House of Commons

Trade and Industry Committee

Marketing UK plc–UKTI's five-year strategy: Government Response to the Committee's Sixth Report of Session 2006–07

Fifth Special Report of Session 2006–07

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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.

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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).

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Fifth Special Report

The Committee published its Sixth Report of Session 2006–07 on 6 June 2007.[1] The Government's response was received on 23 July 2007 and is published as an Appendix to this Report.[2]

Government response

Introduction

The Government warmly welcome the Trade and Industry Select Committee's Report into UK Trade & Investment's five-year Strategy "Prosperity in a changing world".

The Committee's Report constitutes a constructive assessment of the direction UK Trade & Investment is taking, its achievements to date, and the challenges that lie ahead. We welcome, in particular, the Committee's recognition of the important role that UKTI plays in promoting the UK as a destination for foreign investment and supporting current and aspiring exporters. We note the Committee's broad support for the new Strategy.

The Report makes some valuable recommendations. These lend weight to the decision to focus a greater proportion of UKTI's resources on high-growth emerging markets, and R&D intensive businesses, as well as on key sectors such as energy technologies and life sciences, among others.

Some of the recommendations made by the Committee are already being taken forward as part of the process of implementing the Strategy. For example, on measuring and evaluating what UKTI does, UKTI is adopting a more target driven approach for the organisation. Its Performance and Impact Monitoring Survey (PIMS) is measuring the impact of all its significant customer facing trade services and is collecting evidence about service quality and the difference UKTI makes for its business clients. This approach will soon measure the impact of our support to inward investors as well.

The Report makes a number of positive statements about the effectiveness of UKTI's front-line staff. Our people do an excellent job and they are to be commended for their professionalism and commitment through periods of change. The results from PIMS are testament to that. Latest evidence in March 2007 reported estimated total financial benefit to businesses of around £2.5 billion in the year covered by the survey, across all UKTI trade services.

We note the Committee's comments on the current position in relation to the overseas presence of UKTI and that of the English Regional Development Agencies and the Devolved Administrations. We want to make sure the combined efforts of all UK public

1 Sixth Report from the Trade and Industry Committee, Session 2006-07, *Marketing UK plc—UKTI's five-year strategy*, printed as HC 557 on 6 June 2007.

2 The Paragraphs in bold type are quotations from the list of Conclusions and Recommendations in the Committee's Report.

organisations make the biggest impact for the UK. We want to make sure too that we provide value for money for the taxpayer. The joint review of RDA and DA overseas representation that is currently underway is looking carefully at these issues. In recognition of the importance of this issue, the review is being completed in an earlier timescale than envisaged in the UKTI Strategy. It is now due to report to Ministers in September.

Conclusions and Recommendations

The Government's response to each of the Committee's conclusions and recommendations is as follows:

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)

We welcome the Committee's strong support for the public funding of the trade development role provided by UKTI. This view is backed up by the independent economic research published in July 2006 by the then Department of Trade and Industry.

UKTI's latest independently monitored surveys of its customers demonstrate the ongoing effectiveness of government support for companies in helping them develop their business internationally.

Latest evidence reported by OMB Research in March 2007 shows that, in the year covered by the survey:

—the estimated total financial benefit to businesses was around £2.5 billion, across all UKTI trade services;

—some 2,000 companies joined UKTI's flagship "Passport to Export" programme. The service generated estimated benefits to bottom line profits of £632 million;

—UKTI's Overseas Market Introduction Service (OMIS) helped some 1,500 companies, generating total estimated benefits of £383 million.

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)

Increasingly, inward investment and trade development are integral parts of businesses' response to globalisation. Both add value to the UK economy.

Overseas investment helps to stimulate competition and introduce innovation. It brings in new skills and processes. Inward investors are long-term players within their local communities, bringing opportunity and prosperity.

While we will continue to encourage "greenfield" investment, we must recognise too that acquisitions by overseas firms are a further vote of confidence in the capability of UK business—a sign of the strength of our economy. However, the decision on the investment route a business might take to enter the UK is ultimately one for the company itself to make.

UKTI promotes the advantages and benefits of investing in and partnering with the UK to targeted overseas companies. In doing so, it positions the UK as an investment multiplier and a platform from which investors can grow local, international and global business. Where there is a merger or acquisition interest, UKTI signposts companies to sources of private sector expertise. This is not, therefore, a focus for UKTI resources.

