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Business, Innovation and Skills Committee

Exporting out of recession

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The Business, Innovation and Skills Committee

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

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Committee staff

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

Contacts

All correspondence should be addressed to the Clerks of the Business, Innovation and Skills 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 biscom@parliament.uk

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Summary

The impact that the recession has had, and is continuing to have, on businesses is still all too real. It is therefore essential that the Government does all it can to help to create an environment that is supportive of businesses' engagement in international trade. The question we asked in this inquiry was a simple one—what more can be done to help the country export itself out of recession?

If such an environment is to be created, all branches of government need to become more commercially aware and alert to developments that will impact on, or could provide opportunities for, British businesses. Trade promotion must not be seen as solely the responsibility of UK Trade & Industry (UKTI). There has been a very welcome change in the mindset of the Foreign and Commonwealth Office (FCO) to become much more business-orientated; other departments and agencies must take practical steps to emulate the change that the FCO has achieved.

Our examination of UKTI found that, on the whole, it is a highly adept organisation whose services are valued by businesses. We were once again impressed by the dedication and professionalism of the staff that we met. However, this does not mean that there is no room for improvement; many businesses we talked to felt that UKTI was not always successful at listening to and effectively communicating with its customers. We also heard anecdotal but credible evidence of significant variation in the quality of its work in different overseas Posts.

UKTI and its predecessors have been asked to change their priorities too often. The organisation now needs a period of stability to enable it to make incremental improvements to its efficiency. British exporters need different assistance in different markets and have different priorities, often related to their size and experience of exporting. We do not accept the criticism that UKTI has focused too much attention on the emerging markets, but equally we acknowledge that SMEs in particular benefit from the organisation's presence in traditional markets in the EU and the USA. We are therefore opposed to any significant reduction of UKTI's presence in any market. At a time of great stringency in public spending this means that where additional resources are needed, either to support work with companies in the UK, or to boost UKTI's presence in particular markets, the resources can only be found from the corporate centre.

UKTI needs to do more to alert British business to the opportunities in markets that have been regarded as too challenging, and to new opportunities in existing markets.

One policy that came in for particular criticism was the revenue targets placed on UKTI staff which they meet by selling market information through the OMIS (Overseas Market Introduction Service). Businesses—and, privately, some UKTI staff—felt that these targets were trapping staff behind their desks leaving them unable to develop their knowledge of the market on the ground.

The rationale for the charging policy itself is unclear. UKTI seems unsure whether charging should be used to discourage speculative requests, to recoup a significant part of the cost of the service, or simply to ensure that business users value the information more

highly because they have paid for it. We believe that prices should be set at the level that will most benefit the UK, discouraging companies who are not serious about exporting from using the service. In the long run the extra taxable revenue that OMIS creates will more than cover the initial costs involved. Cost recovery must not be an objective in its own right and the level of costs recovered should set by UKTI's assessment of what is appropriate to enable it to meet its wider purpose and not to meet arbitrary targets imposed by the Treasury.

UKTI was one of the organisations to benefit from the Government's Strategic Investment Fund. While the sum of money allocated seems arbitrary, this decision should be seen as a welcome vote of confidence in its work. However, we are concerned that the need for rapid decision making, without appropriate consultation with business, has led to inappropriate spending decisions being made. UKTI should have focused on providing additional temporary resources for its existing successful schemes rather than hastily inventing new ones.

Regional Development Agencies (RDA) have been given an important role to play in trade promotion, ensuring that local businesses are able to benefit from national schemes. However we again heard worrying reports about unnecessary competition and wasteful duplication of services by the RDAs. While we have been told that matters are improving, there is still much to do if RDAs are to become more of a benefit than a burden to national trade promotion efforts.

The recession has also severely constrained the availability of trade credit, making it difficult for companies to get access to the funds they need to export. While other European countries have taken advantage of recent relaxations in European regulations to allow their export credit agencies to address this market failure the Export Credit Guarantee Department has, so far, decided not to supply businesses with short-term credit on the same scale. We believe that this represents a serious missed opportunity and that the Government should urgently reassess this decision.

1 Introduction

1. On 4 February 2009 the Committee announced its inquiry into "Exporting out of recession". It posed the questions: "What should be done to sustain and increase Britain's export strengths? Is there more the Government or UKTI could do to support exporters, to identify key sectors or to reprioritise markets?"

2. The backdrop to this inquiry is the sharp and synchronised downturn in the world economy. The then Department for Business, Enterprise and Regulatory Reform, at the start of our inquiry, set out the challenges facing the UK and UK businesses:

> The UK's traditional export markets, in Europe and North America, have been disproportionately affected. In 2007, the United States and the EU together accounted for 68 per cent (£251 billion) of total UK exports of goods and services. A recent World Bank forecast is that volumes of world trade in goods and services are expected to drop 6.1 per cent in 2009, and that global GDP is expected to contract by 1.7 per cent in 2009—the first decline in world output on record. High income countries are in deep recession, with OECD economies likely to contract by three per cent and other high income countries by two per cent. GDP among developing economies will grow at 2.1 per cent, compared to 5.8 per cent in 2008.[1]

3. The Government stated in its submission that it considered UK exports to be "critical to individual companies and to the wider economy."[2] It is right to highlight this point. As the Department notes:

> For companies, investing and selling overseas tends to improve productivity, innovation and financial performance. Selling overseas helps businesses achieve economies of scale and levels of growth and revenue not otherwise possible; reduce their dependence on a single or small number of markets; and increase the commercial life span of their products or services, with raised returns on investment. These companies are more likely to have capital to invest in new innovation and product development in the UK, and to maintain or create jobs.[3]

4. As well as bringing a multitude of benefits for businesses increased, UK exports—of both manufactured goods and services—have a potentially crucial role to play in hastening the end of the recession for the nation as a whole. This was a point that Lord Jones made repeatedly during his appearance before us:

> […] I will tell you that the only way this country is going to get out of [the recession] quickly is to trade its way out of it. If Britain was a company I would be saying, 'The fundamentals are okay, you're not going to go bust, but this is going to be bloody.' Now, how do you address it? You trade your way out of it. If this was a business, you would be trading your way out of it: head down, batten down the hatches, work hard

1 Ev 58–59

2 Ev 58

3 EXP 1 para 2.2

> and deliver the goods, and get the profit and start regenerating the business. That would be the same for this country.[4]

5. We understand and agree with the argument that a strategy to boost UK exports should not be based primarily on short-term currency movements and, indeed, that many countries have successfully developed their export performance with a strong currency. It is however, true that when sterling is relatively weak, companies can reduce export prices or build margins and so boost profitability. This Report examines what Government can do to ensure that our exporters derive the maximum benefit from their opportunities in overseas markets—opportunities undoubtedly enhanced by the low value of the pound, and opportunities, which if seized, will help the whole economy to recover.

6. Government assistance is provided through a number of initiatives, but at the heart of its trade policy is UK Trade and Investment (UKTI). Our inquiry focuses on UKTI, and assesses the extent to which it is helping the UK to export its way out of the current recession. We also consider the individual programmes offered to businesses by UKTI, and how well they are aligned to business needs.

Trade Policy

7. Government efforts to promote international trade can only be successful when international trade policy has created an environment in which trade can flourish. Britain can be proud of having one of the most open and free trading environments in the world. There were fears that the onset of the recession could trigger a new wave of protectionism in which countries engaged in short-sighted measures in an attempt to protect their own industries. Thankfully this did not happen, but there are still important trade policy issues which need to be resolved. We welcome the recent progress made in the EU free trade agreement with South Korea. We also want to see a wide ranging, free and just conclusion of the Doha round of trade negotiations, which have dragged on for far too long. However, as important as these issues are, they are not subjects for this inquiry, which focuses on trade promotion.

Our inquiry

8. In the course of this inquiry, we received written submissions from 23 organisations. We held three oral evidence sessions: the first was with Lord Jones of Birmingham, formerly Minister of State for Trade and one of the UK Business Ambassadors. The second session was with Lord Davies of Abersoch, the current Minister of State for Trade and Investment and, Mr Gareth Thomas MP, Minister of State, Department for International Development. At the final session we took evidence from representatives of the CBI, British Chambers of Commerce and Sponsors' Alliance.

9. We also undertook two visits in connection with the inquiry. The first was to the UAE and Saudi Arabia to look at the challenges and opportunities presented by emerging markets. The second was to France and Italy to examine UK trade relations with established markets. Both visits gave us the opportunity to be appraised of activity on the

4 Q2

ground. By speaking with people who deal with trade issues on a daily basis we were better able to assess the extent to which UKTI has right priorities for the very different markets around the world. A full account of our visits can be found in the Annex at the end of the Report. We would like to thank all those who contributed to our inquiry.

2 Creating a culture of trade promotion

10. If the country is to be successful in exporting out of recession there must be a culture in government that supports trade promotion. Lord Jones starkly outlined the challenges that UK businesses face when competing with firms whose governments are seen as being more supportive of their business:

> Every day they [British companies] come up against companies from their rival nations of the developed world whose governments support them more, put more money behind their promotions, whose politicians are more behind the business equation than ours—of all parties—are.[5]

This is not just a matter of financial support for industries and export promotion, it involves all parts of government working together, acknowledging the nation's strengths and being willing to go out and advertise them to the world.

11. As we have said in previous reports as a nation we are good, perhaps too good, at self-criticism. Whilst we must acknowledge our weakness we should be more willing to celebrate our strengths. At the start of our "Risk and Reward" Report we observed:

> If, as some reporting suggests, Britain genuinely and wrongly believes itself a nation in which manufacturing is in decline, there is no high technology industry, and the scale of the service sector is a weakness rather than strength, then we will deter potential partners—from foreign investors to the young people in our schools—from participating in some extraordinarily successful businesses. That would help make sure that long-term economic decline becomes a self-fulfilling prophecy.[6]

12. This is not just the responsibility of government; the media seems to rejoice in painting the least flattering picture of the British economy possible, highlighting bad news and ignoring the positives. Lord Jones was particularly damning of this:

> Think of retail: Asda's recent figures. Did they feature as number one in Robert Peston's article? No. And yet a fabulous set of figures. Look at Morrisons' recruiting some 5,000 people. It is all good stuff in one mass sector. Do we read about it at the top of the news? No.[7]

If we do not have confidence in our own businesses and industries it will send the wrong signals to other countries looking to invest and trade with the United Kingdom. Businesses also need to have more faith in themselves and be willing to sell themselves in foreign markets. Lord Jones believed that one key barrier preventing SMEs from exporting was a lack of confidence in the goods and services they had to offer: "we need exporters and small businesses to have the confidence to reach out to international markets."[8]

5 Q 95

6 Business and Enterprise Committee, Eleventh Report of Session 2008–09, *Risk and Reward: sustaining a higher value added economy,* HC 746, Summary

7 Q 2

8 Q 190

13. While it is not just the job of government to create a positive business culture that supports trade promotion, it is to government that we must address our Report. One way in which government can encourage trade promotion is to place a suitable emphasis on the activities of bodies involved in trade promotion. Lord Jones told us that he did not feel that UKTI was held in high enough esteem within government. He said that he wanted UKTI to "strut their stuff a bit more around Whitehall" and regard themselves with a bit more of the "arrogance" of other large departments, such as the Treasury and FCO.

> Without the UKTIs of this world […] it is more difficult for companies to create wealth. If they do not create it, they do not pay tax. If they do not pay tax, you do not get schools and hospitals. It is not rocket science.[9]

14. As well as raising the profile of organisations like UKTI, whose focus is trade promotion, it is essential that other Government departments become more commercially minded. UKTI has two supporting departments, BIS which largely—but often imperfectly—understands the commercial imperative, and the FCO, which, historically has not. There is a change apparent with the FCO and we welcome the increasingly business-focused approach we saw in many of the FCO Posts we visited during this, and indeed, during previous inquiries. Lord Jones also welcomed this change in the FCO's mindset. Commenting on his time as a Minister he said:

> The one thing I saw as a happy difference between when I started at the CBI in 2000 and when I was UKTI minister in 2007–08 was how more business attuned and wealth-creating attuned the Foreign Office had become, very much more in tune with promoting British goods, services, companies around the world. I thought that was fabulous to see, it was a happy thing to see.[10]

15. However, we cannot afford for this culture shift to be confined to the FCO, when there are many departments whose activities relate to those of British businesses and who could do more to promote their interests abroad. Lord Jones made this case very forcefully:

> […] it is not just the Foreign Office. Our higher education system can be sold around the world better, so why do we not have promotional sales people in the Department of Education? Our environmental engineering companies in the country are first class. They are doing some fabulous stuff in China and in India and in Latin America, making money for the country. It is enlightened self-interest. Why do we not have trade promotion people at the Department of Environment? Energy is another one. It should not just be put into a box called 'Trade Promotion UK and a bit of Foreign Office, thank you very much'. The whole ability for this nation to trade itself out of its current problems is something the entire government department, Civil Service, regions and countries in the UK should espouse and praise, not, "Oh, it's over there, we'll let those people do it. What are they called? UKTI. They can do it." It should be a common purpose of the Government.[11]

9 Q 26

10 Q 35

11 Q 51

16. Following the recent machinery of government changes higher education and trade now sit in the same department. This presents an exciting opportunity for the better promotion of our education sector. Nevertheless we believe that the underlying point behind Lord Jones' comments remain valid. All parts of government should work together to promote UK business abroad where appropriate. **If Britain is to have any chance of exporting out of recession—and to flourish after it is over—then all parts of government, not just UKTI and the FCO, must work to promote the country as an ideal place to trade and do business with. We urge the Government to use its reply to our Report to set out how it intends to spread a more commercial, business-oriented mindset throughout Whitehall. All departments must be made to realise that they have a major role to play to help Britain trade its way out of recession and sustain its long term prosperity.**

High level ministerial visits

17. One action the Government can take to promote trade is to engage in more high level visits. During the course of our inquiry we were again repeatedly told about the importance of visits by ministers and the Prime Minister in the promotion of British trade, particularly in emerging markets such as the Middle East. As Lord Davies said "There is no doubt that the prime ministerial visits are very important […] We need a continuous stream of ministerial visits and the more senior the better […] the Middle East does need continuity, it does need senior calling, and we also need to make sure, which we are doing, that when the leaders are over in the UK, as they are very often, that we are seeing them […]".[12]

18. Britain is at a competitive disadvantage when it comes to arranging ministerial visits because parliamentary duties make it difficult for ministers, and particularly the Prime Minister, to be away from Westminster for extended periods of time. This is a particular problem faced by those countries operating a Westminster system of government. It is much easier for directly elected heads of state in other countries to engage in such activities. As Lord Jones put it:

> If you are up against Sarkozy, if you are up against Bush, as it was in my case—now it would be after Obama, if you are up against Merkel—and these are quality countries with quality companies wanting the support of the boss of the country—it is easier for them to travel than it is a British Prime Minister. The system in this country militates against promoting the ability for this country to trade its way out of its current problems.[13]

The Middle East Association worried that while "overseas visits by the Prime Minister and Cabinet Ministers are particularly effective: Arab governments frequently complain of British neglect and contrast it with the attentions of competitor governments."[14]

19. Given this constraint it is perhaps unsurprising that recent trade ministers have sat in the House of Lords. Lord Jones observed that this meant he was better able to be "overseas

12 Q 203 [Lord Davies]

13 Q 36

14 Ev 120

banging the drum and promoting Britain" than some of his colleagues because "it is extremely difficult to do both the job of a political career, wanting advancement, wanting to be in the beltway, wanting to be seen around doing the job in Westminster, and also being in some far-flung market for British business."[15] To rectify this problem, Lord Jones recommended that there should always be a dedicated Minister working solely on trade promotion who can "be spared from what you would call the normal duties in Westminster, to get out around the world and sell your nation."[16]

20. These are not new issues to the Committee. We have previously commented on the challenges facing ministers when they attempt to arrange trade promotion visits. In our "Europe moves East" report we said:

> We believe that British ministers—especially those in trade promotion roles—should follow the example of our competitors and travel abroad more frequently to promote the UK interest. To assist in this, firm agreements should be established between government and opposition to ensure that ministers on trade missions should not have to return to the House to vote, other than in the most exceptional circumstances. [...] We note, however, that many of our competitors more regularly use much more senior ministers, including prime ministers and presidents to lead trade missions and assist in the negotiation of major deals than is the tradition for British ministers.[17]

21. We stopped short of recommending that the minister for trade promotion sit in the House of Lords, a move which would allow him or her to spend much more time away from Westminster, due to concerns about the accountability of ministers who sit in the Second Chamber.

