome of the organisation's Spending Review settlement with HM Treasury.

26. In the 2006 Budget, the Chancellor announced yet another revamping of UKTI's work. The resulting new strategy, *Prosperity in a changing world*, published four months later, superseded the body's previous strategy, which at that time was little more than a year into its operation. This is entailing still more organisational change for UKTI, as its head office is restructured, inward investment and trade promotion activities are integrated further, and staff are reallocated to the 'frontline' of service delivery.[49] The new focus on high-growth and emerging economies will also see resources moved away from the UK's more developed investment and export markets.

27. A number of organisations voiced their frustration to us at the level of institutional and strategic change that UKTI has had to endure since its inception.[50] As the Engineering and Machinery Alliance said to us: "continuous change over the … years has not helped UKTI to perform".[51] Indeed, UKTI itself acknowledges this criticism. Its Chief Executive, Andrew Cahn, said that it "had been restructured rather often, its name had changed rather often and its strategy and objectives changed rather too frequently".[52] This has also led to problems with morale within UKTI.[53] Mr Cahn went on to say that this was part of the reason why the new strategy had been set for five years in order to allow the organisational changes time to bed down, stating: "my intention is that the present strategy should have a substantial life and I certainly know that my Ministers look at it in that light as well".[54] This aspiration may seem optimistic in the context of current negotiations for the 2007 Spending Review, and the possibility that a new Prime Minister may instigate a reorganisation of responsibilities between Whitehall departments that could affect at least one of its two parent departments—the DTI.

28. **The way in which the UK government promotes inward investment and trade development has undergone too many organisational and strategic changes in recent years, culminating in the most recent strategy, *Prosperity in a changing world*. We fear the outcome of the current 2007 Spending Review negotiations, and anticipated machinery of government changes resulting from the entrance of a new Prime Minister, may lead to further upheaval for the current body responsible for this work—UKTI. If UKTI is to have a chance of successfully implementing its current strategy, the Government, and in particular HM Treasury, must refrain from further adjusting the priorities and structure of the organisation, and allow it to get on with doing its job.**

48 Appendix 27 (Institution of Engineering and Technology)

49 Qq 463, 465 and 489 (UK Trade & Investment)

50 Appendices 23 (Engineering and Machinery Alliance) and 40 (Scottish Council for Development and Industry); Qq 44 (EEF, The Manufacturers' Organisation) and 375 (British Expertise)

51 Appendix 23 (Engineering and Machinery Alliance)

52 Q 462 (UK Trade & Investment)

53 Q 463 (UK Trade & Investment)

54 *Ibid.*

3 Key aspects of the strategy

29. UKTI's new strategy, *Prosperity in a changing world*, committed the organisation to a number of changes both to its activities and its structure. These include, among others, the setting up of a new R&D programme, the creation of priority sector strategies, reforms to instigate culture change within UKTI, and the agreement of new targets. In the 11 months since its publication UKTI has made significant progress in putting the new strategy into action. In this chapter we consider those aspects of it which we believe are most important for the organisation's future performance.

UKTI's five sector strategies

30. *Prosperity in a changing world* outlined how UKTI plans to work in partnership with the regional development agencies, devolved administrations and national bodies, including VisitBritain and the British Council, to market 'Business UK'. As part of this work, UKTI has conducted a strategic marketing exercise to identify the core messages about the UK's strengths that will assist it in marketing the country to inward investors and help UK companies to sell themselves overseas.[55] At the time of the strategy's publication, UKTI had identified six themes, which defined what the UK has to offer. These were: a stable business environment; a flexible and pragmatic approach to business; a climate of creativity; a capital city that is a magnet for the rest of the world; English as the language of commerce, finance and law; and a multicultural population. It intends to use these themes as the basis for five detailed sector strategies targeting financial services and the City, information and communication technologies (ICT), life sciences, creative industries, and energy. UKTI told us that these strategies would contain "specific targets on investment and trade".[56]

31. UKTI launched the first of its sector strategies, focusing on financial services and the City, in December 2006.[57] Financial services are a major asset to the UK, representing around 10% of GDP and growing at about twice the rate of the overall economy.[58] The sector, nevertheless, faces competition from other financial centres. Hence, the aim of the strategy is to attract company listings and other business from China, India, Russia and the Gulf region in particular, as these countries grow further and seek to develop stronger links with more established financial markets.[59] **We are disappointed that the financial services and City strategy does not give more explicit attention to Brazil—the subject of our concurrent inquiry—as a potential market, particularly given that the UK has established a Joint Economic and Trade Committee (JETCO) with that country, which identified financial services as a strategically important sector.**[60]

55 Appendix 15 (Department of Trade and Industry)

56 *Ibid.*

57 Financial Services Sector Advisory Board, *Financial Services UK—promotional strategy*, December 2006

58 Q 470 (UK Trade & Investment) and Appendix 15 (Department of Trade and Industry)

59 Q 472 (UK Trade & Investment)

60 House of Commons Trade and Industry Committee, Seventh Report of Session 2006-07, *Trade with Brazil and Mercosur*, HC 208, para 109 (hereafter 'Trade with Brazil')

32. Implementation of the strategy is the responsibility of UKTI's newly-created Financial Services Sector Advisory Board (FSSAB), which includes representatives from sub-sectors of the financial services industry, leading trade associations, the public sector, the English regions and devolved administrations, but unfortunately not trades unions. Since its inception, the FSSAB has met three times, and has made some progress in implementing the City strategy. The Chancellor and Trade Secretary have made trips to India, resulting in agreement with the government there on market access for financial services. For example, steps have been taken to allow Lloyd's of London to operate in India.[61] In addition, new UKTI diplomatic positions dedicated to financial services have been created in Mumbai, Beijing and Shanghai.[62] UKTI is also producing promotional materials, including brochures and DVDs, advertising the City as a place to do business, which are being sent out to posts overseas for distribution.[63] The FSSAB has also created a sub-group to develop a strategy for Islamic finance.[64] We welcome this increased level of activity, and the promise of more to come, but note that the strategy does not include the specific targets on investment and trade promised in UKTI's original memorandum to us.[65] We raised this with its Chief Executive, Andrew Cahn, but he could only confirm that UKTI "do not at the moment have specific City-defined targets".[66]

33. In their evidence to us, Amicus and the Trades Union Congress (TUC) questioned the need for UKTI to devote resources to a sector that was already so successful, arguing that there was little value that the organisation could really add.[67] The Confederation of British Industry (CBI) took the opposite view.[68] In its defence, UKTI told us it did have an important role to play in co-ordinating the way in which the City promotes itself abroad. It noted also that relatively little money was going into the strategy—roughly £250,000—and that this represented "money well spent" for a sector which did not previously have its own marketing strategy.[69]

34. UKTI intends to publish the remaining four sector strategies on ICT, life sciences, creative industries, and energy later in 2007. These strategies, which we note were initially scheduled for publication by April 2007, will "illustrate UK sectoral strengths, gaps, key messages, channels to market, activity plans, targets, and marketing and promotional initiatives".[70] **Some of the evidence we received expressed concern that the manufacturing sector was not well represented in the priority sectors chosen by UKTI, particularly the automotive and aerospace industries, where companies such as Rolls Royce, BAE Systems, Toyota and Nissan have a world class reputation.**[71] **We agree that**

61 UK Trade & Investment, *Press notice: Financial sector board highlights progress made in promoting strengths of City*, May 2007

62 Appendix 50 (UK Trade & Investment)

63 Q 473 (UK Trade & Investment)

64 Appendix 50 (UK Trade & Investment)

65 Appendix 15 (UK Trade & Investment)

66 Q 474 (UK Trade & Investment)

67 Q 206 (Amicus); Appendices 2 (Amicus) and 48 (Trades Union Congress)

68 Appendix 10 (Confederation of British Industry)

69 Q 472 (UK Trade & Investment)

70 Appendix 50 (UK Trade & Investment)

71 Appendices 28 (KPMG), 44 (Society of British Aerospace Companies) and 48 (Trades Union Congress)

this is a disappointing omission. We are also disappointed that, one year into the five year plan, UKTI has only managed to publish one of the five sector strategies.