Latest results show that the record in recent years in attracting high value foreign investment to the UK continues to improve. Results show:

—the total number of projects were up 17% from 1,220 to 1,431;

—two thirds of investments were by innovative or R&D firms;

—there was a 47% increase in headquarters operations, to 223 projects;

—business services were up 122%, to 156 projects; financial services were up 32% to 99 projects;

—software and computer services were up 82% to 274 projects;

—life sciences were up 37% to 133 projects.

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)

Outward investment is often a key part of a company's response to the challenge of globalisation and helps maintain competitiveness. UKTI has clear eligibility criteria for those companies wishing to access its services. The guidelines make clear that the fundamental principle for receiving support is that there are tangible economic benefits to the UK from that trade development activity, product or service.

UKTI supports companies who want to invest overseas or outsource, but only where the company has already made that decision, and where they ask for support to make a success of doing so. In many cases, this work is charged for in line with existing charging arrangements. UKTI does not assist eligible businesses to close down UK operations and transfer assets overseas.

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)

As part of UKTI's ongoing development and evaluation of its services for business, we will consider the Committee's recommendation to undertake research to clarify the role that investment by UK companies in manufacturing or service capacity in overseas markets plays in increasing UK competitiveness. As part of that, we will also consider what role UKTI should play in supporting those companies. As stated in our response to question 3 above, a fundamental consideration in any support that UKTI offers to business is the tangible benefit to the UK economy.

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)

The machinery of government changes leave UKTI with the same remit and reporting jointly to the FCO and the new Department for Business, Enterprise & Regulatory Reform. The Strategy "Prosperity in a changing world" is a long-term strategy, backed by Treasury. It also has strong support from stakeholders. It sets out how UKTI will pull together the Government's efforts over the next five years to help UK companies exploit international opportunities and to attract the best overseas companies to invest here. Discussions with Treasury in relation to the 2007 Comprehensive Spending Review are ongoing.

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)

In setting its sectoral priorities, UKTI is business-led. Since the City strategy was published, the Financial Services Sector Advisory Board (FSSAB), which comprises mainly business representatives, has recognised the strategic importance of the financial services sector in Brazil and has designated Brazil as a key market. As part of the strategy, the Lord Mayor will be visiting Brazil with a business delegation in August with full UKTI support. This is a good example of how UKTI will respond flexibly to advice from key stakeholders and the changing global picture.

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)

UKTI does not treat manufacturing as a distinct sector. Many of the UK companies with which we work in sectors where UKTI has a national team will be manufacturers (eg in energy technologies, ICT and life sciences). Innovative and R&D intensive manufacturing companies will also benefit from the new programmes in these areas. Manufacturers also continue to receive support across the full range of existing UKTI services, including the Tradeshow Access Programme (TAP) and our Passport to Export Programme.

We note the Committee's disappointment that only one of the sector strategies has been published so far. UKTI is seeking to co-ordinate these trade and investment strategies for the UK as a whole. It has to ensure that the strategies are based on input from and are supported by all stakeholders, including business and other government and regional partners. Getting public sector players to buy in to the marketing strategies is also a key objective. This all requires a substantial period of consultation and of evidence-based work. The financial services strategy is already delivering results. The creative industries strategy was launched on 16 July. The other three strategies are already being formulated, in close consultation with industry partners. Partners are already commenting on first draft of the life sciences strategy.

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)

UKTI has narrowed its sectoral focus from 32 priority sectors in 2004. As of June 2007 there are 13 national sector teams covering some 20 sectors. There are additionally seven sectors which have been led since 2005 by UKTI regional teams taking a lead nationally. UKTI HQ currently provides some funding for these seven teams. UKTI's sectoral strategies are underpinned by advice from over 200 business figures who form our Sector Advisory Groups. These Groups help UKTI to focus on a small range of markets, depending on the sector. For example, the markets relevant for the creative industries may not be those attractive to advanced engineering. UKTI influences this process through feedback from its overseas network, particularly in high growth markets. We would expect the process of developing marketing strategies to tighten this focus even further.

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)

UKTI is putting in place impact measurement systems to evaluate the success of its marketing strategies. As well as measuring the impact on individual companies participating in activities and events which flow from the marketing strategies, it will benchmark perceptions of the "UK offer" in each sector over time, to trace whether there is demonstrable improvement. During the course of this financial year, UKTI will review the success of its existing marketing strategies and assess its capacity to deliver further strategies.

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).

We are grateful for the Committee's support for UKTI's Strategy commitment to targeting R&D intensive firms. We agree that the R&D programme and staff should have specific targets. UKTI has set targets that in 2007/08 the programme should secure 40 R&D projects from overseas-owned companies and that at least 160 UK-based businesses increase their R&D in the UK as a result of UKTI support. PERA, who employ the R&D specialists, are setting performance objectives for each of the specialists.