22. **It is still difficult for relevant ministers to spend time away from Westminster. Current arrangements constrain the ability of ministers to engage in overseas trade missions and damages UK competitiveness. It is necessary, and should be possible, for both the Government and the opposition to make arrangements to ensure that the activities of the Trade Minister are not constrained by their presence being required at Westminster.**

British Trade Ambassadors

23. The Government has partly acknowledged the constraints that the Westminster system places on its ministers with its creation of the British Trade Ambassadors Network. The Network was launched in October 2008, and is described in the Government's submission as being a network of 17 of the UK's foremost business and academic leaders who work with Government to promote the UK's excellence internationally, and highlight trade and investment opportunities.[18] Lord Davies, now a member of the Network, described the job

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15 Q 35

16 Q 41

17 Trade and Industry Committee, Eleventh Report of Session 2006 –07, *Europe moves East: The impact of "New" EU Member States on UK business*, HC 592, para 82

18 Ev 65

more plainly saying that they freely gave their time when in overseas markets “banging the drum for Britain.”[19]

24. As of July this year, the Ambassadors have participated in 40 events in 15 countries,[20] and many of our witnesses were extremely enthusiastic and positive about the work that has been done. For example, when asked whether they were a good idea or a moderately good idea, Lord Jones replied that they were an excellent idea.[21] Lord Davies was equally as enthusiastic saying that they had done a “great job” in selling Britain. Furthermore Lord Davies also emphasised that he wanted the Ambassadors to do more:

> I need more from them: and if that is reported and that becomes the headline out of this that is great; because we need them to do more to help us; because the more the merrier really. It is working well and we are learning many lessons as we go along.[22]

25. We broadly agree with this assessment and wish to make only one criticism. It is important that we have ambassadors that have detailed knowledge of all the key sectors in the British economy. While the current group have a very impressive range of knowledge, we are slightly concerned by the lack of representation in the life sciences sector, and the health sector more generally: theses sectors represent major opportunities for the UK, and must be better represented in this network. This concern was brought to our attention during our visit to the UAE, which highlighted the many opportunities which existed in these sectors; opportunities which UK industries are well placed to exploit.

26. **We agree that the British Trade Ambassadors are doing a very good job selling Britain as a place to trade with and invest in. Having high powered individuals singing the praises of the country can only benefit UK plc. We ask the Government to provide us with yearly up-dates on the activities of each of the Ambassadors, and to inform us what steps it is taking to ensure that the specialist knowledge the network possess reflects all those industries which are of central importance to the UK’s economic future.**

19 Q 67

20 Q 212

21 Q 72

22 Q 212

3 Work of UKTI: Policy and Strategy

27. UK Trade & Investment (UKTI) is the government body which provides expert advice and support to UK-based businesses wishing to trade internationally, as well as support to businesses based overseas looking to invest in the United Kingdom. It provides a range of services to companies looking to export including market intelligence, advice on regulations, sales leads and financial and practical support.

28. UKTI employs around 2,400 staff, 1,300 of whom are based overseas. Its budget for 2008–09 was in the region of £316 million.[23] To put this figure in context, the combined expenditure of all the RDAs for the same period was £1,779 million and UKTI's budget is smaller than that of the largest RDA.[24] According to the latest UKTI Performance and Impact Monitory Survey Report, which was published in September 2009, UKTI assisted 21,800 businesses, of which 18,000 were innovative.[25] Of those companies, 50% responded that they had improved their performance as a result of the help they received; and 1,860 businesses increased their R&D activity as a result of trade and inward investment support.[26] The net result of that support, in terms of additional profit attributed by UKTI clients specifically to the support received, was £3.6 billion—a return of £16 for every £1 UKTI spends on trade support services.[27]

29. A recent National Audit Office (NAO) report on the work of UKTI was broadly positive, stating that UKTI was "making good progress against its target and has in place a robust system of assessing delivery."[28] This assessment of its work was also reflected in a joint publication by the Taxpayers' Alliance and Institute of Directors—*How to save £50 billion: Reducing spending for sustainable public finances*. In that report, UKTI is one of the few organisations that is explicitly exempt from the recommended cuts in public spending.[29] These assessments confirm the general impression we have gained of UKTI during the course of this inquiry. We have received correspondence from several businesses which have been highly complimentary about the service that they have received. Furthermore, we have been impressed by the professionalism and dedication of UKTI staff we have met during our visits abroad.[30] This does not mean that there is no room for improvement—and our attention has been drawn to some apparently serious variation in quality between Posts—but the recommendations that we make are offered in the spirit of constructive criticism.

23 Ev 58

24 HC Deb, 10 November 2009, col 322-324W

25 UKTI define "innovative" firms as those that: have more than one employee engaged either wholly or partly in research and development (R&D) activity and have more than one employee engaged either wholly or partly in new product or service development; or have employed someone external to the business to conduct new product or service development activity in the last year; or derive some of their turnover from products and services introduced in the last three years. The definition excludes firms established in the last two years.

26 UKTI Performance and Impact Monitoring Survey Report, March 2009 (available from the UKTI website, www.uktradeinvest.gov.uk).

27 Ev 60

28 National Audit Office, *UK Trade and Investment: Trade Support,* para 7, HC 297

29 Institute of Directors and the TaxPayers' Alliance, How to save £50 billion: Reducing spending for sustainable public finances, September 2009, p49

30 For details of our visits, see Annex.

Current Strategy

30. UKTI's current five-year strategy was outlined in *Prosperity in a Changing World*, published in 2006. The strategy was intended to:

> deliver, by 2011, measurable improvement in the business performance of UK Trade and Investment's international trade customers, with an emphasis on innovative and R&D firms; increase the contribution of foreign direct investment to knowledge-intensive economic activity in the UK, including research and development; and develop a measurable improvement in the reputation of the UK in leading overseas markets as the international business partner of choice.[31]

The Strategy also committed the UKTI to a number of changes, including the establishment 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. It also outlined how UKTI would work in partnership with the Regional Development Agencies, devolved administrations and national bodies, and set out six factors which formed (according to UKTI) the basis of the UK's competitive advantage. 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.

The long-term vision which the strategy set out was seen as a much-needed source of stability for an organisation that had experienced regular, dislocating change over the previous seven years.

31. However, since the publication of the strategy the world economy has experienced dramatic difficulties, raising the question as to whether a change in strategy before 2011 would be prudent. In its evidence, the British Chambers of Commerce (BCC) argued that while the decrease in the value of Sterling opened up better opportunities to trade with the Eurozone and United States, "UKTI has not been able to shift its resource allocation nearly quickly enough" to take advantage of that change.[32] The CBI disagreed with that analysis, arguing that "a policy that relied on Sterling weakness alone to support export competitiveness […] would not be optimal" both due to the inherit instability of the currency market and because the current rate had increased the cost of many key industrial inputs.[33]

31 National Audit Office, *UK Trade and Investment: Trade Support,* para 3, HC 297

32 Ev 82

33 Ev 96

32. When we explored with witnesses whether the recent economic uncertainty required a fundamental change in UKTI's strategy we found little appetite for such an exercise. Lord Jones told us that he did not believe it would make sense to significantly change UKTI's strategy in response to the recession, saying that "the last thing you do if you are trying to lead something in difficult times is chop and change."[34] Similarly, Mr Andy Scott, Director of International and UK Operations, CBI, said that when UKTI had asked them and the Chambers of Commerce if it was time to rethink their strategy "both of our views at the time was that this was certainly not the occasion to do a fundamental review of the strategy. The strategy in terms of overall direction was right when it was set and we believe it is right going forward."[35] **We agree with our witnesses that there is currently no need for UKTI to engage in a fundamental re-evaluation of its strategy. UKTI has been forced to undergo too many changes in recent years and it now needs time to improve incrementally. A period of relative stability is needed to allow it to address its remaining shortcomings. We agree that the current position of the pound, which has made it more attractive for some companies to export, can be accommodated within UKTI's existing framework. That said that it would be prudent for UKTI to consult with industry, in advance of 2011, on whether or not it will deliver on its strategy.**

Choosing Priorities

33. The initial memorandum from UKTI identified 17 high growth markets: Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Turkey, Saudi Arabia, UAE, Malaysia, Qatar, Singapore, South Korea, Taiwan, Thailand and Vietnam.[36] These differ from the list of key emerging markets—China, India, Russia, Brazil, Indonesia, Mexico, Saudi Arabia, Turkey and United Arab Emirates—which were set out in *Prosperity in a Changing World*.[37]

34. The same submission identifies 11 priority sectors: Advanced Engineering; Construction and Major Sporting Events; Creative Industries; Education and Skills; Energy; Environment and Water; Financial Services; ICT; Life Sciences; Mass Transport; and Agri-Technology. It separately references cross-cutting initiatives around Aid-Funded Business; Low Carbon; the Olympics; and Science & Technology."[38]

35. When asked about the array of different priority sectors and countries, Lord Davies told the Committee that the 17 high growth markets were identified on the basis of "market size, potential for growth, political and economic importance and the strength of their scientific and research base." The markets were then matched against the UK's capabilities to identify the priority sectors. He said there was a "clear strategy to focus and deliver business and trade with the high growth markets" without losing touch with established markets such as the US and EU.[39] Sir Andrew Cahn, Chief Executive of UKTI,

34 Q 91

35 Q 282 [Mr Scott]

36 Ev 61

37 UKTI, *Prosperity in a changing world*, July 2006

38 Ev 60–61

39 Q 221–222 [Lord Davies of Abersoch]

added that the high growth markets were priorities "in the sense that we put new resource in there."[40]

36. In our discussions with industry representatives about UKTI's choice of priorities one recurring theme was the importance of UKTI listening to its customers when making such decisions.

> The companies within the sectors and the industry bodies within those sectors have a good track record of identifying opportunities. The individual companies and the trade associations in those sectors know, generally speaking, how to assess markets so they can do that.[41]

> I think at the end of the day what it boils down to in its simplest form is listening to customers.[42]

> It is up to organisations like ours [British Chambers of Commerce] that are much closer to the businesses in question to bring those views in so that UKTI strategy is not remote and not seen as being detached from customers.[43]

37. We gained a sense that industry was worried that the focus on emerging and high growth markets would cause UKTI to neglect more established, developed markets with which the UK does the majority of its trade.[44] In its evidence the Chemical Industries Association argued that "it is highly unlikely that a SME will exhaust all of its potential business opportunities in a market like the USA—surely tax payers will get a better return by encouraging the company to focus on doing even more business in established markets rather than chase the proverbial Golden Dragon in developing Asian markets."[45] The British Chambers of Commerce also expressed a concern that too many resources were being directed at the BRIC [Brazil, Russia, India and China] countries:

> The Government's focus on BRIC leads to too little support in areas where profits are to be made. Priority in the distribution of resource is dictated in order to meet government targets rather than towards markets that offer them the best chance of success.[46]

Mr Marshall from the British Chambers of Commerce expanded on these remarks. He commented that there had been "too much focus on the BRIC countries at a time when exports closer to home might have been a better way of focusing resource."[47]

38. The Government has acknowledged the importance of retaining a strong presence in established markets. As Lord Davies himself said:

40 Q 222 [Sir Andrew Cahn]

41 Q 284

42 Q 285

43 Q 286 [Mr Marshall]

44 The United States and the EU remain our principal export markets, accounting for 68% of total exports in 2007.

45 Ev 101

46 Ev 82

47 Q 282 [Mr Marshall]

> one should never forget that the UK trades with the US in a huge way. When you look at foreign direct investment into the UK about 35% of all the projects are still coming from the US. The danger is that we put all out eggs into some high growth markets but forget the euro and the US. I think we have got a clear strategy to focus and develop business and trade with the high growth markets; but at the same time we need to make sure that we are not losing touch and contact with the US.[48]

Sir Andrew Cahn, Chief Executive UKTI, also emphasised that there was a careful balancing act involved in dividing resources between established markets and emerging markets:

> The key issue for us is how much resource do we put into Europe? […] Many of our exporters want us to keep that resource there; but if we are to help our exporters explore new markets and get into the growth markets of the future we have got to look to those markets and not just to Europe. It is, of course, trading things off, but we do have a clear set of priorities as to where we shift our new resource to."[49]

39. The Department's supplementary evidence reinforced this position. It argued that the emphasis on emerging markets did not mean that UKTI would ignore markets which were not on its list of priorities: "UKTI emphasises emerging markets because they are the fastest growing economies and can provide opportunities now, during the recession in the UK's traditional export markets, and increasingly for UK business in the years to come. This does not mean that we are neglecting more developed markets."[50]

40. Having spoken to many SMEs who have used UKTI services it is clear to us that UKTI has an important role to play helping companies enter existing markets.[51] There is a real need and demand for these services. UKTI's presence in Europe is not a luxury. It makes a real difference to businesses looking to establish themselves in those markets.

41. However, it is necessary to strike the right balance between focusing on the immediate prospects presented by established markets and the potential of emerging markets, which may not be fully realised for several years. We saw for ourselves during our visit to the Middle East that these markets represent huge opportunities for British businesses—opportunities that many businesses are not aware of. UKTI's involvement in these markets is particularly valuable when a company is attempting to sell to the national government. We heard that in these situations the support of a government agency is essential if a company is to have any chance arranging meetings with decision makers. Opportunities in these markets are not always obvious to companies based in the United Kingdom and UKTI has an important role to play in drawing these to the attention of exporters, For example, despite the current difficulties in Dubai, there are clearly good opportunities in Abu Dhabi. And the rapid improvement in the ease of doing business in Saudi Arabia, coupled with the high standing of the United Kingdom in that country, create opportunities in an oil-rich country, that could easily go ignored. UKTI is well positioned

48 Q 221

49 Q 222 [Sir Andrew Cahn]

50 Ev 70

51 Visit to Paris and Milan, Annex.

to promote these opportunities in the United Kingdom, and often does so, but it should be encouraged to do more.