35. With the sector strategies, and across all UKTI's sectoral work, the organisation takes a global view in terms of priority countries. As we have seen above, UKTI has chosen China, India, Russia and the Gulf region for its financial services and City strategy. At the same time, though, our concurrent inquiry into trade with Brazil and Mercosur notes that **UKTI also has priority sectors within countries, as well as certain priority markets in each sector on a global basis.**[72] **In general, we found it difficult to understand how UKTI's global and country sector priorities interrelate, and how this affected the actual work it does on the ground. We also note that there is a danger of confusing everybody with too many priorities—true prioritising means omitting many possible activities in favour of focussing on a few. We seek clarification on these important points.**

36. **We welcome UKTI's commitment to setting sector strategies targeting industries where the UK is, or aspires to be, a global leader. The financial services and City strategy has provided a good starting point, although we note that it focuses primarily on activities rather than outcomes. In developing these strategies UKTI should set itself clear performance indicators by which it can measure the value it is adding in each sector, and therefore judge whether its work represents good value-for-money. If the current set of strategies is successful, we recommend UKTI produces similar strategies for manufacturing sectors where the UK has strengths, such as the engineering and aerospace industries.**

R&D programme

37. Scientific and technological advances are a key driver of productivity growth. Expanding the UK's science and knowledge base, and translating this into innovative products and services, is crucial if the UK is to maintain its prosperity in the long-run. This underlies the importance of both the public and private sectors investing in R&D. Within the *Science and Innovation Investment Framework 2004-14* the Government has set itself the target of increasing the proportion of GDP spent on R&D from its current level of 1.9% to 2.5% by 2014.[73] To achieve this it has put in place initiatives such as the DTI's Technology Programme and the R&D tax credit system. It has also increased the Office of Science and Innovation's budget to £3.4 billion in 2007-08—double its 1997 level.[74]

38. In the private sector, the pharmaceutical, aerospace, defence, and automotive industries constitute the UK leaders in R&D expenditure, collectively investing around £10.6 billion in 2005.[75] Our three biggest R&D investors are GlaxoSmithKline (£3.14 billion), AstraZeneca (£1.97 billion) and BAE Systems (£1.45 billion). Foreign-owned companies based in this country also make a significant contribution to the UK economy. There are 245 foreign-owned firms in the UK's top 800, ranked by R&D expenditure, spending a

72 *Trade with Brazil*, para 48

73 HM Treasury, Department of Trade and Industry, and Department for Education and Skills, *Science and Innovation Investment Framework 2004-14*, July 2004

74 HM Treasury *et al*, *Science and innovation investment framework 2004-14: next steps*, March 2006

75 Department of Trade and Industry, *The R&D Scoreboard: The top 800 UK and 1250 Global companies by R&D investment*

total of £4.36 billion in 2005. The largest three foreign R&D investors are Ford (£689 million), Pfizer (£350 million) and Airbus (£343 million).[76] UKTI highlighted the good position the UK is in globally in terms of getting value-for-money from R&D expenditure, stating also that "we have a particular strength in attracting R&D facilities from overseas companies in this country".[77] This is reflected in the fact that eight of the ten largest foreign-owned R&D investors in the UK have a higher level of R&D intensity than their parent companies.[78]

39. Foreign direct investment that is focused on R&D intensive activities can provide various benefits to the UK. The associated jobs created tend to be of a higher value than, say, assembly plant investment. R&D intensive firms are also more likely to entrench themselves in the UK, for example, as a result of developing links with universities and other scientific institutions.[79] Nevertheless, the UK is increasingly facing competition from other countries, which are also investing in their R&D capacity. Together, China and India produce over 2 million university graduates each year—around eight times the output of the UK, albeit that together they have around forty times the population.[80] Elsewhere, Singapore is investing heavily in its research infrastructure, providing corporation tax breaks to companies investing there.[81] These developments suggest that the UK's current lead in certain sectors is by no means secure in the long-term. As UKTI's Chief Executive put it to us: "I do look over my shoulder and I do not always feel comfortable".[82]

40. In addition to the threat of overseas competition, UKTI highlighted to us the risk that, although foreign firms have a positive view of the UK as an R&D centre, they do not always have enough information on the available opportunities, or how to access them.[83] It is for these reasons that UKTI has established a dedicated R&D programme, one of the main aims of which will be to promote to multinationals and overseas companies the benefits of undertaking R&D in the UK, and collaborating with UK companies and research organisations. The programme will also support UK R&D intensive firms wishing to enter overseas markets.[84] Annual expenditure on the programme will build up to £9 million over the next few years. Most of this money will be spent on staffing, including the wage, travel and subsistence costs of 20 specialists with knowledge of UK R&D activity in specific technologies, who will then be used to target particular companies around the world. Their aim will be to persuade those firms to carry out R&D, or increase their current R&D expenditure, in the UK, be it through inward investment, partnerships with domestic companies, their supply chain relationship or by contracting research from UK universities. UKTI's new specialists will also target UK-based R&D intensive firms wishing

---

76 *Ibid.*

77 Q 487 (UK Trade & Investment)

78 Department of Trade and Industry, *The R&D Scoreboard: The top 800 UK and 1250 Global companies by R&D investment*; R&D intensity is calculated by dividing total R&D expenditure by company sales.

79 Appendix 21 (EEF, The Manufacturers' Organisation)

80 Indian National Association of Software and Service Industries and Chinese National Bureau of Statistics

81 Appendix 3 (Association of the British Pharmaceutical Industry)

82 Q 488 (UK Trade & Investment)

83 Appendix 15 (UK Trade & Investment)

84 UK Trade & Investment, *Prosperity in a changing world*, July 2006

to develop their export capacity.[85] Because of the new programme's infancy, UKTI has not yet set itself targets for achievement, nor was it able to give examples of any 'early wins'.

