



House of Commons  
Business, Innovation and Skills  
Committee

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**Rebalancing the  
Economy: Trade and  
Investment**

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**Seventh Report of Session 2010–12**

***Volume I***

*Volume I: Report, together with formal minutes*

*Volume II: Oral and written evidence*

*Additional written evidence is contained in Volume III, available on the Committee website at [www.parliament.uk/bis](http://www.parliament.uk/bis)*

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## 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.

### Current membership

Mr Adrian Bailey MP (*Labour, West Bromwich West*) (Chair)  
Mr Brian Binley MP (*Conservative, Northampton South*)  
Paul Blomfield MP (*Labour, Sheffield Central*)  
Katy Clark MP (*Labour, North Ayrshire and Arran*)  
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Mr David Ward MP (*Liberal Democrat, Bradford East*)  
Nadhim Zahawi MP (*Conservative, Stratford-upon-Avon*)

The following members were also members of the Committee during the parliament.

Luciana Berger MP (*Labour, Liverpool, Wavertree*)  
Jack Dromey MP (*Labour, Birmingham, Erdington*)  
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Rachel Reeves MP (*Labour, Leeds West*)

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### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at [www.parliament.uk/parliament.uk/bis](http://www.parliament.uk/parliament.uk/bis). A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee are James Davies (Clerk), Charlotte Pochin (Second Clerk), Louise Whitley (Inquiry Manager), Neil Caulfield (Inquiry Manager), Ian Hook (Senior Committee Assistant), Jennifer Kelly (Committee Assistant).

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## Summary

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The Government has rightly placed great emphasis on exports to drive the economic recovery in the United Kingdom. UK Trade & Investment (UKTI), the Government's lead organisation supporting trade, will play a key role in delivering that ambition. It is therefore disappointing that the Department took so long to publish UKTI's new five-year strategy. The delay was compounded by the late appointments of a government Trade Minister and Chief Executive of UKTI.

That said, we welcome the new strategy. It is a well-focused and constructive document which has taken on board many of the concerns we heard from industry. The strategy also contains some innovative policies, for example the High Value Opportunities Programme and the ambition to encourage more SMEs to export as part of the supply chain of larger companies.

We support the Government's attempts to ensure that trade policy is understood across Whitehall with the establishment of the new Strategic Relations Unit, the Cabinet sub-Committee on trade and the requirement for the Foreign Office to think more commercially in the way it carries out its work. We also agree that UKTI should work closer with Trade Associations and Chamber of Commerce on trade promotion work to produce a more consistent message on support for UK exports.

However, we have concerns about the Government's ability to deliver on its strategy. Without adequate funding and resources there is a significant risk that the vision will not translate into reality. UKTI is subject to a 20% cut in funding of its current services and a 19% reduction in its trade advisers. As a result, face-to-face meetings with trade advisers, trade shows and visits to potential markets may be increasingly replaced by web-based support. Without a strong advice network it will not be easy to encourage the SMEs of this country to enter the international market, especially the less familiar emerging and high growth economies.

The Government has increased UKTI's target to reach out to SMEs from 20,000 to 25,000 but this target will have to be met with fewer advisers to carry out that work and less money to spend on SME programmes such as Passport to Export and Gateway to Global Growth. The Government will have to demonstrate that this can be done without any reduction in the quality of service provided.

Local Enterprise Partnerships are being asked to assist in the delivery of some UKTI services but there is little, if any, detail on what will be expected of them or how they will fund these activities. Without clarity on the role, extent and cost of this activity, the involvement of LEPs will be seriously undermined.

While we welcome the Government's ambition to make UKTI more entrepreneurial, we remain unconvinced that UKTI can attract suitable applicants from the business world at a time when cuts to its funding will put a strain on its ability to match commercial salaries. This may already be evident in the recruitment of a career civil servant rather than a business leader as the new chief executive of the UKTI.

We support the extension of the export finance support services delivered by the Export Credit Guarantee Department (ECGD). It was unacceptable that ECGD was allowed to ignore the SME sector for so long. We welcome the expansion in the number of products ECGD will now provide. However, it is also subject to a reduction in its budget and resources. Only time will tell if it can deliver its new portfolio of products within these constraints.

It is early days for a new trade strategy, a new Trade Minister and a new Chief Executive of UKTI. Given the funding constraints faced by UKTI successful delivery of the strategy represents a significant challenge. Its success can only be measured by positive outcomes for business and we will judge the Government's strategy in that light.