42. Judging the relative needs of established and emerging markets is a delicate balancing act. It is understandable that companies want UKTI to prioritise countries which offer the prospect of immediate new business. However, it would be unacceptable for a narrow focus on the European and American markets to leave UKTI unprepared to take advantage of opportunities available in the BRIC countries. Indeed, in previous reports we have highlighted the need to take advantage of opportunities in India, Brazil and Turkey.[52] We believe that a government agency is best placed to decide exactly how resources should be split. **We fully support the increasing emphasis that UKTI is placing on emerging markets, including Abu Dhabi and Saudi Arabia. Neglecting these markets would not be in the long term interest of British business.**

43. During our visit to Saudi Arabia, UKTI staff told us that they felt there was a lack of clarity about what difference it made to be designated a priority market. They felt they were not receiving sufficient resources and that staff were becoming overstretched. We wrote to Lord Davies on 30 April 2009 to raise these concerns with him. We received a prompt reply from the Minister which stated that:

> We are aware of the pressures on the UKTI team in Saudi Arabia at the moment and are already looking creatively at how that team can be reinforced within the bounds of existing resources […] I would like to reassure you that we are dealing with the issue of UKTI staffing in Saudi Arabia as a matter of urgency.[53]

Since this correspondence Lord Davies wrote to us again to provide an update on the situation. Following our visit, UKTI has authorised the recruitment of 2 additional locally-engaged members of staff in Saudi Arabia and created a new Middle East marketing hub team in Dubai. In addition, UKTI's Middle East team in London has also been expanded through the recruitment of one BIS "fast-streamer" and one other graduate-entrant to the Department. Lord Davies reiterated that resources were kept under review and that the Department was considering whether the UKTI team in Abu Dhabi should also be expanded.[54] **We are grateful to the Minister for acting on our concerns about a lack of staffing for UKTI operating in the Middle East. We anticipate that the additional staff will assist the office, providing a more effective service to British businesses in a market which presents companies with a large number of opportunities, but recommend that the situation is kept under review.**

44. We wished to explore whether this was an isolated incident of a priority market not receiving enough resources, or if it was a systematic problem. However, when we explored this with business representatives they reported that their members did notice a difference in the quality of service they received from UKTI in those markets. Mr Campkin of the CBI

52 Business and Enterprise Committee, Fifth Report of the Session 2007-08, *Waking up to India: Developments in UK-India economic relations,* HC 209; Business and Enterprise Committee, Seventh Report of the Session 2007-08, *Keeping the door wide open: Turkey and EU accession,* HC 367, Business and Enterprise Committee, Seventh Report of Session 2006-07, *Trade with Brazil and Mercosur,* HC 208

53 Ev 147

54 Ev 147–148

told us that "if you are a priority that has meant that you get […], more resources".[55] This was also the view of the National Audit Office, which reported that there had been a significant increase in resources allocated to those markets and subsequently the work delivered by UKTI operations. It highlighted the fact that the total number of staff providing trade support in those markets had increased by 21% between July 2006 and July 2008, and that there was "some evidence that the refocusing of resource by UK Trade & Investment is having an impact on the number of services delivered to UK-based businesses wishing to trade in the high-growth markets."[56] It continued "In 2008, the number of OMIS [Overseas Market Introduction Service][57] commissions delivered by staff in the 17 countries in the high-growth markets was 179 per cent higher than in 2006. In all but one of those countries the increase was in excess of the average of 92 per cent in the remaining markets."[58]

45. **It is obviously sensible for UKTI to direct its resources to the locations where it can have the maximum possible impact. However, the plethora of different priority and high growth markets and sectors that UKTI has set itself could easily cause confusion. UKTI needs greater clarity in explaining its priorities to industry. Furthermore, UKTI needs to reassure business that concentrating on these strategic priorities will not undermine the level of service provided in established markets where the majority of the UK's trade is conducted.**

55 Q 291 [Mr Campkin]

56 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, para 2.10

57 See paragraph 51 forward for a full discussion of this service.

58 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, para 2.10

4 Work of UKTI: Programmes

Programmes

46. UKTI offers a range of services to UK-based companies looking to expand into overseas markets. These services include mentoring new or inexperienced exporters, providing advice about entering a new market and identifying and arranging meetings with potential business contacts. It also offers direct financial support for companies to attend trade shows. Feedback from businesses on the services received has generally been positive: in 2008 75% of customers said they were either "satisfied" or "very satisfied" with the service they received.[59] Lord Davies was also highly complimentary about UKTI's work saying that in his experience UKTI "does a great job. It produces £16 for every £1 invested; it is very focused and adding a great amount of value to the economy."[60]

47. In this section we explore three of the services which businesses mentioned most frequently to us in their evidence; the Overseas Market Introduction Service (OMIS), the Passport to Export Scheme and the Tradeshow Access Programme (TAP).

Overseas Market Introduction Service

48. A traditional OMIS report provides individual companies with tailored advice and information about a market, and support to that company during an overseas visit. The service includes an analysis of possible market entry strategies and the identification of possible business partners. It can also include arranging for companies to meet with key contacts when visiting the overseas market. The service is normally accessed through a local adviser, based in the United Kingdom and then delivered by UKTI staff based in overseas markets. That said it can also be accessed directly through overseas staff. [61] The price of the service depends upon the exact nature of the request that is made and can range from a few hundred pounds up to £9,800.[62]

49. We saw during our visit to Paris and Milan that an OMIS can cover much more than the writing of a report on a potential market. It can also be used more broadly a mechanism for providing services to businesses and charging them for the use of Post resources. For example, if a company used a room in an Embassy to host an event the cost of the room hire would be charged to them as an OMIS. We saw particularly innovative uses of OMIS in Milan, where the mechanism was used to charge companies which had their products promoted at an evening with the singer Paulo Nutini. **We welcome the more innovative use of OMIS highlighted to us in Milan and recommend that this creative approach be disseminated across UKTI on the basis of best practice.**

50. Industry's opinion as to the value of a traditional OMIS report has been mixed. According to the NAO, 69% of customers who commissioned an OMIS were satisfied with

59 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, p21. Although this was short of their target of 80% customer satisfaction.

60 Q197

61 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, p11

62 https://www.uktradeinvest.gov.uk/

the service they received and 55% felt that it had helped improve their business performance.[63] Sir Andrew Cahn (UKTI) told us that "OMIS reports are highly valued by our customers" and that "they add a great value to British exporting."[64] However, the Sponsors' Alliance was concerned about the variable quality of OMIS reports: "feedback from exporters regularly suggests that the quality of OMIS reports is variable and often does not meet customers' expectations."[65] This view was repeated during oral evidence: "There is excellence and there is poor quality."[66] Mr Scott of the CBI agreed with this view, saying "clearly the quality of them will vary and it will very much depend upon the knowledge and expertise of the individuals on the ground."[67]

51. In its supplementary memorandum UKTI explicitly addressed criticism about the varying quality of OMIS reports. It argued:

> In terms of inconsistency, these exist because Posts tailor their response very much to customer requirements. Also, conditions and business cultures vary from market to market so that in some places it takes very much longer to achieve the same result than in others. The amount of information easily available can also vary considerably between markets, even neighbouring ones. The view of what constitutes quality will also vary from company to company and individual to individual. Where differences or lack of customer focus cannot be justified, we are working hard to minimise problems and spread best practice.[68]

We hope that this assessment does not reflect institutional complacency. Any accusation of complacency could certainly not be applied to the many excellent UKTI staff we have met who have frankly identified, in private conversation, Posts which are simply underperforming.

52. Having seen a number of OMIS reports we can ourselves vouch for the fact that the quality can vary widely.[69] We have seen some extremely detailed and well researched pieces of work that provided a great deal of information and the contact details of key decision makers in potential business partners. However this is not always the case and other reports we have seen contained little extra information beyond what a quick search on the internet would reveal. While we understand that each OMIS presents UKTI with a different challenge such extreme variation in quality is unacceptable, especially given that businesses are paying for this service.

53. **A well written OMIS can, and often does, provide businesses with a wealth of opportunities to take advantage of, while a poor one is a costly waste of a company's time and money and a disincentive for first time users to commission future reports. While we understand that complete uniformity in the quality of the product is not**

63 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, p21

64 Q 228

65 Ev 134

66 Q 310

67 Q 312 [Mr Scott]

68 Ev 72

69 The OMIS reports seen by the Committee were done so under the conditional of commercial confidentiality and therefore have not been reproduced in the evidence volume.

possible to achieve, the current gulf between the best and the worst is too wide. UKTI needs to take steps honestly to address performance in its Posts where business is providing negative feedback on the support they are given. If poor quality is due partly to companies commissioning vague and unfocused reports, UKTI needs to be more willing to recommend that businesses not use this service when it believes they would be able to add little value to a company's operations—a recommendation there may be disincentives to implement, given the target set for UKTI Posts.

Charging Policy

54. Perhaps unsurprisingly some industry representatives have been critical about the decision of UKTI to charge for its OMIS services. The Middle East Association argued that the practice of charging for OMIS reports increased the cost for SME exporters which would "only discourage potential exporters and reduce the competitiveness of established exporters". They recommended that, at a time when businesses are facing increased costs and reduced availability of credit the fees should, at least temporarily, be removed.[70] This point was echoed by the British Marine Federation which advocated "a significant reduction in fees for the Overseas Market Information Service be introduced in recognition of the difficult financial climate."[71] In oral evidence, Mr Josypenko, from the Sponsors' Alliance, went further:

> I would expect - and perhaps this is naive - a Post to give a general background overview on the market in relation to the sector as something free of charge, whether it is done as a physical piece of paper or as a briefing or as a report that is accessible on the UKTI website.[72]

Others, while not wanting charges abolished, recommended a change in the charging structure. The Midland World Trade Forum recommended that "the structure of OMIS […] should be reviewed—its upfront payment without guaranteed return makes it an unattractive commercial proposition to many companies."[73]

55. Lord Davies defended the decision to charge for OMIS reports, arguing that charging had "improved the performance culture"[74] in UKTI. "I know it is a small amount but it has had a profound impact on the culture and made people realise the value of their services. The team is very keen to maintain it."[75] This view was repeated by the UKTI staff we met in Milan, one of whom commented: "You want to make sure you're providing something of value when a business is paying for the work you do." The CBI also argued that charging for reports stopped companies making speculative requests. Mr Campkin remarked:

> The CBI has always supported charging as a filter mechanism and I think our members would feel that a reasonable charge which does not discourage them from

70 Ev 119

71 Ev 90

72 Q 315 [Mr Josypenko]

73 Ev 121

74 Q 227

75 Q 244

> doing what they wish to do in terms of market access and export opportunities makes sense. The debate is more to be had around the level and the quality and the value that you get for what you pay.[76]

The Department also made this point in its supplementary evidence. It noted that previously "companies were commissioning unpaid reports and contact lists from a number of Posts and then choosing one or not bothering to use them at all." Furthermore, the Department argued that a willingness to pay a charge demonstrated that a company was seriously interested in exporting.[77]

56. The National Audit Office report, *UK Trade and Investment: Trade Support*, investigated the current charging structure at UKTI. It concluded that the organisation "lacks clarity on the objectives governing the charges it makes for its services." It continued: "we found a lack of clarity in the financial objectives related to each of the UK Trade and Investment's services, such as those that should be subsidised, by how much; and those which should be subject to full cost recovery."[78]

57. The NAO was also of the opinion that previous estimates of how much of its costs UKTI recovered were incorrect. The audited account for 2007–08 indicated that 70% of costs incurred were recovered through fees. Subsequent work by UKTI has estimated that only 7% of the total OMIS costs and 33% of the marginal costs were recovered. This is probably due to the delivery of OMIS services requiring more time than was initially predicted when the OMIS was commissioned. There is also a belief that there was a reluctance by staff to quote the actual cost when the commission has been fully worked out. UKTI has said that it encourages staff and managers to ensure that the costs charged reflect the time involved but believed that it will be some years before it will be able to routinely recover the full marginal cost of its OMIS service.[79]

58. **We agree with the NAO that there is a lack of clarity about the aim of UKTI's charging structure. However we do not believe that UKTI should aim for full cost recovery, but instead that charges should be set at a level that is of the most benefit to UK companies and the economy as a whole. This means the charge should be as high as is required to discourage speculative requests and no higher. In the long term the additional taxable revenue generated will more than cover the cost of providing the initial service. We also believe that there is scope for UKTI to be more creative in the way it uses the charging system. For example, a lower price could be charged to companies that wish to export into priority markets to encourage them to do so. Cost recovery should be an incentive to both UKTI staff and those who commission the report to use them effectively. They should not be a Treasury-driven way of reducing the costs of UKTI.**

76 Q 315 [Mr Campkin]

77 Ev 72

78 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, para 11

79 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, para 2.23 – 2.24

OMIS Targets

59. As part of the last Comprehensive Spending Review settlement UKTI agreed with the Treasury to increase its revenue from £2 million per annum in 2007–08 to £4 million in 2010-11. UKTI then set revenue targets for its Posts based on this agreement. As we have already indicated we are unhappy with this approach.[80]

60. Companies have argued that the existence of OMIS targets have had a distorting effect on the services that UKTI provide, and that they also impact upon the ability of staff to get out of their offices and network with key contacts on the ground. When we explored this issue with Mr Scott of the CBI he said that this was a "real risk":

> [If UKTI] are driven by delivering a certain number to meet a certain target that has to be at the expense of something else [...] those Posts have a key role in terms of the market intelligence, the networking opportunities and the proactive identification of where there are some emerging trends which they can then be cascading back into the business community in the UK. [81]

The British Chambers of Commerce's written evidence made a similar point about the target driven nature of some of UKTI's work. It believed "such targets clearly stand in the way of staff getting on with the day to day task of helping businesses export, and serve to cloud serious analysis of UKTI's successes and failures."[82]

61. Some UKTI staff also raised the issue of targets during our visit to UKTI's operations in the Middle East. The officials told us that OMIS reports were valued by their customers, but that the work was excessively target driven and that efforts to meet revenue targets for OMIS meant that staff had less time to spend out in the business community.

62. When we put these concerns to Sir Andrew, Chief Executive of UKTI, he replied that the problem had been "overstated"[83] and that OMIS reports were built upon networking and knowledge of the local markets. In particular, he believed that to gain such knowledge staff needed to leave the office and interact with local businesses.[84]

63. The Sponsors' Alliance raised a specific criticism that the OMIS targets had led to the "forced sales" of OMIS reports in connection with overseas events. When we explored with Mr Josypenko how the process of forced sales worked in practice, he explained:

> If an association wants to do a trade mission in a particular market, an important element of that would normally be a briefing in the market and usually a reception or some sort of event, preferably at the Embassy where possible, so the organising body will be asked to commission an OMIS to cover the Embassy's time both for room hire and organisational costs, and quite often they will be asked to commission another OMIS for the formalities of identifying and inviting guests to attend an

80 See paragraph 57 forward.

81 Q 312 Mr [Scott]

82 Ev 82

83 Q 229

84 Q 228

> event. The feedback we have had in many instances is that does not provide very good value for money, but the organiser is quite often in the situation where they feel obliged to do it as part of the process.