41. **R&D undertaken by foreign investors represents a large proportion of total UK R&D business investment. As the UK faces increasing competitive pressures from countries which are rapidly developing their R&D capacities, we support UKTI's dedicating of resources for the targeting of R&D intensive firms. Given that most of the programme's £9 million annual budget will be on staff costs, we recommend that UKTI establishes specific targets for the programme's performance, which should then feed into robust performance measures for all of the staff employed as part of the programme.**

The role of the Regional Development Agencies

42. Despite what its name might suggest, UKTI does not have sole responsibility for trade and investment promotion across the whole of the United Kingdom. As noted earlier, the devolved administrations in Scotland, Wales and Northern Ireland operate their own trade and investment functions, while also making use of UKTI's services and its overseas network. Since the 2004 Spending Review, UKTI has also provided around £15 million a year to the 'single pot' from which are funded the English Regional Development Agencies (RDAs). This money, which is more than UKTI spends centrally on its inward investment promotion programmes, is for the RDAs to conduct their own inward investment promotion activities, as part of the Government's economic policy to reduce disparities between the regions.[86] UKTI retains responsibility for trade development advice and services, which it carries out through teams of advisors located in the English regions, working with the RDAs. In addition to the funds allocated to the RDAs from UKTI's budget, the agencies are free to spend additional monies on inward investment promotion from elsewhere in their budgets, and many choose to do so.

43. As part of our inquiry, we asked the RDAs to complete a short survey, detailing their current trade and investment activities, and the benefits they had brought to the regions in recent years.[87] The results showed a number of differences in the approach taken by the nine agencies. Reported annual expenditure on inward investment promotion varies significantly, from £676,000 in 2006-07 for Yorkshire Forward, to more than £3.5 million for the London Development Agency (LDA), with the other seven RDAs spread fairly evenly in between. Staff numbers followed a similar pattern, with the LDA's dedicated investment promotion agency, Think London, leading with 55 employees, based both in the UK and overseas. The level of resources has been reflected in projects won by the regions. Table 1 below shows the number of new projects over the last three years, and the resulting jobs created or safeguarded claimed by each RDA, broken down by agency region.

85 Appendix 15 (UK Trade & Investment)

86 UK Trade & Investment, *Annual Report and Accounts 2005-06*

87 Appendices 1 (Advantage West Midlands), 19 (East of England Development Agency), 20 (East Midlands Development Agency), 34 (London Development Agency), 37 (Northwest Regional Development Agency), 38 (OneNorthEast), 46 (South East England Development Agency), 47 (South West of England Regional Development Agency) and 52 (Yorkshire Forward)

Table 1: Inward investment projects won and jobs created or safeguarded by the regional development agencies (2003-04 to 2005-06)

	Projects	New/safeguarded jobs
East Midlands	98	8,098
East of England	103	4,735
London	278	7,046[88]
North East	133	13,895
North West	128	21,386
South East	152	8,696
South West	64	7,493
West Midlands	91	12,938
Yorkshire	96	7,997
TOTAL	**1,143**	**92,284**

Source: Trade and Industry Committee RDAs survey

44. The fact that 1,143 projects were won and 92,284 jobs created or secured over three years suggests that the RDAs' expenditure on inward investment promotion has yielded results for the regions. However, there is insufficient evidence to judge whether these figures would have been better—or possibly worse—had UKTI carried out the activities devolved to the RDAs itself, acting as the sole inward investment agency for England.

45. Another area in which we sought information from the RDAs was with regard to the sectors on which they focus. Table 2 below outlines which sectors each agency views as a priority for inward investment. It shows a wide range of priorities across the agencies. Understandably, for example, financial services are a particular focus for London and the south east, whereas oil and gas is a priority for the north east. There are many similarities as well. For example, all of the RDAs told us their food and drink, and environmental technology sectors were priorities for inward investment promotion. Eight said this of life sciences and biotechnology, and six said the same for aerospace and automotive, creative and digital, ICT, and medical technologies. This is not a surprising result, given that these industries are not necessarily clustered in one part of the UK. It does, however, suggest that there may be wasteful duplication in the activities of the RDAs in seeking to draw foreign investment into these sectors.

88 The figures for London include new jobs, but not jobs safeguarded, for which the London Development Agency were unable to provide estimates.

Table 2: Inward investment sector priorities for the regional development agencies

	West Midlands	East of England	East Midlands	London	North West	North East	South East	South West	Yorkshire
Aerospace & automotive	✓	✓			✓	✓	✓	✓	
Building technology	✓								
Business & prof. services					✓		✓		
Creative & digital				✓	✓	✓	✓	✓	✓
Engineering					✓	✓	✓		✓
Environmental technologies	✓	✓	✓	✓	✓	✓	✓	✓	✓
Financial services				✓			✓		
Food & drink	✓	✓	✓	✓	✓	✓	✓	✓	✓
ICT	✓	✓		✓		✓	✓	✓	
Leisure & tourism								✓	
Life sciences & biotechnology		✓	✓	✓	✓	✓	✓	✓	✓
Medical technologies	✓		✓		✓	✓	✓		✓
Oil & gas						✓			
Transport technologies			✓						

Source: Trade and Industry Committee RDAs survey

46. We also asked the RDAs about their overseas activities. Table 3 below outlines which agencies currently have a presence in which countries, either through dedicated offices or third party contractors. It shows a range of activities across a number of countries. For example, until fairly recently all of the RDAs were represented in the US and seven in Australia.[89] Within both these countries, the East Midlands Development Agency and

89 East of England Development Agency (EEDA) announced the closure of its US office in San Jose, California with effect from 1 April 2007.

Advantage West Midlands operate together under the 'British Midlands' brand (which they also do in India and Japan), while OneNorthEast, the Northwest Regional Development Agency and Yorkshire Forward work together under the 'North of England' brand—in both cases, pooling resources. Yorkshire Forward and OneNorthEast also work together in Japan. In all other cases, however, such as with the five offices in China and the offices in France and Germany, the RDAs operate separately in promoting their regions as destinations for foreign investment.

Table 3: Regional development agencies' presence overseas

	West Midlands	East of England	East Midlands	London	North East	North West	South East	South West	Yorkshire
Australia	✓		✓		✓	✓	✓	✓	✓
Belgium	✓								
China				✓	✓		✓	✓	✓
France	✓		✓				✓		
Germany	✓		✓		✓				
India	✓		✓	✓					
Japan	✓		✓		✓	✓	✓	✓	✓
Korea					✓		✓		
Norway					✓				
Sweden	✓		✓						
USA	✓		✓	✓	✓	✓	✓	✓	✓

Source: Trade and Industry Committee RDAs survey

47. A number of organisations expressed their concern to us at the level of RDA activity overseas and how it affects foreign businesses' perceptions of the UK.[90] EEF told us that the agencies "aggressively compete with each other".[91] The Confederation of British Industry (CBI) said there is "a certain amount of overlap and in some cases … an element of confusion".[92] UKTI themselves acknowledged to us that "there are times … when there has been such duplication and competition between regions".[93] It did qualify this, though, by asserting that UKTI retained a good relationship with the RDAs and worked "constructively with them most of the time and in most locations".[94] However, the overall

90 Appendices 3 (Association of the British Pharmaceutical Industry), 8 (British Printing Industries Federation), 10 (Confederation of British Industry), 12 (Deloitte and Touche), 21 (EEF, The Manufacturers' Organisation) and 28 (KPMG)