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)

The current position is that all RDAs and Devolved Administrations have one or more overseas offices. And it is the case that RDAs have to seek Ministerial approval to open offices. The approval process is used to set conditions to ensure a co-ordinated UK overseas inward investment attraction network deploying both UKTI and RDA resources. Typically the conditions concern requirements for exchange of client lists, peer review, and a degree of common branding.

There is no doubt that, as a minimum, co-ordination arrangements can be improved. The Government's Review of Sub-National Economic Development and Regeneration, which was published on 17 July, noted the concerns that have been raised regarding overlap and duplication between the RDAs and UKTI on overseas activity to promote inward investment. In order to resolve these problems, the Government will ensure that, in future, the management and branding of overseas activity is brought together on a national basis. The Government will determine by October 2007 how best to achieve this objective. This decision will be informed by the review which UKTI is leading jointly with the RDAs and Devolved Administrations of the UK's overseas presence (a UKTI Strategy commitment). The review involves thorough analysis of the current arrangements and alternative options for overseas arrangements for inward investment attraction to the UK. It includes a survey of overseas-owned businesses to ascertain their perceptions of the UK arrangements.

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)

We also recognise the importance of greater co-ordination of trade support activity in the regions. UKTI is responsible for delivering international trade support to businesses in the English Regions, operating as the RDAs' international trade arm. To maximise our delivery impact, UKTI has in place a "dual key" framework with the nine English RDAs which requires joint agreement on regional international trade activity. This ensures that we achieve a balance between regional and national priorities. The relationship is a positive one and many RDAs make additional support available to UKTI's regional trade directors in support of companies trading internationally.

As a further step to avoid confusing its customers, UKTI has rationalised the number of its regional delivery partners. There is now generally one in each region. Those partners also work in close partnership with other business support providers in the region, including Business Link, but are distinctly "UKTI-branded". However, it is important that UKTI regional international trade activity is joined up with other business support, with access aligned with Business Link. This ensures efficient and effective access to trade advice and other support for business. As noted in the Review of Sub-National Economic Development and Regeneration, the Government will decide by October 2007 how to improve further alignment between these services. This will include a clear explanation of the role of UKTI's regional trade advisors and how their work supports UKTI's broader strategic aims. This decision will be informed by the current joint review by UKTI and the RDAs of UKTI regional trade operations, which the Trade and Industry Committee Report has noted.

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)

We welcome the Committee's support for the focus on high-growth emerging markets. We recognise too that there are concerns about the impact of this on resources elsewhere across the network. UKTI continues to have a strong international presence and maintains significant levels of resource in developed markets such as the US and Europe. These are still among the UK's most important trading partners and a major source of inward investment. UKTI keeps its overseas network resources under review to ensure they are deployed effectively in meeting customer demand.

The Committee's Report notes that 5.6% of posts will be affected by the refocusing of resources in the overseas network. We should like to point out that the correct figure is in fact £5.6 million of resources which will be re-deployed to High Growth Markets, funded by reductions elsewhere in the overseas network. We apologise to the Committee for any lack of clarity in the oral evidence provided. The refocusing of £5.6m of resources in the overseas network is mentioned in UKTI's Strategy "Prosperity in a changing world". We do not believe that this alters the Committee's conclusion that changes across the overseas network are relatively minor.

UKTI aims to measure and evaluate the impact of everything it does. This includes activity in high-growth markets, and the High Growth Markets Programme(HGMP) in particular. The HGMP focuses on 16 high-growth markets. Through a team of 15 HGM Specialists, UKTI will explore the reasons for low levels of activity by experienced exporters and established companies in the UK who have the potential for success in high-growth markets. The success of the HGMP and its Specialists, and of the companies that they work with, will be monitored and measured through PIMS. The following specific measures are proposed for the HGMP:

—120 firms significantly assisted in 2007-08; and

—50% of those assisted to report improved business performance.

UKTI is also fully aware of the increased opportunities for trade and investment in the growing economies of the ten central and eastern European member states of the EU and has provided written and oral evidence for the Trade and Industry Committee's separate inquiry into the impact of these member states on UK business. UKTI deploys significant resource through its commercial teams in these ten member states and makes its full range of services available in support of British companies wishing to develop business in these markets.