He continued:

> I had an instance given to me yesterday by one of my members based around an exhibition where they have historically brought in a commercial officer from the local Embassy on the eve of the exhibition to do a sector specific briefing to the companies who are in their group at that exhibition. Five years ago that would have been done free of charge by the commercial officer. Up until recently they charged £250. Now they are charging up to £500 for what is effectively a 20-minute briefing in a room which is already being paid for by the trade association at an exhibition. Effectively the trade association is inviting in the commercial officer to meet those companies to give him sales opportunities to produce OMIS reports and they are being charged a substantial amount of money for 20 minutes' time.[85]

In its supplementary evidence UKTI provided the following defence of its decision to charge for such services.

> We charge for time in organising and participating in receptions IF they are appropriate to the market and sector and IF the organiser wants one, because a proper focussed reception requires the presence of potential customers and intermediaries relevant to the missioners business objectives. This entails a level of research and effort in putting the right people together, equivalent to researching contacts.[86]

64. This disagreement appears to stem from the new definition of what constitutes an OMIS, which now covers a wider range of activity than previously was the case. UKTI operations that we have visited made clear to us that they viewed OMIS as a charging mechanism for their time and resource, whether or not it involved the production of a formal report. It also partly reflects UKTI's new policy of charging "for most activities overseas where a private company or group of companies stands to profit from the help it provides."[87]

65. **We do not believe that there should be a fundamental tension between the need for staff to meet centrally-set targets for OMIS revenue and their ability to network and make contacts with local businesses. Indeed without those contacts OMIS reports would be of a much poorer quality. However we are alert to the pressures on UKTI staff and the fact that OMIS targets have the potential to trap staff behind their desks and skew their priorities. We recommend that the Department monitor this issue and where necessary, empower UKTI management to intervene and ensure that staff workloads do not prevent them from developing the local and sector knowledge necessary for them to provide a vital aspect of UKTI service.**

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85 Q 314

86 Ev 72

87 Ev 72

Passport to Export

66. The Passport to Export scheme supports first-time exporters, providing them with a broad range of services including: free capability assessments, support during visits to potential markets, mentoring from a local export professional, free action plans, customised and subsidised training, and ongoing support once they have established themselves in the market.[88] The scheme has received a 90% quality rating from businesses that used it.[89] This positive evaluation was reflected in the written evidence we received. For example the Sponsors' Alliance described the scheme as an "excellent service, providing a systematic approach to ongoing mentoring."[90]

67. The scheme is only available to new exporters and does not provide assistance to help existing SME exporters expand into new markets and sectors.[91] This restriction leaves an important gap in the current service provisions, especially given UKTI's focus on high growth emerging markets, an area where we are currently being out-performed by some of our key European competitors.[92] As we heard from the British Chambers of Commerce "so many businesses especially at the smaller and medium-sized end of the market find it easier and more comfortable to begin their exporting life in Europe or in North America".[93] This is a problem because SMEs which are first-time exporters do not automatically look for opportunities in the high growth countries which UKTI has designated as a priority.

68. In his appearance before us Lord Jones made clear the difficulties faced in getting business to consider these countries as potential markets for their products. Using the example of potential markets for UK exports in one Asian country he said:

> If you said to small businesses in Manchester, 'Tell me some exporting markets you think you could go at', a country with 160 million Muslims is not somewhere where they think of and yet it is teeming with people who are getting richer every day and who would love to buy our goods and services […] You have got a big job to do to get certain markets with huge potential onto the radar screen of the British business population.[94]

In addition businesses face a range of additional practical challenges when trying to export to unfamiliar high growth markets including: understanding the local business culture and language; coping with the distance; sourcing a reliable local partner, and developing products and services tailed to meet the specific needs of that market.[95] As one witness put

88 https://www.uktradeinvest.gov.uk/ukti

89 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, p20

90 Ev 131

91 Ev 83

92 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, para 1.3 and figure 1

93 Q 283 [Mr Marshall]

94 Q 103

95 "UK Trade and Investment: Trade Support" NAO Report, HC 297, April 2009, para 1.3

it “there are enormous obstacles and complexities that no new exporter ought to be faced with.”[96]

69. The Government has acknowledged this problem and in March 2009 launched its ‘Gateway to Global Growth’ package of support for experienced exporters—especially innovative SMEs—to diversify into new markets. The Gateway to Global Growth programme has received £3.5 million of funding. The Department’s memorandum describes the scheme as being “based on UKTI’s ‘Passport to Export’ programme for new exporters, but recognises the potentially more complex demands facing experienced exporters, especially those seeking to enter high growth markets for the first time, or to enter global supply/value chains.”[97]

70. When we asked business representatives about the scheme, they welcomed the intention but had some concerns about its implementation. Mr Marshall said that “our members have reported quite a bit of confusion about that programme. They say that in different regions of the country there are different levels of financing available or a different offering available. If that is intended to be the follow-on to Passport to Export a lot of members do not feel as if it is living up to that particular description.”[98]

71. **If UKTI is committed to increasing the number of companies exporting to its priority high growth markets it needs to accommodate all companies who are interested in entering those markets, regardless of whether or not they are new to exporting. We welcome the aims behind the “Gateway to Global Growth” programme but are concerned about reports from industry that it is not living up to its billing as a follow-on to the highly successful Passport to Export scheme. The Government should re-examine the support the Gateway provides to ensure it provides a properly tailored service to the needs of business. We invite the Government to provide more information about the operation of this scheme in its response to our report.**

Tradeshow Access Programme

72. The Tradeshow Access Programme (TAP) provides support for small and medium-sized enterprises to exhibit at trade shows overseas, either as part of business delegations or on an individual basis. Each delegation is led by an accredited trade organisation. In 2008–09, the TAP Group programme comprised of 416 events. Grant support is primarily aimed at new-to-export SMEs but established SMEs can apply if they are going to a trade fair where they have not recently exhibited. Grants range from £1,000 to £1,800. In the 12 months up to December 2008, 2,742 grants were awarded under this programme.[99]

73. Almost all evidence submitted by business groups to the Committee emphasised the importance of trade shows to their members. Equally they voiced their disappointment in the recent reductions in UKTI budget for tradeshow support. For example in its written submission the BCC stated that:

96 Q 283 [Mr Josypenko]

97 Ev 63

98 Q 295 [Mr Marshall]

99 “UK Trade and Investment: Trade Support” NAO Report, HC 297, April 2009, p11 and 23

> The Missions Programme takes exporters into potential markets and introduces them to potential customers. It has always been highly valued by businesses, who have found missions incredibly successful in helping them find new markets. However, funding for missions has been slashed by UKTI, and the current regional Market Visit Scheme does not give companies the wide range of dates for assisted market visits that they could have from access to a national scheme.[100]

74. In 2006–07, £10.5 million was available to help SMEs attend trade shows.[101] In 2008–09, this was reduced to £7.7 million.[102] The Energy Industries Council submission stated that "the Government has whittled down TAP funding over the past five years, to the point where it makes very little difference to our members."[103] The BCC argued that funding available for UK SMEs to attend tradeshows compared unfavourably with the UK's major competitors, describing it as "inconsistent, unreliable and falling."[104] The British Marine Federation argued that the "volume of administration" and "significant lead times" that SMEs face in accessing this funding discourages many from applying.[105] Several submissions set out the view that the reduction in funding for the TAP has led to a noticeable impact upon the representation of Britain at several key trade shows.[106]

75. The Government's supplementary evidence stated that £300,000 was added to the TAP 2009-10 budget of £8.2m in September 2009.[107] The Government also highlighted the fact the number of financial grants for which an individual company could apply had increased from three to six, subject to the grants being used in at least two markets.[108] We were told that the initial reasons for restricting the number was because "there were some companies who were, if you like, living on grants for years and years […] we wanted to attract more companies and I think we decided that perhaps we had tightened the screw a little bit too much."[109] We also note that some of the events being funded by the Strategic Investment Fund[110] (SIF), such as the £2.8 million being spent on showcase events, may help—at least temporarily—to address businesses' concerns about the lack of funding for trade show events.

76. We explored with Sir Andrew Cahn, Chief Executive of UKTI, how UKTI supported businesses in making the most effective use of trade shows. When questioned as to whether past performance at tradeshow gave companies an advantage in gaining future funding he replied: "No. If a company is eligible it is eligible. It is a good question and I do not think I

100 Ev 82

101 Under TAP's predecessor programme.

102 UKTI, *Annual Report and Accounts* 2008–09, p129

103 Ev 106

104 Ev 82

105 Ev 90

106 For example Ev 82

107 Ev 70

108 Ev 64

109 Q 241

110 Department for Business, Innovation and Skills, *The UK Strategic Investment Fund: Interim Report*, October 2009, section 6.7. See paragraph 108 forward for a fuller discussion.

have a very good answer for you. What we certainly do do is try and follow up on where we see things have not worked properly and try and change things."[111]

77. **Companies clearly feel that the Tradeshow Access Programme makes a valuable contribution to their ability to export successfully. However, given the current constraints on public finances it is difficult to recommend that the Programme's budget is increased. Rather we see an opportunity to make the use of existing resources more efficient by developing a better evaluation mechanism for determining future grants, the need for which was alluded to us by the Chief Executive of UKTI. We call on the Government to protect the existing levels of funding and to explore innovative ways of maximising the effective use of the resources allocated to this scheme.**

Gaps in current programme provision

78. As part of this inquiry we explored how the support the Government provides to its exporters compares with support offered by some of our main competitors. On the whole we were impressed by the UKTI system. Indeed, parts of the UKTI programme are seen as a model for other countries. However, we saw one scheme run by UBIFrance[112] which we think that UKTI could learn from—"Volontariat International en Entreprise" (VIE), which roughly translates as the international internship programme.

79. VIE places highly skilled recent graduates[113] in French companies that are operating abroad, and pays a proportion of their salary. Young people, up to the age of 28, can apply for internships working for SMEs. The programme has been running for five years and so far UBIFrance has received 40,000 applications to join it. At present, there are 6,366 young people on assignment in 139 countries. UBiFrance estimate that 11,500 SMEs have benefited from the programme.

80. We learnt about this programme rather late in the course of our inquiry and therefore have not had the chance to gather formally the opinion of industry or Government about the possibility or desirability of developing a similar scheme in the United Kingdom. However, our first impressions are favourable. VIE appears to provide highly skilled graduates with an entry into business in a way which is tailored to meet companies' needs and offers graduates valuable experience working both in the private sector and in a foreign country. **The Government should study VIE closely, identifying the benefits provided by the French system, and investigate the possibility of running a similar scheme in the United Kingdom.**

Monitoring the impact of programmes

81. UKTI has set up several mechanisms to monitor the impact of its programmes on business performance. Since July 2005, the main system of monitoring is through a quarterly Performance and Impact Monitoring Survey (PIMS). Each year, approximately 3,400 businesses are randomly sampled some four to seven months after they have used a

111 Q 242

112 The French export promotion service.

113 Not limited to French graduates.

specific service. A smaller sample of 400 are contacted again a year later for a follow up interview.[114] The results of these questionnaires form the basis of the PIMS reports.

82. These interviews attempt both to measure whether UKTI services have improved the performance of businesses, and also to assess the financial benefit businesses received as a result of these services. UKTI classifies a business as having improved its performance if they:

- Expect that in five years time the support will have had a positive impact on their productivity (in terms of sales per employee); and
- Expect a positive impact on the profitability of the firm (in terms of the proportion of turnover accounted for by profit), and
- Expect to either win new orders, be invited to tender or quote for work or see a 'significant increase' in total sales as a result of the support.[115]

83. The PIMS questionnaire also asks for information about the financial benefit that UKTI services have delivered. This is how the often quoted figure of a "£16 return for every £1 spent" has been calculated.[116] However, the NAO had concerns about this figure. Referring to the 2007–08 cost ratio the NAO noted that:

> The underlying survey data demonstrates that 29 per cent either did not know or declined to provide an estimate [of direct financial benefit] […] and 41 per cent forecast no financial benefit.[117]

This suggests that UKTI is not getting a complete picture of the benefits of its services to users. In some cases this may be because not enough time has elapsed to allow businesses to fully realise the impact of the support they had received.

84. The NAO's analysis of the survey data also highlights an interesting point about the additionality achieved by the range of services offered. When asked "Do you think you would probably or definitely achieve similar results without UK Trade & Investment support?", almost half replied either "yes" (19%) or "yes but not as quickly" (27%). SMEs perceived a higher level of additionality than larger businesses, possibly because SMEs tend to have less experience in working in overseas markets.[118]

85. While these figures are interesting we believe that they should be treated with caution. It will always be difficult to accurately assign responsibility for new business between UKTI and the businesses they support. Precise figures which assign an exact figure to UKTI support should always be treated with a degree of scepticism. Judging the benefit that UKTI adds to a company will necessarily be more of an art than a science.

114 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, para 2.5

115 "NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, Table 5

116 See paragraph 28.

117 NAO, *UK Trade and Investment: Trade Support*, HC 297, April 2009, para 2.25

118 "UK Trade and Investment: Trade Support" NAO Report, HC 297, April 2009, para 2.23

86. We explored the difficulties of measuring the financial impact of UKTI services with officials during our visits to UKTI Posts. We were told that there was no systemic monitoring of additional revenue that businesses received beyond the PIMS mechanism. Furthermore companies were not required to inform UKTI about any additional business they secured as a result of the support they received. We discussed the possibility of requiring all companies to report back to UKTI on the financial benefit of their services as part of the initial agreement to commission support from UKTI. The staff we talked to were supportive of this idea and believed it would give them a better understanding of the effectiveness of their work.

87. **We believe that the effectiveness of UKTI support to companies must be, as much as possible, measured by its "bottom line" impact, that is the direct additional financial benefit to companies—and to the United Kingdom—as a result of the services that they received. Being able to demonstrate more fully the value it adds to companies activities will help UKTI defend its budgets during continuing pressure on public finances. We therefore recommend that businesses who use UKTI services should be required to keep UKTI updated about the benefit that they receive, over the medium term as part of the agreement they enter into when using UKTI services. This should not have to be an onerous process, a short e-mail or phone call to their UKTI contact after a successful business deal had been signed would be sufficient. We also recommend that the timescale of the PIMS system is lengthened to allow companies responding the time to realise the full impact of the support they have received. Done well, this process should also enhance relationships between UKTI and the businesses using its services.**

Delivery of programmes

88. The delivery of many UKTI regional services within the United Kingdom is contracted out to other organisations. Traditionally this was a role played by the local Chamber of Commerce, but more recently contracts have been awarded to "bodies which are closer to government."[119] The British Chambers of Commerce (BCC) argued that the effect of this change was to "take trade services from a single roof which employers knew and understood [and] spread them among many different organisations."[120] In Devon, Cornwall and Somerset, UKTI regional services are now delivered by Serco, which also provides services to local government and the private sector in the following areas: home affairs, defence, science, nuclear, health, education, welfare to work, and IT.[121] In its supplementary memorandum, the Government set out its partnership arrangements with the private sector and describes how those partnerships provided the benefits of a business perspective, increased credibility and innovative working methods:

> In UKTI's English regional network we have a private sector delivery partner in each of the nine regions which employs more than 300 people in international trade teams (including International Trade Advisers) who are deployed on UKTI work. While UKTI offers a national suite of services, our advisers work with businesses locally to

119 Ev 83

120 Ev 83

121 http://www.serco.com/about/ataglance/index.asp

> develop a deep understanding of the diverse range of business needs that exist across the English regions.