91 Q 38 (EEF, The Manufacturers' Organisation)

92 Q 158 (Confederation of British Industry)

93 Q 528 (UK Trade & Investment)

94 Q 531 (UK Trade & Investment)

consequence of these overlapping activities is, inevitably, confusion and a dilution of the 'UK brand' overseas and the wastage of taxpayers' money. As the CBI put it, competition between the RDAs "seriously undermines the effectiveness of marketing the UK to foreign investors".[95] **We were particularly surprised to learn that the current profusion of RDA representation abroad had taken place with Ministerial approval. UKTI told us the Trade Minister must sign-off the opening of an office overseas.**[96] **The decision to allow these regional offices seems bizarre to us, given the level of criticism their existence has attracted from all quarters of British industry.**

48. Unsurprisingly then, a number of witnesses told us they wished to see better co-ordination of activities between UKTI and the RDAs on inward investment, so that the UK can promote itself with one voice to the rest of the world.[97] In response, as part of its strategy work, UKTI is currently conducting two joint reviews on its relationship with the agencies. One is looking at the regions' overseas presence to see whether there is any "duplication or fragmentation or confusion caused by the RDAs having a network of offices overseas".[98] The other review is considering the delivery of services in the regions, where UKTI currently has responsibility for trade development, while the RDAs have responsibility for inward investment. **We were concerned to note that trade services in the regions was also an area where there was a perceived need for greater co-ordination, and where there appeared to be a degree of confusion as to who was actually responsible for delivery of these activities.**[99]

49. UKTI intends to complete the review of the RDAs overseas' presence by March 2008, and its review of regional trade and investment activities later this year.[100] In his evidence to us, the Chief Executive, Andrew Cahn, expressed his desire not to see a transfer of resources back to UKTI from the RDAs, but to reduce duplication and fragmentation by persuading the agencies to purchase inward investment services from his organisation instead.[101] We were comforted to see from our survey results that nearly all of the RDAs are aligning their investment strategies with *Prosperity in a changing world*, with the only dissenting voice coming from the Northwest Regional Development Agency, which expressed its concern about the new focus on emerging markets—the subject of the next section of our Report. We are sceptical, though, about the extent to which UKTI will be able to rein in the RDAs' work overseas. Andrew Cahn told us: "UKTI is location neutral within the United Kingdom. I am equally happy if an inward investor chooses to locate in the South West … or in any other English region".[102] Although this is a rational *modus operandi* from a UK-wide perspective, we do not believe the RDAs will be willing to adopt

95 Appendix 10 (Confederation of British Industry)

96 Q 536 (UK Trade & Investment)

97 Q 39 (EEF, The Manufacturers' Organisation); Appendices 3 (Association of the British Pharmaceutical Industry), 8 (British Printing Industries Federation), 12 (Deloitte and Touche), 21 (EEF, The Manufacturers' Organisation) and 28 (KPMG)

98 Q 525 (UK Trade & Investment)

99 Q 38 and Appendix 21 (EEF, The Manufacturers' Organisation); EEF, *Improving performance? A review of regional development agencies*, May 2007

100 Q 525 and Appendix 15 (UK Trade & Investment)

101 Q 527 (UK Trade & Investment)

102 Q 528 (UK Trade & Investment)

such a sanguine attitude unless there is a structural change in the way funding is allocated for inward investment promotion.

50. **The Regional Development Agencies have taken the lead in winning a large number of inward investment projects to the UK in recent years. We are deeply concerned, however, by the current plethora of overseas offices being operated by the RDAs. We believe this is diluting the 'UK brand' and confusing potential foreign investors. In addition, we were surprised to see that this problem has been created by central government, which has approved the opening of these offices. UKTI's review of the agencies' overseas operations is to be welcomed, although it is taking place over a long timescale and we are sceptical about its ability ultimately to bring about real change. In the meantime, taxpayers' money will continue to be wasted and the UK's ability to compete in a challenging environment undermined. We recommend that central government seeks to address this issue as a matter of urgency as part of the current negotiations for the 2007 Spending Review. For example, the Government should look closely at whether the division of resources between UKTI and the RDAs is optimal in terms of providing 'front line' support to businesses across all markets.**

Focusing on emerging economies

51. Many emerging economies are growing at an unprecedented rate. China's annual economic growth currently stands at just over 11%, while that for India is 8.6%.[103] In these markets there are increasing numbers of middle class consumers who demand specific products and services to meet their needs.[104] At the same time, high-growth firms in these countries are seeking to become global players by establishing themselves with regional headquarters overseas.[105] These emerging economies represent a massive opportunity for the UK, which firms here are only just beginning to seize. Last year saw exports of goods and services to China and India grow by 24% and 28% respectively—much higher than overall export growth, which stood at 13.5%.[106] At the same time, the number of inward investment projects from India more than doubled in 2005-06, creating 1,449 new jobs, making it the third largest foreign investor in the UK.[107]

52. The emerging markets, therefore, represent a huge opportunity for the UK. Yet despite the high level of growth in exports to these areas, we received evidence expressing concern that UK firms were failing to take full advantage of these new markets. The CBI told us UK exports are still heavily focused on the EU and North America, accounting for 78% of goods and service exports, with only 2% going to China and India.[108] EEF cited its research, suggesting only 20% of manufacturers see China as an export opportunity, and only 8% view India as such. In fact, most of the companies surveyed saw both countries as a major competitive threat rather than an opportunity.[109] Part of the reason for this is that

103 *The Economist*, April 28th-May 4th 2007

104 Appendices 10 (Confederation of British Industry) and 12 (Deloitte and Touche)

105 Appendix 12 (Deloitte and Touche)

106 www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?_nfls=false&_nfpb=true#c; National Statistics

107 UK Trade & Investment, *UK Inward Investment 2005-06*, July 2006

108 Appendix 10 (Confederation of British Industry)

109 Appendix 21 (EEF, The Manufacturers' Organisation)

companies view emerging markets as challenging to enter, often requiring them to redesign products or acquire new skill-sets.[110] For example, UKTI said to us that “markets like China and India are much more taxing in terms of the culture, the business environment, the regulatory environment”.[111] Worryingly, EEF stated that other European firms seem also to be faster than those in the UK at making inroads into these markets.[112] We found this to be the case in our inquiry into Brazil.[113]

53. The Government has established a number of initiatives in order to address some of these concerns. Its cross-departmental Asia Task Force was set up with the aim of lowering barriers to trade between the UK and Asia. It is looking at ways in which government can help companies do business in the emerging markets, for example, through ministerial visits, lobbying for market liberalisation, and targeted support for new and established exporters to these regions.[114] Joint Economic and Trade Committees (JETCOs), chaired at ministerial level, have also been established for India, China and Brazil. These are bilateral partnerships, designed to strengthen trade relationships between the UK and these countries by providing a forum for discussing how to overcome barriers to cross-border trade and investment.[115]