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)

The UKTI Strategy included a commitment to ensuring its people are best placed to meet the needs of its clients, through recruitment, learning and development. UKTI commissioned an independent survey of the skills and knowledge its people needed to achieve successful transformation. The survey, completed in April 2007, showed that most development needs relate to situations where people are either being asked to deploy a core skill in a new environment, or develop an aspect of a skill they have not used before.

UKTI's programme of change also aims to transform the way it provides services to its customers, placing greater emphasis on marketing. With the help of consultants, the UKTI Executive Team and Board developed a "toolkit" for managers—and teams—

across the organisation to support all its people in managing change and delivering a high level of performance against the organisation's targets. Launched in June 2007, this toolkit highlights five behaviours, or imperatives, which all teams must focus on if UKTI is to deliver the vision set out in the Strategy.

During 2006/7 UKTI delivered a series of workshops across its UK and overseas networks to introduce the concepts of marketing and to help its people adopt a marketing and entrepreneurial mindset. Priorities for 2007/8 include programmes to help front line staff strengthen their client relationship management skills, to make a positive impact on business.

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)

We recognise the impact of change on staff morale. Analysis undertaken in late 2006/early 2007 of the organisational culture demonstrated that there is good buy-in to the new Strategy from staff across UKTI. The key challenge now is to engage all members of the organisation in delivering the vision it set out. UKTI is doing this on a number of fronts: through its internal communications work; through the "toolkit for managers"; through the redesign of its learning and development offer; and through the recent UKTI Senior Managers' Conference which focused on leading the delivery of change.

As the Committee has pointed out, the deployment of private sector specialists will also help UKTI achieve its aim of becoming a "more marketing led, client focused organisation".

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)

The FCO has recently undertaken a review of its language policy to ensure that its limited resources are effectively targeted to guarantee that training is linked to its operational requirements and to its Strategic Priorities. The review was also an opportunity to ensure that FCO language training provision is aligned with the Common European Framework of Reference for Languages.

The review recommended a move towards group training for both officers and partners in line with best practice across the public and private sectors. This has demonstrated that group learning has several advantages including a group dynamic that helps to maintain motivation, role-plays that are not possible in a one-to-one situation, more time to process information, less individual pressure than in a one-to-one situation, the opportunity to correct mistakes in a less personalised way and repetition of rules or grammar points that naturally occur during group teaching.

The provision of greater e-learning resources has also enabled the FCO to use its limited resources to reach a much greater number of students than would have been possible through one-to-one tuition. These resources include e-learning packages, CD-ROMs, language cassettes and other online learning recommended by the Humbul Humanities Hub at the University of Oxford.

The FCO recognises the need of spouses and partners to obtain basic language skills in order to live safely and comfortable at post. Spouses and partners will continue to be entitled to study relevant languages to confidence level but those who need to achieve a higher level for employment or representational purposes will also able to bid for additional funding for this purpose from the Diplomatic Service Families Association.

Charging for services

17. UKTI 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)

We acknowledge the Committee's point that UKTI needs to raise its game as far as charging is concerned. To that end, UKTI has developed an e-business system that allows it to charge clients for a wide range of support, delivered online. Since 18 May 2007, this online system has been operational in all markets where UKTI has a presence. It can be used flexibly and tailored to the needs of customers wishing to enter overseas markets. We recognise, however, that we need to use the system better to maximise our returns from charging. That is why UKTI has recently undertaken an extensive awareness raising campaign with its delivery teams. Evidence suggests that, as a result, UKTI has made good progress in raising the volume of business which is charged for. UKTI will also look at new ways of developing its charging regime.

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)

We note the Committee's recommendations, and in particular, its endorsement of the move away from a strong focus on supporting new-to-export firms. UKTI will continue to provide help for a wide range of businesses across a variety of sectors in many international markets, including SMEs. In areas such as creative industries and biotechnology and life sciences SMEs form the great majority of exporting firms so help must be given to help them succeed.

Management targets have now been set for the organisation for 2007-08. These cover the full spectrum of business size and experience. The targets are designed, *inter alia*, to ensure we help deliver increased business success across the whole range of our trade customers with a specific target for innovative companies; and that we help to increase the R&D uptake in the UK including by UK-based firms trading internationally.

We will take the Committee's observations into account in our discussions with the Treasury over the targets to be set for the period of the Comprehensive Spending Review.

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)

The Committee's overall support for UKTI's Strategy is warmly welcomed. UKTI is very much on track to deliver on the individual workstreams set out in the Strategy.

International trade and investment are vital components of the UK's prosperity. We would like to thank the Committee for the valuable role their Report plays in helping to shape the future strategic direction of international trade and investment support for business.