In each region UKTI seeks delivery partners that have a capability to deliver for UKTI, can generate synergy with other business support services and offer value for money. […] UKTI will select the best value suppliers i.e. the best quality at the most competitive price, to work with. [122]

89. The Government should obviously award contracts to those organisations which can provide highest quality services at the best possible price. This will not necessarily always be local Chambers of Commerce, especially in areas where the Chamber movement is less well developed, as is the case in the South West. However, there are many advantages to local Chambers acting as UKTI's primary delivery partner. Local Chambers provide businesses with one location to access these and other services, and they are already established in the locality. Local Chambers are also in a position to use their knowledge of local businesses to promote UKTI's services more effectively. While we have no doubt that private companies, such as Serco, are very effective administrators, it is clear to us that UKTI would benefit from having its UK-based operations delivered by an organisation that has detailed knowledge of, and regular contact with, local businesses.

90. **Value for money and high quality services should be the criteria used by UKTI when it awards contracts for its UK operations. However a partner with knowledge of local businesses and ability to promote UKTI service to the widest possible range of companies—such as a Chamber of Commerce—will be able to add a great deal of value to UKTI UK-based operations. These are considerations that UKTI should bear in mind when deciding who to partner with for local service delivery. We also believe that the Government should seek to strengthen local Chambers as a matter of policy.**

Staff costs

91. UKTI currently employs 2,400 staff, of which 1,400 of which are based overseas.[123] Some groups have questioned the relative amounts spent on direct business support and staff costs. Sponsors' Alliance argued that its analysis of UKTI's overall operating costs for the 2007–08 budget year revealed that staff costs for directly employed staff (by BIS and FCO) "amounted to approximately £63 million, with an additional £16.4 million to maintain the International Trade Teams in the English regions, plus a further £0.5 million for international business specialists, seconded from industry."[124] Administrative and overhead costs, both in the UK and overseas, accounted for a further £144.1 million. According to Sponsors' Alliance:

> Altogether, UKTI staff, administrative and overheads expenses amount to approximately £224 million, which is around 76% of its overall operating budget […]

122 Ev 71

123 Q 223

124 Ev 131

> UKTI spent less than £1 in £9 of its overall operating budget on direct customer-facing international business schemes in 2007–08.[125]

92. Mr Josypenko reiterated this point in oral evidence: "UKTI is very intensive in staff and overheads costs and it seems to me that the proportion is wrong. The figure I heard most recently is that the amount of UKTI budget that goes to business schemes which directly benefit exporters is in the region of £30 million for the year just passed, out of a budget of £320 million."

93. When we asked the Department to comment on these figures we received the following reply:

> Mr Josypenko is contrasting a figure for programme spend (£30 million) which relates to his definition of direct support (Trade Access Programme, Passports etc) against the total resource consumed by UKTI (£323 million). UKTI's total budget of £323 million is split between Trade Services £250 million and Foreign Direct Investment £73 million.
>
> UKTI's Departmental Report and Resource Accounts 2008–09 (HC 482) show that direct support to business on trade support amounted to £201 million (this figure excludes BIS admin). [126]

The Government also argued that 90% of all UKTI staff were either working overseas, in the regions or engaged in "customer-facing work" at their Headquarters, and that there had been a 40% reduction in HQ (that are London-based) staff since 2004.[127]

94. Having seen for ourselves the services that UKTI provides we agree that it is very staff intensive. The on-the-ground contacts, knowledge and mentoring services that UK businesses value require the UKTI operations to have significant numbers of staff to research and provide this information. This is especially true of the traditional OMIS reports and the Passport to Export mentoring programme.

95. Given the value that business place on these services, which require a significant number of staff to be on the ground in overseas markets, resources need to be, where possible, concentrated in those Posts. However, care must be taken to ensure that efficiency savings result in real efficiencies. Too often, short sighted attempts to make savings lead to a unforeseen long terms costs. For example, in Italy we saw that reductions in the numbers of support staff had forced highly skilled, front-line staff to fulfil functions such as office cleaning, reducing the time they spent supporting businesses.

96. **In the current climate of constrained public finances it is especially important that the maximum possible amount of resource is directed to front-line services. However, we do not believe that wasteful spending exists to the extent suggested by some of our witnesses. Neither do we believe that UKTI needs to fundamentally re-evaluate the balance it strikes between direct cash support it provides to business and the amount it**

125 Ev 132

126 Ev 71

127 Ev 71

spends on staff, the majority of whom deliver front line services to companies. However changes imposed on UKTI have played their part in creating a top-heavy bureaucracy which is now being slimmed down. This process must continue—the evidence we have heard suggests that the real value to British business of UKTI is its presence at the local level both in the UK and overseas.

The FCO estate

97. We are also concerned about pressure from the Treasury for the FCO to sell those of its embassies in high profile locations in an attempt to reduce costs. Selling these buildings would not only represent a downgrading of the UK's presence overseas but would sacrifice an important weapon in UKTI's arsenal. The ability of UKTI to offer companies the opportunity to host meetings and events in such impressive locations can make a real difference to their ability to win new business.

98. The importance of these buildings was brought home to us during our visit to Paris. The location and grandeur of the Embassy is seen as an incentive for people to attend UKTI meetings and functions held there. In this way the Embassy acts as an asset which allows the excellent UKTI staff in Paris to sell the United Kingdom more effectively. Without it, it would be more difficult for UKTI to reach its intended audience.

99. **In the current financial situation there will naturally be the desire to reduce expenditure and make savings. However, to do so by selling parts of the FCO estate, especially those based in such prestigious surroundings, would be a short sighted decision and in the long run could cost UK plc much more than was saved.**

5 Work of UKTI: Responding to the recession

100. The global recession has obviously had a highly detrimental impact on global trade flows. Therefore a continuation of UKTI's normal operations would not have been a sufficient response to these extraordinary market conditions. The Government has acknowledged this and has allocated £10 million from the Strategic Investment Fund to bolster the resources available for trade promotion. In addition, UKTI launched its Fiscal Stimulus Initiative to help British businesses take advantage of the recovery packages launched by many countries in response to the global economic downturn.

Fiscal Stimulus Initiative

101. In April 2009, the UKTI published *Introducing the Specialist Network*, which set out details of its Fiscal Stimulus Initiative, initially called the Fiscal Compass Programme, which was described as its "response to the global economic downturn,"[128] UKTI explained the programme as follows:

> In difficult times, businesses need to be flexible and innovative and seek out opportunities where they exist. Fiscal stimulus packages and major spending programmes are being announced around the world, which will create global supply chain opportunities for UK firms. UK Trade & Investment has recognised this and has enhanced its support by focusing a team of nine Business Specialists to help companies of all sizes to identify these opportunities.[129]

The Programme identified nine markets—Australia, Brazil, China, France, Germany, India, Saudi Arabia, Spain and the USA—in which it would focus its efforts. Lord Davies said that the aim was to support a thousand companies by March 2010.[130]

102. When we questioned Lord Davies about the progress towards that figure, he told us that "I think we have had over 200 enquiries from companies that want advice and access to some of the fiscal stimulus programmes around the world. Launched in March; early days; but so far so good."[131]

103. While we support the aim of this new initiative we have concerns over the way it has been managed. In particular the name change from Fiscal Compass to Fiscal Stimulus Initiative is not helpful and the lack of clear branding makes it more difficult for UK businesses to effectively engage with the programme.

104. **We support the aim of the Fiscal Stimulus Initiative to help British businesses benefit from other countries' fiscal stimulus packages. However, we believe that creating another new programme, separately identified, contributes to the bloated pool**

128 www.pera.com

129 www.pera.com

130 Q 219

131 Q 219

of existing programmes. UKTI should simply have shifted resources on a short-term basis to markets where new opportunities have been created. We invite the Government to provide us with a progress report on its aim to support a thousand companies by March 2010, given that this is now only two months away. We remind the Government and UKTI that to the greatest possible extent the British business community needs and requires simplicity in UKTI programmes to engage effectively with them.

Strategic Investment Fund

105. The April 2009 Budget Report announced the establishment of a £750 million Strategic Investment Fund (SIF). The aim of the Fund was to "support advanced industrial projects of strategic importance to the United Kingdom's economic renewal and future growth, [and] to help ensure that the United Kingdom is able to emerge from the economic downturn in a globally competitive position".[132] Out of that £750 million, £10 million was earmarked for UKTI. The recent interim report on the Strategic Investment Fund, said that UKTI was using this funding to "help UK businesses better showcase their strengths to overseas customers and markets."[133] All projects are expected to meet the following criteria:

- High value and visibility to UK business;
- Early impact with strong legacy which the private sector can run with;
- Directly related to the *New Industry, New Jobs* strategy;
- Leverage multiplying effects from partners to reach the widest possible audience.[134]

When he appeared before the Committee, Sir Andrew Cahn emphasised the importance of the second criteria saying that UKTI "wanted to ensure that we did not set up a scheme which would fall off a cliff in two years' time. We tried to find activities which will have a real impact on British exporters and inward investors during the recession and as we come out of it, but which we can stop in two years' time."[135]

106. So far UKTI has made the following spending commitments from this fund:

- Up to £1 million (with potential to leverage £300, 000 from the private sector) for a major security sector event in February 2010, building on the success model offered by the Farnborough International Air Show;
- A further package of up to £2.8 million for events across the spectrum of New Industry New Jobs (NINJ) sectors (advanced engineering, creative industries, energy, low carbon, construction, ICT and financial services) starting in September

132 Department for Business, Enterprise & Regulatory Reform, Annual Report and Accounts 2008–09, HC 447.July 2009, para 1.16

133 Department for Business, Innovation and Skills, *The UK Strategic Investment Fund: Interim Report,* October 2009, section 6.7

134 Department for Business, Innovation and Skills, *The UK Strategic Investment Fund: Interim Report,* October 2009, section 6.7

135 Q 216 [Sir Andrew Cahn]

2009 with London Fashion Week and the London Design Festival. Other events include a showcase for the advanced engineering sector in Brazil in October, Technology World in Coventry in November and a consumer electronics show in the USA in January 2010;

- As part of the suite of actions being coordinated by the Office for Life Sciences, an investment of up to £1 million over two years to promote UK life sciences and the NHS at flagship events in the UK and overseas. UKTI will hold a new high-level technology partnering event later in 2010 that will bring life sciences decision-makers to the UK;
- Enhanced showcase marketing of up to £1 million to support the sectors events and extend the Take it to the World campaign which encourages UK businesses to export;
- Other projects being developed include a global network of around one thousand influential voices to promote the reputation of the UK for innovation and creativity, and an enhanced foreign direct investment (FDI) aftercare service in key sectors and across the English regions to nurture opportunities for further FDI;
- Beyond this, in 2010–11, a further package of up to £2.5 million for sector-based showcase events.[136]

107. When asked how he planned to deploy this additional investment, Sir Andrew Cahn highlighted three projects as being of particular importance: the Security Sector Trade Show, UK Global Connections (previously called Global Britons Network) and the increased funding for marketing activities. We discuss these three programmes in detail during the remainder of this chapter.

Security Sector Trade Show

108. The first initiative is the creation of a trade show for the security sector modelled on the Farnborough Air Show for the Defence/Aerospace sector,[137] to be first held in March 2010.[138] The Department has set aside £1 million (including money leveraged from the private sector) for the establishment and running of the event over its first two years.[139] The Government hopes the event will be self-sustaining after that period.[140]

109. Sir Andrew Cahn justified the decision to spend this money on the security sector by arguing that it was "one of the sectors where Britain is particularly strong—in fact globally leading." He believed that although the industry was growing rapidly, there was still "huge demand" for this kind of event and that the Department could "do better for the sector."[141]

136 Department for Business, Innovation and Skills, *The UK Strategic Investment Fund: Interim Report*, October 2009, section 6.7

137 Q 216 [Sir Andrew Cahn]

138 Ev 73

139 Ev 73

140 Q 216 [Sir Andrew Cahn]

141 Q 216 [Sir Andrew Cahn]

110. However, industry representatives we spoke to were less convinced about the need for Government to support an event in a sector they regarded as already being well served:

> I think we would have a concern which is that there are so many big shows in the security sector specifically and there already is an established annual agenda of trade fairs and things like that in that particular industry. […] There may have been indeed other sectors or other areas which were under-served where that money could have been better spent.[142]

Furthermore, our witnesses were unable to give a view of whether or not the event could become self-financing in two years.[143]

111. **We are puzzled by UKTI's decision to spend a sizeable proportion of its Strategic Investment Fund Money to create a trade show for the security sector when there already exist a range of events that fulfil this function. The Government has yet to convince us that is a sensible use of the Strategic Investment Fund. We recommend that it sets out in detail the rationale behind this decision and provides the assumptions underpinning the assertion that this event will become self-funding within two years.**

UK Global Connections

112. A second initiative—"UK Global Connections"—will also be funded by the Strategic Investment Fund. During oral evidence Sir Andrew Cahn described it as a network that would tap:

> the thousands of people around the world—business people and people doing other things—who are Britons living overseas but are friendly and want to help Britain; and also to those who are foreigners who are alumni of our universities or our schools and who are friendly to us.[144]

The Department expanded on this rather vague description in its supplementary evidence, saying that it intended to create:

> a new global network of people who have real influence and are willing to work with us in promoting the benefits of the UK as a great place to do business. […] The network will make it easier for UKTI people to spot and deploy capable partners, from the network, willing to work with us as speakers at our events, mentors to new exporters or inward investors, people who can enable business opportunities or influencers who can make the things we want to see happen.[145]

113. The specific objects of the network will be to:

- Improve the UK's reputation as the international business partner of choice;

142 Q 329 [Mr Marshall]

143 Q 334

144 Q 216 [Sir Andrew Cahn]

145 Ev 73

- Attract high value foreign direct investment to the UK by communicating the strengths of the UK as a place to do business; and
- Help UK businesses internationalise by:
  - Sharing market insight & best practice;
  - Signposting and facilitating key contacts, and
  - Identifying/encouraging/generating offers that facilitate exports.[146]

114. Network members would become part of a database used by UKTI staff to identify speakers for key events, participants in round table discussions with potential overseas buyers or inward investors, and mentors for less experienced companies. The Government's memorandum stated that individuals who join the network would be expected to participate in at least two activities each year.

115. Members of the network would be provided with facts about the United Kingdom and encouraged to use these facts informally, for example when talking to usual business contacts. The Government hopes that the network's members would use these informal conversations to promote the United Kingdom as the business location of choice. While not limited itself to specific markets or sectors UKTI says that it will "seek to focus network member activities in priority areas—particularly linked to the New Industry New Jobs agenda and priority market."[147]

116. The network is due to be launched early in 2010 and the Department aims to have around 100 members initially, expanding to between 500–1,000 members by September 2010. The Department told us that initial member nominations had been sought and that initial invitations to join the network would be sent out in December. The main costs for the set up and ongoing operation of the network would be the creation and maintenance of a web portal for network members, the cost of which would not exceed £75,000. It would also have a small secretariat of around two or three people.[148]

117. Perhaps because this initiative has yet to be fully implemented, none of the business representatives we spoke to were aware of the programme.[149] However, Mr Marshall raised concerns that some of the network's objectives were already being achieved through programmes run by the Chambers of Commerce and that there was a risk of duplication:

> as Chambers of Commerce, we have a recognised brand and we are in cities, towns and countries around the world already… [This network already exists] in a variety of ways and we are running programmes already, such as Link to China, which I mentioned earlier, which would accomplish the goals of this new scheme without setting up something additional.