54. In line with these initiatives, *Prosperity in a changing world* announced UKTI’s intention to increase the resources it devotes to developing trade with, and attracting investment from, particular emerging and high growth economies where there are the greatest potential benefits to the UK. It identified 10 countries in which it intends to increase its efforts—China, India, Brazil, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, Turkey and the United Arab Emirates. Where possible, UKTI is also considering expanding resources for six other countries—Malaysia, Qatar, Singapore, South Korea, Thailand and Vietnam. This increased focus on certain emerging markets is being achieved through the recruitment of 15 business advisors, who will focus on medium-sized UK firms with the potential to succeed abroad. More significantly, though, a reallocation of posts is taking place from other parts of UKTI’s overseas network. For example, by 2008-09 the number of commercial officers allocated to China will have risen to 113, from 99 in 2005-06. India will see a rise from 76 to 91; Russia from 16 to 26; and Brazil from 39 to 45, although this last increase does not make good the significant cuts made after the 2004 Spending Review.[116] UKTI is not increasing the overall number of staff it employs in its overseas network.[117] Hence the increase in resources in these priority emerging economies is being achieved by a reduction elsewhere—in particular, through a decrease in its US resources by 13% and in its EU representation by 9.5% by 2008.[118]

110 Appendix 12 (Deloitte and Touche)

111 Q 511 (UK Trade & Investment)

112 Appendix 21 (EEF, The Manufacturers’ Organisation)

113 *Trade with Brazil*, paras 29, 37 and 82

114 Appendix 15 (Department of Trade and Industry)

115 *Ibid.*

116 House of Commons Official Report, 11 December 2006, cols 809-810W

117 Q 486 (UK Trade & Investment)

118 House of Commons Official Report, 11 December 2006, col 810W

55. In their evidence to us, EEF and the CBI both welcomed UKTI's increased focus on key emerging markets.[119] For example, EEF said: "we see the value of more resources in the field and think that is very important".[120] The same organisations also noted their concern, however, that this increase in resources was being funded by cuts in UKTI's largest and more established markets. EEF noted that exports to the pre-enlargement EU account for 55% of the UK total, and that this dominance is likely to remain the trend for some time.[121] For inward investment, in 2005-06 the US was by far the most prominent source of FDI, responsible for 446 projects and 14,431 new jobs. This was followed by Japan with 84 projects and 2,054 new jobs. In fact, countries which accounted for about 75% of new jobs and 70% of projects are seeing a reduction in their resources.[122] British Expertise noted also that just because these markets were considered to be 'established', this did not necessarily make them 'easy' to enter or operate in.[123] They believe that there is, therefore, a risk that UKTI is undermining its core markets.

56. We also note that not only are resources being transferred from the UK's established markets, but cuts are also taking place elsewhere in the overseas network. Ghana, Hungary, Kuwait, Nigeria, Philippines, Poland, Senegal, Sri Lanka, Uganda, Uruguay and Zimbabwe will all see a reduced presence and, in some cases, no presence at all by 2008. British Expertise expressed its concern that smaller countries received less attention as priority markets in UKTI's strategy, noting that, at least amongst its members, there was often more interest in doing business in countries such as Trinidad than, say, South Africa or Mexico.[124] British Expertise were also critical of the logic employed by UKTI that by simply increasing resource in a particular country, this would lead to better results. It noted that often a "single well-trained and motivated commercial officer in a market will be highly cost-effective".[125] Increasing posts in one country, therefore, at the expense of removing representation completely in another country, would not be likely to increase the overall effectiveness of the overseas network. A particular case, which we discovered as part of our inquiry into trade with Mercosur, is where the office in Uruguay is to be closed in order to increase resources in Brazil.[126]

57. In the context of not being able to increase the overall size of its overseas network, UKTI defended the greater emphasis on certain emerging economies on the grounds that it is better able to add value for companies seeking to operate in these areas. UKTI said to us: "we do proportionately more good for individual companies in the so-called emerging markets, where some kind of government-to-government market-opening work can be done, than we necessarily do in the more developed markets, where companies are more readily able to help themselves …".[127] UKTI also emphasised the fact that the strategy's

119 Appendices 11 (Confederation of British Industry) and 21 (EEF, The Manufacturers' Organisation)

120 Q 31 (EEF, The Manufacturers' Organisation)

121 Appendix 21 (EEF, The Manufacturers' Organisation)

122 UK Trade & Investment, *Inward Investment 2005-06*, July 2006

123 Appendix 5 (British Expertise)

124 Q 383 and Appendix 5 (British Expertise)

125 Q 382 and Appendix 5 (British Expertise)

126 We discuss the case of Uruguay in: *Trade with Brazil*, para 174

127 Q 509 (UK Trade & Investment)

emphasis on a few emerging markets did not entail a wholesale retreat from other countries. In fact, only 5.6% of the total overseas network posts would be reallocated over the next two years—hardly a significant re-emphasis.[128]

58. **The emerging and high-growth economies present a major opportunity for the UK, both in terms of potential export markets and as a source of inward investment. We are concerned, however, that in order to increase resources in this area, UKTI has had to cut posts elsewhere in its overseas network—particularly in North America and Europe, which are currently its largest export and investment markets, and are likely to remain so for the foreseeable future. We acknowledge, though, that with the exception of those few countries where UKTI representation has been shut down altogether, the overall changes across the overseas network will be relatively minor, affecting 5.6% of posts. UKTI should monitor closely the demand for services across its markets, measuring the activity levels and value-added of its staff, and use this information to ensure its resources are allocated in the most cost-effective way and in the best interests of the businesses it serves. We are also concerned that UKTI does not appear to appreciate that there are 10 emerging markets *within* the EU.**

Providing the skills to market UK plc

59. UKTI's staff require a unusual skill-set for a public sector organisation. Most of its employees have to engage with businesses in the private sector on a day-to-day basis. As EEF put it to us, staff need "to be really expert in understanding the needs of business and identify how it can be helped". As such, it is vital that they have "a good basic knowledge of the market and the available contacts".[129] Overall, "the quality of its individuals is absolutely key to it working".[130]

60. The 2004 Spending Review (SR04) settlement brought about a number of changes, which had repercussions for UKTI's staffing. The requirement to reduce administration costs by £24 million a year has led to a 40% reduction in the number of staff in its London headquarters. There has also been a 15% cut in the size of its overseas network.[131] **We have learnt too that funding has been cut in areas such as FCO language training for spouses or partners of overseas officers. Rather than receiving one-to-one classes, they are now offered group courses, either at the FCO or abroad, or online learning.[132] Given the important role that spouses or partners can play in networking overseas, it is most regrettable to see that FCO is reducing the available resource in this area.**

61. UKTI acknowledged to us that the cuts resulting from SR04 "have led to a morale issue" within the organisation, although it hoped that this had been, at least in part, addressed by the new strategy, providing "a clear way forward, a clear prospectus for the future".[133] We remain to be convinced that this is the case, given that *Prosperity in a*

128 *Ibid.*

129 Q 33 (EEF, The Manufacturers' Organisation)

130 Q 34 (EEF, The Manufacturers' Organisation)

131 Appendix 15 (Department of Trade and Industry)

132 Appendix 53 (UK Trade & Investment)

133 Q 463 (UK Trade & Investment)

changing world comes only a year after UKTI's previous strategy. Indeed, the new strategy places much emphasis on the role its staff will play in its delivery. It sets out UKTI's aim to become "a marketing led, client focused organisation". The implication of this is that staff will have to become more 'entrepreneurial' in their approach, proactively seeking opportunities for UK businesses. To this end, UKTI told us it is putting greater effort into training and retraining its employees, and selecting the right staff for some of its new schemes.[134] As noted already, UKTI is contracting 20 R&D technology specialists from the private sector, who will work with its staff at home and overseas to implement the new R&D programme. Elsewhere, 15 private sector business advisors are being employed as part of its emerging markets programme. In addition, there is already in place an 'International Business Specialist' scheme, which brings 12 private sector secondees into UKTI. Under the new strategy, this will be supplemented by 17 'Sector Champions', also employed from the private sector, who will, among other activities, play a role in developing and implementing UKTI's five priority sector strategies.[135]

62. **Our own impression gained from meeting many UKTI staff both overseas and in the UK and from talking to their clients in UK business is that staff overseas are generally well motivated and effective, perhaps because they are relatively isolated from the repeated changes of priority and strategy the organisation has undergone. Staff based in HQ, however, seem less convincing or positive in attitude, perhaps because it falls to them to interpret ever-changing policies imposed on them from outside. Although our interlocutors in UKTI and in business are reluctant to be quoted, we are clear that the reputation of the centre must be improved if the organisation is to win the full confidence of its clients.**

63. **The successful implementation of *Prosperity in a changing world* is largely dependent on the buy-in and skills of its staff. Yet, changes to UKTI's structure and strategy have undermined morale within the organisation in recent years. That said, we welcome the increased focus on training, and the recruitment of over 60 staff from the private sector across a range of initiatives, as an important part of UKTI's aim to become a more "marketing led, client focused organisation". As noted earlier, we believe UKTI should now be left to get on with its job, so that staff morale is not adversely affected again in the future by further changes to the organisation.**

Charging for services

64. In Chapter 2 we discussed the market failure rationale for government intervention to carry out trade development and inward investment promotion work. There are many aspects of both these activities, where government is the only viable provider or, if not that, then the most cost-effective. For example, trade negotiations in order to obtain access to export markets, or marketing activities that advertise the benefits of operating in the UK, can only really be provided by government. In other areas, such as the provision of tailored information for companies, UKTI may still be best placed to access this readily through its overseas network and central office commercial officers. For these kinds of services, though, the benefits that accrue from them are arguably captured mostly by the firm in

134 Q 500 (UK Trade & Investment)

135 Appendix 53 (UK Trade & Investment)

receipt of the information, rather than the wider economy. It is debatable then, to what extent these services should be provided free by government. Indeed, UKTI does charge customers for some of its activities, such as the Overseas Market Introduction Service, which puts businesses in touch with its overseas network. UKTI also charges for its Export Marketing Research Service, at a subsidised rate, which offers market intelligence research to aspiring exporters. Here, the level of charging for the service reflects the amount of assistance required.[136]

65. Following the 2004 Spending Review (SR04), UKTI committed itself to increasing the amount of revenue it earns from charging. In 2006 it raised £1.4 million in this way.[137] It is on course to double this in 2007, and double it again by the end of the SR04 period, to £5.6 million. UKTI acknowledged, though, that these figures are still very small in comparison to its overall budget of over £250 million, and that "there is clearly scope … to be significantly more ambitious".[138] To date, one of the biggest difficulties it has found is in engendering the cultural change across its offices, associated with beginning to charge for services that it had previously provided free.[139]

66. UKTI also stated that charging would allow it to be more innovative in its work, and "to provide companies with a much more exciting range of services".[140] This is because charged services would encourage it to develop new offerings that customers would be willing to pay for, and which placed them in competition with private sector firms that also offer information services to potential exporters or investors. At the same time, though, the organisation would have to ensure consistency in the quality of its products so companies knew what standard of service to expect.[141] It would also have to give consideration of the 'willingness-to-pay' of its client groups. For example, small firms thinking about exporting may be put off by charges for services that larger firms are better able to afford.[142]

67. **UTKI is beginning to introduce charges for some of the services it offers its customers, although its current revenues from doing so represent a very small proportion of its overall budget. We believe this is an area where UKTI should be much more ambitious, tailoring its services more closely to its clients' needs, and offering innovative products for which customers are willing to pay, while seeking, as far as it is possible, to avoid engaging in what could be seen as unfair or subsidised competition with the private sector. Its incentive to charge should not be undermined by commensurate cuts in its resource budget by HM Treasury.**

New targets for a new strategy

68. UKTI's current Public Service Agreement (PSA) target for the 2004 Spending Review period is to "by 2008, deliver a measurable improvement in the business performance of

136 Appendix 21 (EEF, The Manufacturers' Organisation)

137 Q 513 (UK Trade & Investment)

138 *Ibid.*

139 Q 514 (UK Trade & Investment)

140 Q 515 (UK Trade & Investment)

141 Appendix 5 (British Expertise)

142 Appendix 28 (KPMG)

UKTI's international trade customers, with an emphasis on new-to-export firms; and maintain the UK as the prime location in the EU for foreign direct investment".[143] Its performance against this target is measured against five indicators:

— At least a 30-percentage point increase by 2007-08 in the proportion of UKTI trade development resources focused on new-to-export firms;

— At least 40% of new-to-export firms assisted by UKTI improve their business performance within two years;

— At least 50% of established exporters assisted by UKTI improve their business performance within two years;

— Improve the UK's ranking within Europe in terms of the GDP-adjusted stock of EU foreign direct investment based on the UNCTAD World Investment Report; and

— 374 (in 2005-06), 440 (in 2006-07) and 524 (in 2007-08) successful inward investment projects secured by UKTI in each year of the Spending Review of which 75% are knowledge driven.

69. UKTI's *Autumn Performance Report 2006* states it is either 'on course' or 'ahead' in terms of progress towards meeting these targets by the end of the 2004 Spending Review period. Its first two targets, on trade development, focus on new-to-export firms. This approach was widely criticised in the evidence we received.[144] As EEF put it to us, it has led to an "over-concentration of resources on small firms, who have often had limited potential to make a significant difference to our overall trading performance and for whom in some cases exporting was not appropriate".[145] This criticism has been taken on board in *Prosperity in a changing world*. UKTI told us it would continue to offer a service to new-to-export companies, but they would not be the focus of its next set of targets. This reflects new research conducted by UKTI, which suggests the financial benefits of its trade development work are greater for more experienced exporters than for inexperienced exporters.[146]

70. Despite the change of strategy, UKTI told us that it will continue to work towards its current PSA targets until the end of the 2004 Spending Review period in 2008.[147] As part of the 2007 Comprehensive Spending Review, it is working with HM Treasury to agree a revised set of targets, which will measure delivery against the new strategy from April 2008. Details of these will be announced alongside the final settlement, due later in 2007. UKTI's strategy outlines four broad areas in which it expects to set targets:

— High value foreign direct investment;

— R&D and innovative activity of UKTI's customer base;

143 UK Trade & Investment, *Autumn Performance Report 2006*

144 Appendices 5 (British Expertise), 11 (Confederation of British Industry), 21 (EEF, The Manufacturers' Organisation) and 40 (Scottish Council for Development and Industry)

145 Appendix 21 (EEF, The Manufacturers' Organisation)

146 Appendix 40 (Scottish Council for Development and Industry)

147 Appendix 15 (Department of Trade & Industry)

— UK business performance; and

— The UK's reputation as a place to do business.