146 Ev 73

147 Ev 73

148 Ev 74

149 Q 334

We have to question what this scheme adds to UKTI's existing range of initiatives. It appears to be duplicating work which is already being done by the British Trade Ambassadors,[150] which seeks to use high profile British businessmen, academics and others to promote the United Kingdom as a place to do business.

118. **The UK Global Connections initiative is still in its infancy and therefore we are unable to judge its contribution to trade promotion. That said, we are not convinced that this scheme will address a real gap in the current programme offered by other organisations, and are uncertain what value it will add to the UK's trade promotion activities. Between them the British Trade Ambassadors and existing bilateral chambers of trade should provide precisely the networks which are needed. We see no need to reinvent the wheel.**

Marketing Campaign

119. Increasing the awareness of the work of UKTI is of critical importance. The NAO's report states that UKTI's own research "indicates that large numbers of existing exporters are not aware that [UKTI] exists or are not convinced of the potential benefits from any external assistance, suggesting that many businesses have yet to access the services provided by UK Trade & Investment."[151] The CBI echoed this point remarking that "a cry we often hear, particularly from small and medium-sized companies is that, 'I just didn't know that this was a service which was available to me'."[152] We also heard anecdotal evidence which supports this view. One company we spoke to learned about the services available to him only when UKTI moved into a neighbouring office. Another discovered UKTI after selling a bench to the British Embassy in Paris.

120. The Government has acknowledged the problems it faces in marketing the services UKTI provides more effectively. Lord Davies told the Committee that he did not think UKTI "should be defensive" about this challenge:

> It is a hugely difficult task to cover over four million SMEs, whether you are an RDA or UKTI. I think there is closer and closer partnership […] We had to spread the message through our regional offices and through the RDAs that small businesses can export and can do it without having to travel the world searching for markets. […] We need to find better ways continuously of bringing opportunities to small companies, and that is exactly what we are doing.[153]

121. Some business were critical about how UKTI promotes itself. The Manufacturing Technologies Association described the UKTI's marketing campaign as "seemingly generalised and unfocussed."[154] The Association mentioned "one member recently reported seeing an UKTI billboard advertisement on a suburban railway platform in North London—it was unclear to what purpose."[155] The Committee was shown an example of

150 See paragraphs 23 forward.

151 NAO, *UK Trade and Investment: Trade Support*, April 2009, HC 297, para 2.42

152 Q 340

153 Q 217

154 Ev 117

155 Ev 117

UKTI's "Take it to the world" poster by Mr Josypenko, who commented that it had appeared "on railway stations, outside airports, on the sides of taxis."[156] Mr Marshall remarked that "Looking at it, you probably would wonder exactly what it was referring to sometimes."[157]

122. Our witnesses were not entirely critical of UKTI marketing methods. They noted that adverts had also appeared in trade magazines which they believed to be a much more focused use of resources. However there was a consensus that by far the most effective way to raise awareness of UKTI was for UKTI staff to get in front of business and tell them what support was available. Mr Scott's of the CBI, opinion was that:

> one of the most effective ways [of raising awareness] is just physically getting in front of as many SMEs as you can, explaining what those services are, answering their questions which they will legitimately have, such as, "How do I go about doing this? How does this fit with that? How does the whole jigsaw come together?" and that direct interface is actually often one of the most effective ways.[158]

He acknowledged that this was quite resource-intensive but said that the additional resources that were being dedicated to marketing out of the SIF provided an opportunity to take this work forward.

123. **We welcome the Department's decision to allocate more resources to increase awareness of UKTI's services amongst businesses, as there are clearly many businesses that are unaware of the help that is available to them. However, we believe this money should be used to develop a more carefully targeted communication programme, including sending UKTI staff to meet business rather than buying poorly-targeted advertising space to spread unfocused generalised messages.**

124. We also heard complaints that UKTI was too reactive; it depended on companies asking UKTI to investigate a market for them. Rarely does UKTI contact businesses when it sees an opportunity for them to make inroads into a foreign market. Mr Scott commented that the CBI "would particularly like to see UKTI—and it has been doing some of this—being more proactive in identifying individual business opportunities in the market rather than necessarily always responding to the individual project base or individual target as set for an individual company and looking much more at emerging opportunities and being more proactive in that."[159]

125. This may be starting to change. The Fiscal Stimulus Initiative appears to be a more proactive scheme than existing UKTI schemes—but a new initiative and acronym should not have been needed to achieve this. We also saw some innovative practices in Milan, where Commercial Officers were contacting firms and offering to write them a report on a "no win, no fee" basis, whereby the company would only pay for the report if it led to a meeting. That said we are sure that the enterprising approach we saw in Milan is not the

156 Q 337 [Mr Josypenko]

157 Q 338

158 Q 340 [Mr Scott]

159 Q 282 [Mr Scott]

exception to the rule and that many other Posts are engaged in similarly innovative activities.

126. **In addition to raising awareness of the services business can request UKTI needs to be more proactive in alerting companies to opportunities in their markets. We saw some promising new activities in Milan, we recommend that the best practice exemplified in Milan—and what we are confident is being developed in other UKTI Posts—is disseminated across the organisation.**

UKTI's administration of Strategic Investment Fund support

127. The Government's decision to use some of the Strategic Investment Fund to bolster the funding of UKTI rightly reflects the importance of exports for the UK's economic recovery. It should also be seen by UKTI staff as a vote of confidence in the work they do. However, as we have already discussed, we have concerns about the way that UKTI has decided to deploy those additional resources.

128. UKTI does not seem to have properly consulted industry when deciding how this new money would be best deployed:

> To the extent that UKTI came to us specifically and said, 'We have £5 million each year. How would you wish us to spend that?', it was not actually presented in quite that way, no.[160]

> […] we did not have any opportunity to consult UKTI on what was happening with this money.[161]

Mr Marshall was more sympathetic. He acknowledged that UKTI had been given very little time to decide how to spend those new resources and that a lengthy consultation process could have delayed their deployment or resulted in the money being too thinly spread:

> I think that UKTI, to be fair to them, were caught in a very difficult position here. They were given a small amount of additional money which they were then asked to prioritise very quickly and try to get spent reasonably quickly as well. Had they done a very wide consultation, they might have put little pots of money in a variety of different areas where they would not have been able to have a very big overall impact […].[162]

129. That said, UKTI does not appear to have succeeded in informing business which initiatives would be supported by this funding once the decision was made. We were unable to gain a clear understanding about exactly how this money was being spent until relatively late in the course of the inquiry. Some groups we spoke to were not aware of this additional funding until we mentioned it to them. This was certainly the case with the Chairman of the Sponsors' Alliance who told us that:

160 Q 324 [Mr Scott]

161 Q 328

162 Q 331 [Mr Marshall]

> one of the things we [the Sponsors' Alliance] do want to take up with UKTI is that we still have not seen a formal confirmation of exactly where the money is going.[163]

Speaking specifically about the decision to establish a security sector trade show, Mr Josypenko reported that a colleague who represents the main trade association for the security industry reported that he or they had no knowledge of UKTI's decision on that issue.[164]

130. We asked business representatives how they would have spent the money had they been able to make the decision. There was a consensus from the panel that the £10 million would have been better spent on doing existing things better rather than doing new things.[165] For example Mr Josypenko noted that the Tradeshow Access Programme could have been used to quickly disperse the additional money in a way that would directly benefit small businesses. He asserted that such a decision could have been "implemented within a matter of weeks".[166] He also remarked that the size of TAP grants, on average £1,000–£2,000, meant that a relatively small increase in funding could have supported a large number of additional businesses.[167]

131. **We have already highlighted in this Report the importance of UKTI listening to its customers when deciding how to prioritise its activities and deploy its resources. But this appears not to have happened in the case of the allocation of funds from the Strategic Investment Fund. While we understand the need to deploy resources quickly in some cases the haste with which decisions were taken has resulted in poor choices being made. This could have been avoided if UKTI had properly consulted businesses when making these decisions. Without undertaking such consultation it is highly unlikely that the maximum potential benefit of an unexpected increase in funding from the SIF investment will be realised.**

132. **We also note a tendency of UKTI to use Strategic Investment Fund money to embark on new initiatives. The consensus view of industry was that it should have been used to improve and expand existing programmes. We appreciate the Government's desire to be seen to be engaging in exciting new activities, but additional funding for existing mechanisms could have led to a quicker and more direct impact on businesses. The problem stems from the fact that the Government appears to have decided on a welcome but essentially arbitrary increase in funding for UKTI. We have seen no convincing rationale behind the decision to give UKTI £10 million, rather than £5 million or £15 million. This does not seem to be a strategic use of the Strategic Investment Fund.**

163 Q 328

164 Q 329

165 Q 340

166 Q 328

167 Q 332

6 Regional Development Agencies and trade promotion

133. Export promotion plays a key part in regional as well as national economic strategies and Regional Development Agencies (RDAs) are key partners in supporting that work. UKTI's regional teams are co-located with the RDAs and effectively act as the international trade arms of the RDAs, using RDA funding to supplement UKTI's national funding programmes. Since April 2009, RDAs have secured a greater role both in business planning and in the delivery of international trade services in the regions. A new agreement requires UKTI to secure consent from RDAs on any trade strategy developments and any new national trade support programmes. Some RDAs have staff based overseas, but their job is to promote inward investment to their region and not to engage in trade promotion work for companies in their area. [168]

134. The RDAs' evidence stated that RDAs do not have trade representatives overseas.[169] However, the Sponsors' Alliance mentioned that RDAs do, in fact operate forms of export promotion projects: overseas trade missions or exhibition participation, seminars and meet the buyer events. It stated that those events often overlap or even "conflicted with nationally-focused events in the same sector or market," adding that: "it has not been uncommon in recent years to find regional pavilion groups at overseas trade exhibitions, often in competition to a national UK pavilion."[170]

135. This was not the only account we received of RDAs engaged in activities which had the potential to overlap, or possibly even conflict with events run by UKTI. Through the course of our inquiry we have heard reports of RDAs competing both with UKTI and with each other to secure business.[171] Such activities undermine the efforts of UKTI and confuses potential customers. The BCC pointed out that some of the activities of RDAs could dilute the British "brand":

> The United Kingdom has a strong image abroad. From the United States to the Persian Gulf and beyond British goods and services are seen as being high quality. And yet the UK brand has been watered down by separate representation from all three devolved nations and nine English regions that constitute the country. [This] only serves to confuse potential customers of British firms who are likely to be unaware of the constitutional particulars of the UK.[172]

136. However, according to some accounts the situation may be improving. When he appeared before the Committee in February, Lord Jones said:

> I think the relationship got a lot better when I was there and I think it will endure, and there was a lot less of [the situation where] you went to the Detroit Motor Show

168 Ev 104–105

169 Ev 104

170 Ev 132

171 Ev 98

172 Ev 83

> and every RDA was there separately with UKTI. What a waste of public money that was. That has now come down to just two or three. It is far more focused. It could be better still but it is far more focused.

Similarly, the CBI's written evidence stated that the amount of duplication had reduced, but believed that improvements could go further:

> UKTI has made some advances in trying to address the issue of overlapping and duplication related to the RDAs and the devolved administrations, which link to our concerns about the coordination and reinforcement of the UK brand. Continued efforts here, together with monitoring on the ground, would be useful.[173]

137. We heard particular criticism of the tendency of RDAs to arrange regional visits—visits where the common link between the companies participating is that they operate in the same geographical area rather than all working in the same sector. Such visits make it difficult to arrange meetings which are useful to all the participants. Similarly businesses based overseas find sectoral visits from the United Kingdom much more useful than regional visits. Asked if he agreed with this analysis Lord Davies replied "I do; I am a big believer in sectoral experience and speciality".[174]

138. This does not mean that it is impossible for RDAs to run successful trade missions, but they should focus on sectors. As Mr Marshall suggested, this might involve several RDAs working together to arrange visits: "I think what is probably more appropriate is a number of regions have got together and said, 'If this is going to be our sectoral focus, who have you got within this sector?'."[175]

139. As well as benefiting from a more sectoral approach to trade visits we believe that UKTI staff who work with RDAs, the regional trade advisers, should also take a more sectoral view of their work. A sectoral specialist based in one region should be willing to advise industries based in nearby regions if they have specialist knowledge that business could benefit from. The Manufacturing Technologies Association stated that:

> The inability of the International Trade Advisors to offer advice to companies outside their regions, even if they are sector specialists in the relevant sector, is a wasteful and leads to considerable duplication of provision. We would be very supportive of any moves towards adopting a more sectoral approach, which looked to provide coverage across the UK. This would help the organisation to be more market led - investing in the right people to deliver relevant strategies to the sectors they represent.[176]

140. These criticisms raised legitimate questions about the role that regional agencies play in trade promotion, and what RDAs should do to promote trade and inward investment in their area. Some organisations advocated a purely national approach to such activities, for example the Institute of Directors stated that both trade promotion and inward investment

173 Ev 98

174 Q 237

175 Q 344

176 Ev 117

should be done only on a national level.[177] Others held less radical views, but still believed that activities should be nationally focused, and that any work that RDAs did should be secondary to, and in support of, UKTI's national strategy.[178]

141. We have also heard that the regional structure of some of UKTI's operations, particularly the regional trade advisers who are based with RDAs, can be confusing to business. This was mentioned by witnesses giving evidence to our ongoing inquiry into the motorsport and aerospace industries. Mr Aylett, Chief Executive, Motorsport Industry Association reported that:

> We are often at a show that is being funded nationally by UKTI and there is a regional UKTI activity going on of which we are unaware […] the international customers were unaware, they do not understand why there would be an East of England UKTI activity[179]

The Association said that it found that situation so complicated that they "just invite anybody with the card of UKTI to anything that we do in the hope that they can work it out because it is very, very complicated."

142. We have previously raised concerns about RDAs' overseas activities leading to large amounts of duplication. Our Report on RDAs noted that many organisations had complained that their overseas efforts were "not co-ordinated with national efforts, duplicated work done elsewhere […] [and argued that] such activities would be better done through UKTI or other national initiatives."[180] We are concerned that insufficient progress appears to have been made on this issue since that Report.

143. **Regional Development Agencies have been given an important role to play in trade promotion. However, we continue to hear worrying accounts of unnecessary duplication of programmes and competition between different agencies. If this is allowed to continue the benefit of the RDAs' work, and that of UKTI, will be undermined. In particular, RDAs should be required take a more co-ordinated approach to trade missions both with other RDAs or UKTI—so that the problems of duplication are avoided.**

177 Institute of Directors and the TaxPayers' Alliance, How to save £50 billion: Reducing spending for sustainable public finances, September 2009, p 40

178 Ev 132

179 Transcript of oral evidence taken before the Business, Innovation and Skills Committee on 15 December 2009, Q 164 [Mr Aylett]

180 Business and Enterprise Committee, Forth Report of Session 2008-09, *Regional development agencies and the Local Democracy, Economic Development and Construction Bill,* HC 89-I, para 48

7 Export Credits Guarantee Department

144. One of the main impacts of the credit crunch on businesses is the reduction in the availability of trade credit, the short-term financing that underwrites international trade. This has been principally caused by the increased risk that banks face in lending combined with a sharp increase in claims and related underwriting losses.[181]

145. As a result, UK exporters saw the withdrawal of credit or the reduction of credit limits on their buyers and an increase in premiums. Some exporters were left uninsured, which severely hampered their ability to accept and fulfil export orders. And some exporters have struggled to obtain finance from banks that relied on the existence of short-term trade credit insurance as a form of collateral for their lending.[182] As Lord Davies told us "I think one of the most common issues for SMEs [...] is around short-term insurance."[183] Similarly the Midlands World Trade Forum reported that one of the main factors impacting on businesses since the onset of the recession was the "lack of credit insurance."[184]

146. The Export Credits Guarantee Department [ECGD], is the UK's official Export Credit Agency. It describes its aim as "to help UK exporters of capital equipment and project-related goods and services win business and complete overseas contracts with confidence."[185] It does this by:

- providing insurance to UK exporters against non-payment by their overseas buyers;
- guaranteeing bank loans to facilitate the provision of finance to buyers of goods and services from UK companies, and
- supplying political risk insurance to UK investors in overseas markets.

147. Before the downturn, the Government had encouraged the ECGD to play a more modest role in the market, through the privatisation of its Insurance Services Group operations in 1992 and a reduction in the amount of trade it covered.[186] Since then ECGD's role in providing short-term credit insurance for capital and semi-capital contracts and related services has been focused on emerging markets.[187]

181 Ev 75

182 Ev 75

183 Q 190

184 Ev 121

185 http://www.ecgd.gov.uk/

186 "Mandelson export pledge" *Financial Times*, April 6 2009

187 Ev 75

Responding to the recession

148. When he appeared before us, Patrick Crawford, Chief Executive of ECGD, reported that the organisation was predicting a large increase in demand for their services:

> ECGD has responded to the downturn. Inquiries by exporters have gone up 50%. We supported just under £1.5 billion of new business in the last financial year to 31 March. We expect that that will double or even more in this financial year. We have played a key role in helping Airbus aircraft exports. We have historically been supporting 17–18% of their deliveries. It is quite likely that we will support double that in this financial year."[188]

149. Mr Crawford explained that back in July the ECGD had just concluded a consultation on a possible new product for risk-sharing on confirmations by British banks of UK export contracts and letters of credit.[189]

150. The Parliamentary Under-Secretary of State for Business, Innovation and Skills, Ian Lucas MP, formally announced this scheme in a written ministerial statement to the House on 20 October 2009. Under this scheme the Government will share the risk of UK banks confirming letters of credit issued by other banks. When it was launched five banks—Barclays, RBS, HSBC, Lloyds TSB and Standard Chartered—were supporting the scheme which aims to cover 282 overseas banks in 36 export markets, with more banks and export markets expected to be added.[190] The scheme will be focused on emerging markets.[191]

151. The CBI welcomed this development but argued that there was still much more that the Government needed to do to ease the current pressure on trade credit. The BCC took a similar position, noting that "only 10% of trade deals are concluded this way [using letters of credit], and therefore will not meet the total needs of exporters."[192]

152. The first recommendation made by the CBI was that government should extend the current Fixed Rate Export Finance (FREF) scheme. This initiative enables UK exporters to offer medium and long-term finance to their overseas buyers at officially-supported fixed rates of interest. The end date of the programme was extended in the November 2008 Budget Report until 31 December 2009, and the CBI "wishes to see the current FREF Scheme to again be extended or an acceptable alternative to be in place and operational by 1 January 2010." Since taking evidence from the CBI on this subject the Government has announced that the FREF scheme will again be extended until March 2011.[193] We fully support this decision.

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188 Q271

189 Q 271. A letter of credit is trade finance mechanism where a UK bank guarantees payment to its exporting customer, provided documents stipulated in the letter of credit issued by the buyer's overseas bank are presented to it. In this way, the UK exporter is able to eliminate the risk of non-payment by its buyer.

190 HC Dec, 20 October 2009, col 49WS

191 Ev 76

192 Ev 86

193 "EGDC extends fixed-rate support for exporters", Department of Business, Innovation and Skills Press Release, 30 November 2009

153. The second form of support that the CBI would like to see ECGD extend is its bond support. This would involve ECGD insuring against the calling in of bonds issued to finance international trade. ECGD already provides insurance for exporters against the *unfair* calling of performance bonds issued by banks. ECGD's evidence acknowledged that the business community would like this extended to the fair calling in of bonds, and made the following comments on the proposal:

> Exporter organisations have pressed for some years ECGD to provide cover for the *fair* calling of bonds, where banks are unwilling to do so. If ECGD were to provide such cover, it would be doing so on business that the banks have judged to be unacceptable. ECGD is exploring whether it might be possible to provide cover to banks on a risk-sharing basis, which would require the banks to share in any related security provided to them by the exporter.[194]

We welcome ECGDs decisions to examine the possibility of extending the bond support it offers by entering into a risk sharing agreement with banks. We urge it to make haste with these discussions and to provide us with an update on these negotiations in its reply to our Report.

154. We acknowledge that it has previously been difficult for ECGD to provide short-term credit to established markets because of the European Commission's Short Term Communication which bans governments of Member States from providing support for commercial and political risks involving intra-EU trade and exports to certain 'rich' OECD markets, including Australia, Canada, Japan and USA.[195]

155. However, since the onset of the global recession, other Member States have been able to get a time limited waiver from the Short Term Communication. Several European countries have taken advantage of this opportunity to extend the cover they offer their exporters. For example the Dutch Government has launched a scheme to provide export insurance coverage to businesses unable to obtain cover, or partial cover, from the private market as a result of the current financial crisis.[196]

156. Under the Dutch scheme the state provides a reinsurance facility to top up cover offered by credit insurers in cases where the existing credit limits have been reduced or new limits given by credit insurers which are lower than the amount requested by the insured company; premiums are set at a level that provides an incentive for exporters to have recourse to private insurers once there is again sufficient cover on the private market.[197]

157. The Department commented on the European Commission's waiver in its supplementary evidence, stating that the Government had decided against intervention to support short-term export trade credit insurance,[198] because:

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194 Ev 76

195 Ev 75

196 Ev 85

197 Ev 85

198 Ev 76

> At recent meetings, the trade credit insurers have advised the Government that: they are now in a position to re-instate some of the buyer limits that they had withdrawn; new risk capacity is entering the reinsurance market in advance of the annual reinsurance round which for many insurers is at the end of the year; and they expect to be able to obtain sufficient reinsurance capacity to be able to support increased levels of cover next year, subject to the acceptability of risks on individual markets and buyers.[199]

158. We have some concerns about this response. This does not match the evidence that we have repeatedly received from small businesses.[200] For example the BCC's evidence stated that "Chamber Network Trade committees across the country report that the reduction in available finance is preventing businesses from concluding export deals."[201] The Government's decision to merely "monitor the market"[202] also seems at odds with Lord Davies' own analysis that a lack of trade credit is one of the main challenges facing businesses.[203]

159. **The European Commission waiver of the Short Term Communication provides the Government with an opportunity to address the failure of the market to provide business with trade credit. Neither we, nor any of the businesses who we have spoken to, have seen evidence that this situation is improving and therefore the Government's decision to merely "monitor the market" is inadequate. We strongly recommend that the Government reassess its decision not to use the opportunity presented by the Commission's decision to re-enter the short-term trade credit market until the financial situation improves.**

Organisational culture

160. While we heard concerns about the deficits in the specific programmes being run by ECGD as part of its response to the recession we also heard calls that its response to recent events should form a backdrop for "a more fundamental look at the way in which ECGD operates going forward."[204] Mr Scott's opinion was that ECGD had:

> actually lost some of its focus in terms of being there to primarily be driving and supporting UK exports, it has been too slow to respond to its established customer base, we feel that some of its internal processes have been too much driven by concerns in terms of their legalistic implication rather than actually responding to customers' demands […][205]

161. The CBI was not the only organisation to feel that the ECGD needed a change in its organisational culture. The Energy Industries Council's evidence raised concerns about the

199 Ev 75

200 E v 87–89

201 Ev 86

202 Ev 76

203 Q 190

204 Q 352

205 Q 347

skills, qualifications and professional backgrounds of the staff that work for ECGD, arguing that "it should not be run by bankers for bankers" but instead be "staffed by experts who understand the needs of specific sectors."[206]

162. The Management Consultancies Association noted in its evidence that ECGD was obliged by the Treasury to make a profit. While this appears to be a prudent decision, their opinion was that it can result in the ECGD being more conservative in the coverage it provides than many of its international counterparts.[207] However the MCA did acknowledge that dropping this requirement "would obviously require additional funding at a time when public finances are stretched."[208]

163. **We are concerned by reports that businesses feel that ECGD is not properly reacting to customer demands. It is especially important that during these challenging times ECGD are properly equipped to deal with, and able to focus upon, businesses' needs.**

Support for Airbus

164. During our visit to Toulouse as part of our inquiry into the motorsports and aerospace industries we were told by Airbus about the difficulties that their customers face in securing export credit as they have to co-ordinate with three export credit agencies; Coface in France, Euler Hermes in Germany and ECGD in the UK. They suggested the creation of a single export credit agency support by the four governments[209] that would make the process of getting credit easier for their customers. This is an interesting suggestion which has some merit, not least that it would free up ECGD time to focus on its other customers as currently Airbus represents a significant proportion of ECGD's workload. **The UK aerospace sector is an example of UK excellence in higher value-added manufacturing, and we believe that the Airbus proposals for simplifying export credit arrangements for customers in the aerospace sector merit consideration. Clearly the current system involving three different organisations is not ideal. However, we have not yet had time to examine this proposal in full and we shall return to it in our Report on the motorsport and aerospace industries.**

206 Ev 105

207 Ev 113

208 Ev 113

209 Spain also contains Airbus production sites but is not involved in current export credit arrangements.

8 Conclusion

165. We began our Report by highlighting the valuable work of UKTI. Whilst we have made a number of recommendations that we believe will smooth some of its rough edges, we do not wish this to leave an impression that we are dismissive or unappreciative of what UKTI staff have done, and continue to achieve. UKTI is a highly successful government agency which is well respected by business.

166. The current financial situation has put UKTI at the heart of government economic policy. If the country is to be successful in exporting its way out of the recession, UKTI will need to continue its vital role of bringing together the best of both the public and private sectors–and the rest of government needs to become more aware of the opportunities for business in their own areas of operation.

Conclusions and recommendations

Creating a culture of trade promotion

1. If Britain is to have any chance of exporting out of recession—and to flourish after it is over—then all parts of government, not just UKTI and the FCO, must work to promote the country as an ideal place to trade and do business with. We urge the Government to use its reply to our Report to set out how it intends to spread a more commercial, business-oriented mindset throughout Whitehall. All departments must be made to realise that they have a major role to play to help Britain trade its way out of recession and sustain its long term prosperity. (Paragraph 16)

High level ministerial visits

2. It is still difficult for relevant ministers to spend time away from Westminster. Current arrangements constrain the ability of ministers to engage in overseas trade missions and damages UK competitiveness. It is necessary, and should be possible, for both the Government and the opposition to make arrangements to ensure that the activities of the Trade Minister are not constrained by their presence being required at Westminster. (Paragraph 22)

British Trade Ambassadors

3. We agree that the British Trade Ambassadors are doing a very good job selling Britain as a place to trade with and invest in. Having high powered individuals singing the praises of the country can only benefit UK plc. We ask the Government to provide us with yearly up-dates on the activities of each of the Ambassadors, and to inform us what steps it is taking to ensure that the specialist knowledge the network possess reflects all those industries which are of central importance to the UK's economic future. (Paragraph 26)

UKTI strategy

4. We agree with our witnesses that there is currently no need for UKTI to engage in a fundamental re-evaluation of its strategy. UKTI has been forced to undergo too many changes in recent years and it now needs time to improve incrementally. A period of relative stability is needed to allow it to address its remaining shortcomings. We agree that the current position of the pound, which has made it more attractive for some companies to export, can be accommodated within UKTI's existing framework. That said that it would be prudent for UKTI to consult with industry, in advance of 2011, on whether or not it will deliver on its strategy. (Paragraph 32)

Emerging markets

5. We fully support the increasing emphasis that UKTI is placing on emerging markets, including Abu Dhabi and Saudi Arabia. Neglecting these markets would not be in the long term interest of British business. (Paragraph 42)

6. We are grateful to the Minister for acting on our concerns about a lack of staffing for UKTI operating in the Middle East. We anticipate that the additional staff will assist the office, providing a more effective service to British businesses in a market which presents companies with a large number of opportunities, but recommend that the situation is kept under review. (Paragraph 43)

7. It is obviously sensible for UKTI to direct its resources to the locations where it can have the maximum possible impact. However, the plethora of different priority and high growth markets and sectors that UKTI has set itself could easily cause confusion. UKTI needs greater clarity in explaining its priorities to industry. Furthermore, UKTI needs to reassure business that concentrating on these strategic priorities will not undermine the level of service provided in established markets where the majority of the UK's trade is conducted. (Paragraph 45)

Overseas Market Introduction Service

8. We welcome the more innovative use of OMIS highlighted to us in Milan and recommend that this creative approach be disseminated across UKTI on the basis of best practice. (Paragraph 49)

9. A well written OMIS can, and often does, provide businesses with a wealth of opportunities to take advantage of, while a poor one is a costly waste of a company's time and money and a disincentive for first time users to commission future reports. While we understand that complete uniformity in the quality of the product is not possible to achieve, the current gulf between the best and the worst is too wide. UKTI needs to take steps honestly to address performance in its Posts where business is providing negative feedback on the support they are given. If poor quality is due partly to companies commissioning vague and unfocused reports, UKTI needs to be more willing to recommend that businesses not use this service when it believes they would be able to add little value to a company's operations—a recommendation there may be disincentives to implement, given the target set for UKTI Posts. (Paragraph 53)

10. We agree with the NAO that there is a lack of clarity about the aim of UKTI's charging structure. However we do not believe that UKTI should aim for full cost recovery, but instead that charges should be set at a level that is of the most benefit to UK companies and the economy as a whole. This means the charge should be as high as is required to discourage speculative requests and no higher. In the long term the additional taxable revenue generated will more than cover the cost of providing the initial service. We also believe that there is scope for UKTI to be more creative in the way it uses the charging system. For example, a lower price could be charged to companies that wish to export into priority markets to encourage them to do so. Cost recovery should be an incentive to both UKTI staff and those who commission

the report to use them effectively. They should not be a Treasury-driven way of reducing the costs of UKTI. (Paragraph 58)

11. We do not believe that there should be a fundamental tension between the need for staff to meet centrally-set targets for OMIS revenue and their ability to network and make contacts with local businesses. Indeed without those contacts OMIS reports would be of a much poorer quality. However we are alert to the pressures on UKTI staff and the fact that OMIS targets have the potential to trap staff behind their desks and skew their priorities. We recommend that the Department monitor this issue and where necessary, empower UKTI management to intervene and ensure that staff workloads do not prevent them from developing the local and sector knowledge necessary for them to provide a vital aspect of UKTI service. (Paragraph 65)