71. UKTI told us that in the last year it had "shifted … to being a target-based organisation".[148] The targets it is developing as part of the four areas above will be reflected in clear targets for its staff.

72. **UKTI is in a period of transition as it completes its final year working under the targets set for it in the 2004 Spending Review. We note that the previous targeting of new-to-export firms for trade development was not supported by industry, and did not necessarily provide a cost-effective use of UKTI resources. We welcome, then, the move away from this focus, acknowledging that this does not mean that UKTI has simply stopped supporting new-to-export firms. Looking forward, we hope that for the next Spending Review the organisation will agree with HM Treasury targets that both reflect the priorities set out in the strategy, and which also have buy-in from the private sector.**

73. **Overall, we support the reforms to UKTI that will be brought about as a result of its new strategy, *Prosperity in a changing world*. Developments such as the R&D programme and an increased focus on emerging and high growth markets are welcome. We have expressed concern, however, in other areas, particularly regarding the competing work of the Regional Development Agencies. This is an issue which should be tackled immediately. UKTI must now be given time to implement its new strategy over the next four years, without further major changes to its structure and objectives.**

148 Q 502 (UK Trade & Investment)

Conclusions and recommendations

Economic rationale for trade development

1. There are significant productivity benefits to the UK from firms seeking to move into export markets. Where they face barriers to entry as a result of market failures, there is a role for government to play in helping them overcome these. UKTI is able to offer aspiring and established exporters a range of services to assist them in entering overseas markets and which, in many cases, lead them to improve their business performance. We therefore strongly support the case for a publicly funded service of the kind provided by UKTI to exporters. (Paragraph 12)

Economic rationale for inward investment promotion

2. The UK can benefit from different forms of foreign direct investment not just in terms of the creation of jobs, and the injection of capital, but also through the competition and 'knowledge spillover' effects that inward investors have on the rest of the economy. UKTI has an important role to play in promoting the country as a location for FDI, and has had a successful record in recent years in attracting high-value foreign business to the UK. We agree that its emphasis should be on encouraging 'greenfield' investment where the economic advantages are more certain, and not takeovers. (Paragraph 18)

Is there an economic rationale for outward investment promotion?

3. As globalisation intensifies the pressures faced by UK firms, there is a growing trend for them to outsource back office and certain supply chain activities to lower cost economies. This is to be expected if they are to remain competitive with emerging market rivals. We do not believe that there is a market failure rationale for UKTI using its resources to support such outward investment as this task is already fulfilled by other countries' investment promotion agencies. Any clarification or advice sought from UKTI in such matters should be charged for. (Paragraph 22)

4. The role that UKTI should play in helping UK companies expand in overseas markets by investing in manufacturing or service capacity is more contentious. We recommend that the DTI and UKTI garner research to clarify the role such investment plays in increasing UK competitiveness and, consequentially, the role that it should play in supporting firms wishing to invest abroad. We recommend, too, that if UKTI is to offer such services to domestic firms, then it should charge them the full cost of doing so. (Paragraph 23)

Recent policy to support exporters and promote FDI

5. The way in which the UK government promotes inward investment and trade development has undergone too many organisational and strategic changes in recent years, culminating in the most recent strategy, *Prosperity in a changing world*. We fear the outcome of the current 2007 Spending Review negotiations, and anticipated machinery of government changes resulting from the entrance of a new Prime Minister, may lead to further upheaval for the current body responsible for this work— UKTI. If UKTI is to have a chance of successfully implementing its current strategy, the Government, and in particular HM Treasury, must refrain from further adjusting the priorities and structure of the organisation, and allow it to get on with doing its job. (Paragraph 28)

UKTI's five sector strategies

6. We are disappointed that the financial services and City strategy does not give more explicit attention to Brazil—the subject of our concurrent inquiry—as a potential market, particularly given that the UK has established a Joint Economic and Trade Committee (JETCO) with that country, which identified financial services as a strategically important sector. (Paragraph 31)

7. Some of the evidence we received expressed concern that the manufacturing sector was not well represented in the priority sectors chosen by UKTI, particularly the automotive and aerospace industries, where companies such as Rolls Royce, BAE Systems, Toyota and Nissan have a world class reputation. We agree that this is a disappointing omission. We are also disappointed that, one year into the five-year plan, UKTI has only managed to publish one of the five sector strategies. (Paragraph 34)

8. UKTI has priority sectors within countries, as well as certain priority markets in each sector on a global basis. In general, we found it difficult to understand how UKTI's global and country sector priorities interrelate, and how this affected the actual work it does on the ground. We also note that there is a danger of confusing everybody with too many priorities—true prioritising means omitting many possible activities in favour of focussing on a few. We seek clarification on these important points. (Paragraph 35)

9. We welcome UKTI's commitment to setting sector strategies targeting industries where the UK is, or aspires to be, a global leader. The financial services and City strategy has provided a good starting point, although we note that it focuses primarily on activities rather than outcomes. In developing these strategies UKTI should set itself clear performance indicators by which it can measure the value it is adding in each sector, and therefore judge whether its work represents good value-for-money. If the current set of strategies is successful, we recommend UKTI produces similar strategies for manufacturing sectors where the UK has strengths, such as the engineering and aerospace industries. (Paragraph 36)

R&D Programme

10. R&D undertaken by foreign investors represents a large proportion of total UK R&D business investment. As the UK faces increasing competitive pressures from countries which are rapidly developing their R&D capacities, we support UKTI's dedicating of resources for the targeting of R&D intensive firms. Given that most of the programme's £9 million annual budget will be on staff costs, we recommend that UKTI establishes specific targets for the programme's performance, which should then feed into robust performance measures for all of the staff employed as part of the programme. (Paragraph 41)

The role of the Regional Development Agencies

11. The Regional Development Agencies have taken the lead in winning a large number of inward investment projects to the UK in recent years. We are deeply concerned, however, by the current plethora of overseas offices being operated by the RDAs. We believe this is diluting the 'UK brand' and confusing potential foreign investors. In addition, we were surprised to see that this problem has been created by central government, which has approved the opening of these offices. UKTI's review of the agencies' overseas operations is to be welcomed, although it is taking place over a long timescale and we are sceptical about its ability ultimately to bring about real change. In the meantime, taxpayers' money will continue to be wasted and the UK's ability to compete in a challenging environment undermined. We recommend that central government seeks to address this issue as a matter of urgency as part of the current negotiations for the 2007 Spending Review. For example, the Government should look closely at whether the division of resources between UKTI and the RDAs is optimal in terms of providing 'front line' support to businesses across all markets. (Paragraph 50)

12. We were concerned to note that trade services in the regions was also an area where there was a perceived need for greater co-ordination, and where there appeared to be a degree of confusion as to who was actually responsible for delivery of these activities. (Paragraph 48)