Passport to Export

12. If UKTI is committed to increasing the number of companies exporting to its priority high growth markets it needs to accommodate all companies who are interested in entering those markets, regardless of whether or not they are new to exporting. We welcome the aims behind the "Gateway to Global Growth" programme but are concerned about reports from industry that it is not living up to its billing as a follow-on to the highly successful Passport to Export scheme. The Government should re-examine the support the Gateway provides to ensure it provides a properly tailored service to the needs of business. We invite the Government to provide more information about the operation of this scheme in its response to our report. (Paragraph 71)

Tradeshow Access Programme

13. Companies clearly feel that the Tradeshow Access Programme makes a valuable contribution to their ability to export successfully. However, given the current constraints on public finances it is difficult to recommend that the Programme's budget is increased. Rather we see an opportunity to make the use of existing resources more efficient by developing a better evaluation mechanism for determining future grants, the need for which was alluded to us by the Chief Executive of UKTI. We call on the Government to protect the existing levels of funding and to explore innovative ways of maximising the effective use of the resources allocated to this scheme. (Paragraph 77)

Gaps in current programme provision

14. The Government should study VIE closely, identifying the benefits provided by the French system, and investigate the possibility of running a similar scheme in the United Kingdom. (Paragraph 80)

Monitoring of the impact of programmes

15. We believe that the effectiveness of UKTI support to companies must be, as much as possible, measured by its "bottom line" impact, that is the direct additional financial

benefit to companies—and to the United Kingdom—as a result of the services that they received. Being able to demonstrate more fully the value it adds to companies activities will help UKTI defend its budgets during continuing pressure on public finances. We therefore recommend that businesses who use UKTI services should be required to keep UKTI updated about the benefit that they receive, over the medium term as part of the agreement they enter into when using UKTI services. This should not have to be an onerous process, a short e-mail or phone call to their UKTI contact after a successful business deal had been signed would be sufficient. We also recommend that the timescale of the PIMS system is lengthened to allow companies responding the time to realise the full impact of the support they have received. Done well, this process should also enhance relationships between UKTI and the businesses using its services. (Paragraph 87)

Delivery of programmes

16. Value for money and high quality services should be the criteria used by UKTI when it awards contracts for its UK operations. However a partner with knowledge of local businesses and ability to promote UKTI service to the widest possible range of companies—such as a Chamber of Commerce—will be able to add a great deal of value to UKTI UK-based operations. These are considerations that UKTI should bear in mind when deciding who to partner with for local service delivery. We also believe that the Government should seek to strengthen local Chambers as a matter of policy. (Paragraph 90)

Staffing costs

17. In the current climate of constrained public finances it is especially important that the maximum possible amount of resource is directed to front-line services. However, we do not believe that wasteful spending exists to the extent suggested by some of our witnesses. Neither do we believe that UKTI needs to fundamentally re-evaluate the balance it strikes between direct cash support it provides to business and the amount it spends on staff, the majority of whom deliver front line services to companies. However changes imposed on UKTI have played their part in creating a top-heavy bureaucracy which is now being slimmed down. This process must continue—the evidence we have heard suggests that the real value to British business of UKTI is its presence at the local level both in the UK and overseas. (Paragraph 96)

The FCO estate

18. In the current financial situation there will naturally be the desire to reduce expenditure and make savings. However, to do so by selling parts of the FCO estate, especially those based in such prestigious surroundings, would be a short sighted decision and in the long run could cost UK plc much more than was saved. (Paragraph 99)

Fiscal Stimulus Initiative

19. We support the aim of the Fiscal Stimulus Initiative to help British businesses benefit from other countries' fiscal stimulus packages. However, we believe that creating another new programme, separately identified, contributes to the bloated pool of existing programmes. UKTI should simply have shifted resources on a short-term basis to markets where new opportunities have been created. We invite the Government to provide us with a progress report on its aim to support a thousand companies by March 2010, given that this is now only two months away. We remind the Government and UKTI that to the greatest possible extent the British business community needs and requires simplicity in UKTI programmes to engage effectively with them. (Paragraph 104)

Security Sector Trade Show

20. We are puzzled by UKTI's decision to spend a sizeable proportion of its Strategic Investment Fund Money to create a trade show for the security sector when there already exist a range of events that fulfil this function. The Government has yet to convince us that is a sensible use of the Strategic Investment Fund. We recommend that it sets out in detail the rationale behind this decision and provides the assumptions underpinning the assertion that this event will become self-funding within two years. (Paragraph 111)

UK Global Connections

21. The UK Global Connections initiative is still in its infancy and therefore we are unable to judge its contribution to trade promotion. That said, we are not convinced that this scheme will address a real gap in the current programme offered by other organisations, and are uncertain what value it will add to the UK's trade promotion activities. Between them the British Trade Ambassadors and existing bilateral chambers of trade should provide precisely the networks which are needed. We see no need to reinvent the wheel. (Paragraph 118)

Marketing Campaign

22. We welcome the Department's decision to allocate more resources to increase awareness of UKTI's services amongst businesses, as there are clearly many businesses that are unaware of the help that is available to them. However, we believe this money should be used to develop a more carefully targeted communication programme, including sending UKTI staff to meet business rather than buying poorly-targeted advertising space to spread unfocused generalised messages. (Paragraph 123)

23. In addition to raising awareness of the services business can request UKTI needs to be more proactive in alerting companies to opportunities in their markets. We saw some promising new activities in Milan, we recommend that the best practice exemplified in Milan—and what we are confident is being developed in other UKTI Posts—is disseminated across the organisation. (Paragraph 126)

UKTI's administration of Strategic Investment Fund Support

24. We have already highlighted in this Report the importance of UKTI listening to its customers when deciding how to prioritise its activities and deploy its resources. But this appears not to have happened in the case of the allocation of funds from the Strategic Investment Fund. While we understand the need to deploy resources quickly in some cases the haste with which decisions were taken has resulted in poor choices being made. This could have been avoided if UKTI had properly consulted businesses when making these decisions. Without undertaking such consultation it is highly unlikely that the maximum potential benefit of an unexpected increase in funding from the SIF investment will be realised. (Paragraph 131)

25. We also note a tendency of UKTI to use Strategic Investment Fund money to embark on new initiatives. The consensus view of industry was that it should have been used to improve and expand existing programmes. We appreciate the Government's desire to be seen to be engaging in exciting new activities, but additional funding for existing mechanisms could have led to a quicker and more direct impact on businesses. The problem stems from the fact that the Government appears to have decided on a welcome but essentially arbitrary increase in funding for UKTI. We have seen no convincing rationale behind the decision to give UKTI £10 million, rather than £5 million or £15 million. This does not seem to be a strategic use of the Strategic Investment Fund. (Paragraph 132)

Regional Development Agencies and trade promotion

26. Regional Development Agencies have been given an important role to play in trade promotion. However, we continue to hear worrying accounts of unnecessary duplication of programmes and competition between different agencies. If this is allowed to continue the benefit of the RDAs' work, and that of UKTI, will be undermined. In particular, RDAs should be required take a more co-ordinated approach to trade missions both with other RDAs or UKTI—so that the problems of duplication are avoided. (Paragraph 143)

Export Credits Guarantee Department

27. We welcome ECGDs decisions to examine the possibility of extending the bond support it offers by entering into a risk sharing agreement with banks. We urge it to make haste with these discussions and to provide us with an update on these negotiations in its reply to our Report. (Paragraph 153)

28. The European Commission waiver of the Short Term Communication provides the Government with an opportunity to address the failure of the market to provide business with trade credit. Neither we, nor any of the businesses who we have spoken to, have seen evidence that this situation is improving and therefore the Government's decision to merely "monitor the market" is inadequate. We strongly recommend that the Government reassess its decision not to use the opportunity presented by the Commission's decision to re-enter the short-term trade credit market until the financial situation improves. (Paragraph 159)

Organisational culture

29. We are concerned by reports that businesses feel that ECGD is not properly reacting to customer demands. It is especially important that during these challenging times ECGD are properly equipped to deal with, and able to focus upon, businesses' needs. (Paragraph 163)

Support for Airbus

30. The UK aerospace sector is an example of UK excellence in higher value-added manufacturing, and we believe that the Airbus proposals for simplifying export credit arrangements for customers in the aerospace sector merit consideration. Clearly the current system involving three different organisations is not ideal. However, we have not yet had time to examine this proposal in full and we shall return to it in our Report on the motorsport and aerospace industries. (Paragraph 164)

Annex: Visit Programmes

UAE & Saudi Arabia: Saturday 25–Thursday 30 April 2009

Dubai

Sunday 26 April 2009

Briefing by Guy Warrington HM Consul-General, and Jeff Wilson, Deputy Consul-General and Director of UKTI

Meeting with HE Hisham Al Shirawi, First Vice-Chairman, HE Hamad Buamim, Director General and Mr Omar Khan, Director, Customer Service Centres, Dubai Chambers of Commerce and Industry

Meeting with Dr Mohammad Al Zarouni, Director-General and Mr Nasser Al Madani, Assistant Director-General, Dubai Airport Free Zone Authority

Working lunch with local and British officials and businessmen

Meeting with Mr David Orgill, Country Operations Manager, Al Shaya Group

Meeting with Mr Fuad Sharaf, Vice President, Mall of Emirates

Meeting with Paul Burns, Managing Director and Matthew Bell, Marketing Manager, Aggreko

Abu Dhabi

Monday 27 April 2009

Briefing with HM Ambassador Edward Oakden.

Meeting with Federal National Council.

Meeting with HE Dr Anwar Mohammed Gargash, Minister of State for Foreign Affairs.

Meeting and working lunch with British Business Group.

Attend launch of Berwin Leighton Paisners' Abu Dhabi Office.

Working dinner hosted by HM Ambassador Edward Oakden.

Tuesday 28 April 2009

Meeting with HE Mohammed Bin Abdul Aziz al Shihhi, Director-General, Minister of Economy.

Meeting with Abu Dhabi Future Energy Co.

Riyadh

Briefing with HM Ambassador Sir William Patey.

Working dinner hosted by HM Ambassador Sir William Patey.

Wednesday 29 April

Briefing with UKTI.

Meeting with Mr Hassan bin Abdullah al-Shehri, Chairman of the Economic Committee of Majalis Ash Shura, and colleagues.

Meeting with Dr Awwad S Al Awwad, Deputy Governor of SAGIA.

Meeting with Mr Timothy Gray, Chief Executive of HSBC; Mr Clive Rates, Managing Director & Head of Global Banking Advisory; and Mr Andrew Bell, Managing Director & Head of Global Banking Advisory (London); and colleagues.

Meeting with Mr Martin McCann, Vice President of Direct Programmes and Mr Dave Sanderson, Vice President, Commercial & Procurement of BAE Systems, Salwa, and colleagues.

Wrap-up session with HM Ambassador Sir William Patey.

Paris, Toulouse and Milan: Monday 9–Thursday 12 November 2009

Paris

Monday 9 November

Welcome by HM Ambassador Sir Peter Westmacott, and Barbara Habberjam, Director of UKTI France. Briefing by Eric Célerier, Economist, Europe Team, British Embassy on French economy and bilateral trade.

Briefing with UKTI France team.

Meeting with Madame Laure de Mondragon of UBIFrance.

Dinner hosted by HM Ambassador, Sir Peter Westmacott.

Toulouse

Tuesday 10 November

Meeting with M. Rainier Ohler.

Working lunch hosted by Mr Tom Williams, EVP Programmes & Senior National Representative, Airbus UK.

Tour of A330 and A380 Final Assembly Lines.

Working dinner hosted by British Consul, Alastair Roberts, British Consulate.

Milan

Wednesday 11 November

Briefing by Mr Steve Anderson, Deputy Consul General.

Briefing and round table discussion with Mr Lucio Stanca, CEO Milan Expo and his senior management team.

Meeting with Mrs Letizia Moratti, Mayor of Milan.

Buffet dinner with UKTI staff and local business contacts.

Thursday 12 November

Meeting with companies that have used UKTI services. Meeting with UKTI staff, followed by coffee with the British Chambers of Commerce Councillors.

Formal Minutes

Tuesday 12 January 2010

Members present:

Peter Luff, in the Chair

Roger Berry
Mr Michael Clapham
Miss Julie Kirkbride
Lembit Öpik
Ian Stewart
Mr Anthony Wright

Draft Report (*Exporting out of recession*), 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 to 166 read and agreed to.

Annex agreed to.

Summary agreed to.

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

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 19 January at 4.00 pm.

Witnesses

List of written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2009–10

First Report	The Creation of the Department for Business, Innovation and Skills and the Departmental Annual Report 2008–09	HC 160
Second Report	Committee Annual Report 2008–09	HC 195

Session 2008–09

First Report	Energy policy: future challenges	HC 32 (HC 317)
Second Report*	Pre-appointment hearing with the Chairman-elect of Ofcom, Dr Colette Bowe	HC 119
Third Report	Work of the Committee in 2007-08	HC 175
Fourth Report	Regional development agencies and the Local Democracy, Economic Development and Construction Bill	HC 89 (Cm 7463)
Fifth Report	The Postal Services Bill	HC 172 (Cm 7623)
Sixth Report	The Insolvency Service	HC 198 (HC 919)
Seventh Report	Pub Companies	HC 26
Eighth Report	Post offices—securing their future	HC 371 (HC 1002)
Ninth Report	Automotive Assistance Programme	HC 550 (Cm 7706)
Tenth Report	Enterprise Finance Guarantee scheme	HC 588
Eleventh Report	Risk and Reward: sustaining a higher value-added economy	HC 746
Twelfth Report **	Scrutiny of Arms Export Controls (2009): UK Strategic Export Controls Annual Report 2007, Quarterly Reports for 2008, licensing policy and review of export control legislation	HC 178

Session 2007–08

First Report	The work of the Committee in 2007	HC 233
Second Report	Jobs for the Girls: Two Years On	HC 291 (HC 634)

* First Joint Report with Culture, Media and Sport Committee

** First Joint Report of Committee's on Arms Export Controls

Third Report	Post Office Closure Programme	HC 292
Fourth Report	Funding the Nuclear Decommissioning Authority	HC 394 (HC 994)
Fifth Report	Waking up to India: Developments in UK-India economic relations	HC 209(HC 1006)
Sixth Report	After the Network Change Programme: the future of the post office network	HC 577 (HC 1091)
Seventh Report	Keeping the door wide open: Turkey and EU accession	HC 367 (HC 1070)
Eighth Report **	Scrutiny of Arms Export Controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Ninth Report	Construction matters	HC 127 (HC 1187)
Tenth Report	Post Office finance: matters arising from evidence taken on 10 June 2008	HC 662
Eleventh Report	Energy prices, fuel poverty and Ofgem	HC 293 (HC 1069)
Twelfth Report	Post Office Card Account: successor arrangements	HC 1052
Thirteenth Report	Companies House	HC 456 (HC 206 Session 2008-09)
Fourteenth Report	Departmental Annual Report and Scrutiny of the Department for Business, Enterprise and Regulatory Reform	HC 1116

** First Joint Report of Committee’s on Arms Export Controls