Focusing on emerging markets

13. The emerging and high-growth economies present a major opportunity for the UK, both in terms of potential export markets and as a source of inward investment. We are concerned, however, that in order to increase resources in this area, UKTI has had to cut posts elsewhere in its overseas network—particularly in North America and Europe, which are currently its largest export and investment markets, and are likely to remain so for the foreseeable future. We acknowledge, though, that with the exception of those few countries where UKTI representation has been shut down altogether, the overall changes across the overseas network will be relatively minor, affecting 5.6% of posts. UKTI should monitor closely the demand for services across its markets, measuring the activity levels and value-added of its staff, and use this information to ensure its resources are allocated in the most cost-effective way and in the best interests of the businesses it serves. We are also concerned that UKTI does not appear to appreciate that there are 10 emerging markets within the EU. (Paragraph 58)

Providing the skills to market UK plc

14. Our own impression gained from meeting many UKTI staff both overseas and in the UK and from talking to their clients in UK business is that staff overseas are generally well motivated and effective, perhaps because they are relatively isolated from the repeated changes of priority and strategy the organisation has undergone. Staff based in HQ, however, seem less convincing or positive in attitude, perhaps because it falls to them to interpret ever-changing policies imposed on them from outside. Although our interlocutors in UKTI and in business are reluctant to be quoted, we are clear that the reputation of the centre must be improved if the organisation is to win the full confidence of its clients. (Paragraph 62)

15. The successful implementation of *Prosperity in a changing world* is largely dependent on the buy-in and skills of its staff. Yet, changes to UKTI's structure and strategy have undermined morale within the organisation in recent years. That said, we welcome the increased focus on training, and the recruitment of over 60 staff from the private sector across a range of initiatives, as an important part of UKTI's aim to become a more "marketing led, client focused organisation". We believe UKTI should now be left to get on with its job, so that staff morale is not adversely affected again in the future by further changes to the organisation. (Paragraph 63)

16. We have learnt that funding has been cut in areas such as FCO language training for spouses or partners of overseas officers. Rather than receiving one-to-one classes, they are now offered group courses, either at the FCO or abroad, or online learning. Given the important role that spouses or partners can play in networking overseas, it is most regrettable to see that FCO is reducing the available resource in this area. (Paragraph 60)

Charging for services

17. UTKI is beginning to introduce charges for some of the services it offers its customers, although its current revenues from doing so represent a very small proportion of its overall budget. We believe this is an area where UKTI should be much more ambitious, tailoring its services more closely to its clients' needs, and offering innovative products for which customers are willing to pay, while seeking, as far as it is possible, to avoid engaging in what could be seen as unfair or subsidised competition with the private sector. Its incentive to charge should not be undermined by commensurate cuts in its resource budget by HM Treasury. (Paragraph 67)

New targets for a new strategy

18. UKTI is in a period of transition as it completes its final year working under the targets set for it in the 2004 Spending Review. We note that the previous targeting of new-to-export firms for trade development was not supported by industry, and did not necessarily provide a cost-effective use of UKTI resources. We welcome, then, the move away from this focus, acknowledging that this does not mean that UKTI has simply stopped supporting new-to-export firms. Looking forward, we hope that for the next Spending Review the organisation will agree with HM Treasury targets that both reflect the priorities set out in the strategy, and which also have buy-in from the private sector. (Paragraph 72)

19. Overall, we support the reforms to UKTI that will be brought about as a result of its new strategy, *Prosperity in a changing world*. Developments such as the R&D

programme and an increased focus on emerging and high growth markets are welcome. We have expressed concern, however, in other areas, particularly regarding the competing work of the Regional Development Agencies. This is an issue which should be tackled immediately. UKTI must now be given time to implement its new strategy over the next four years, without further major changes to its structure and objectives. (Paragraph 73)

Formal minutes

Tuesday 22 May 2007

Members present:

Mr Peter Luff, in the Chair

Roger Berry	Miss Julie Kirkbride
Mr Brian Binley	Judy Mallaber
Mrs Claire Curtis-Thomas	Mr Mike Weir
Mr Mark Hunter	Mr Anthony Wright

Draft Report (Marketing UK plc—UKTI's five-year strategy), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1-73 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

[Adjourned till Tuesday 5 June at 10.00am

List of witnesses

Tuesday 12 December 2006

Mr Martin Temple, CBE and Mr Stephen Radley, **EEF, The Manufacturers' Organisation**
Ms Frances O'Grady, Mr Adam Lent and Mr Tim Page, **Trades Union Congress**

Tuesday 16 January 2007

Mr Ian McCafferty and Mr Anthony Thompson, **Confederation of British Industry**
Mr Derek Simpson and Mr Roger Jeary, **Amicus**

Tuesday 30 January 2007

Mr Graham Hand and Mr Nigel Peters, **British Expertise**

Monday 12 March 2007

Mr Andrew Cahn and Mr Ian Fletcher, **UK Trade & Investment**

List of written evidence

Published as *The Future of UK Manufacturing*, Session 2006-07, HC 161

1 Advantage West Midlands
2 Amicus
3 Association of the British Pharmaceutical Industry
4 Birmingham Chamber of Commerce and Industry
5 British Expertise
6 British Furniture Confederation Public Sector Working Group
7 British Furniture Confederation Public Sector Working Group (Supplementary)
8 British Printing Industries Federation
9 Chemical Industries Association
10 Confederation of British Industry
11 Confederation of British Industry (Supplementary)
12 Deloitte and Touche
13 Department for Education and Skills
14 Department of Trade and Industry
15 Department of Trade and Industry (Supplementary)
16 Department of Trade and Industry (Supplementary)
17 Department of Trade and Industry (Supplementary)
18 Department of Trade and Industry (Supplementary)
19 East of England Development Agency

20 East Midlands Development Agency
21 EEF, The Manufacturers' Organisation
22 EEF, The Manufacturers' Organisation (Supplementary)
23 Engineering and Machinery Alliance
24 Federation of Small Business
25 Forum of Private Business
26 Imagineering Foundation
27 Institution of Engineering and Technology and Institution of Mechanical Engineers
28 KPMG
29 Ms Leslie Kossoff
30 Ms Leslie Kossoff (Supplementary)
31 Learning and Skills Council
32 Learning and Skills Council (Supplementary)
33 Learning and Skills Council (Supplementary)
34 London Development Agency
35 Metals Forum
36 Midlands Fashion Showcase
37 Northwest Regional Development Agency
38 OneNorthEast
39 Royal Aeronautical Society
40 Scottish Council for Development and Industry
41 Skillfast-UK
42 Skills for Business Network
43 Skills for Business Network (Supplementary)
44 Society of British Aerospace Companies
45 Society of Motor Manufacturers and Traders
46 South East England Development Agency (SEEDA)
47 South West Regional Development Agency (SWRDA)
48 Trades Union Congress
49 Trades Union Congress (Supplementary)
50 UK Trade & Investment
51 Professor Alison Wolf
52 Yorkshire Forward
53 UK Trade & Investment (Supplementary)