# 1 Introduction

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1. The Government has placed trade and investment at the heart of its strategy to rebalance the economy and generate growth. In a keynote speech to the CASS Business School on the Government's approach to the UK economy the Secretary of State for Business, Innovation and Skills, Vince Cable MP, made this clear:

Growth will have to come from the business sector. It will need to come from trade.<sup>1</sup>

2. The approach was also articulated by the Prime Minister when he appointed the Government's new Minister for Trade:

As we come out of recession it is crucial that we demonstrate that the British economy is open for trade, open for investment and open for business.<sup>2</sup>

3. The importance of putting trade and investment at the heart of UK economic policy can be demonstrated by the fact that the UK is the world's sixth largest exporter and third largest investor in foreign markets and is second only to the USA in attracting R&D investment from abroad.<sup>3</sup>

4. However, these figures should not be seen as any reason for complacency. According to the Government, in 2009, UK manufacturing exports decreased by 8% and service exports by 4%. In the same year, Foreign Direct Investment global inflows fell by 37%.<sup>4</sup> The UK share of manufacturing exports fell from 4.4% in 2000 to 2.8% in 2009.<sup>5</sup> The UK has also slipped from second to fifth in the world for inward investment flows, behind the US, China, France and Hong Kong, according to the UN Conference on Trade and Development.

5. The data released by the Office for National Statistics in February confirmed the decline in performance with the gap between imports and exports widening from £8.5bn in November to £9.2bn in December,<sup>6</sup> which was described in the press by one commentator as "pretty horrendous".<sup>7</sup> The latest figures released on 11 May show that the deficit on trade goods and services was £3 billion in March compared to £2.7 billion in February.<sup>8</sup>

6. Commenting on this decline the Secretary of State believed that there was "a general lack of focus on the kinds of things that would make our exports more successful".<sup>9</sup> We decided in this inquiry to test whether or not the Government was putting in place the necessary

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1 Speech to Cass Business School: [www.bis.gov.uk/news/speeches/vince-cable-cass-business-school](http://www.bis.gov.uk/news/speeches/vince-cable-cass-business-school)

2 "Lord Brittan announced as trade adviser to the Prime Minister", Number 10 press release, 19 August 2010

3 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011, para 1.20

4 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011, para 1.26

5 HM Treasury and Department for Business, Innovation and Skills, *Plan for Growth*, March 2011, Foreword

6 Office for National Statistics, *Statistical Bulletin: UK Trade*, January 2011

7 *Daily Mail*, Andrew Goodwin, senior adviser at Ernst and Young, 10 February 2011

8 Office for National Statistics, *Statistical Bulletin: UK Trade*, March 2011

9 Minutes of Evidence taken before the Business, Innovation and Skills Committee on 17 April 2011, Q 57

structures to provide support to UK companies which wished to develop or expand into foreign markets. There are many strands to Government policy in this area but two government organisations, UK Trade & Investment (UKTI) and the Export Credit Guarantee Department (ECGD), play a central role.

## Terms of reference

7. We announced our inquiry on 24 November 2010. Witnesses were invited to submit evidence on the following points:

- The role of BIS in providing support for exports and investment;
- How the Government measures success in its support for trade and investment;
- The Government Trade White Paper;
- The role of UKTI with regard to identifying opportunities in:
  - established markets
  - emerging markets
  - key sectors

and working with businesses both large and small to take advantage of these opportunities;

- The effectiveness of the Export Credit Guarantee Department and the flow of trade credit;
- How other countries, similar to the UK, export to emerging markets and what our Government could learn, if anything from them; and
- The role of the British Business Ambassadors.

8. The late publication of key Government policy papers in these areas did not allow us the time to scrutinise them with our witnesses. However, the evidence we received greatly informed our deliberations and set an informed benchmark against which we assessed Government policy.

9. We would like to thank all those who contributed written evidence to the inquiry as well as those that came to Westminster to give oral evidence including: British Exporters Association (BExA), British Chambers of Commerce (BCC), Society of Motor Manufacturers and Traders (SMMT), Food and Drink Federation (FDF), Engineering and Machinery Alliance (EAMA), CBI, Federation of Small Business (FSB), Forum of Private Business (FPB), Institute of Directors (IOD), A|D|S, BAE Systems plc, Airbus, PACT, UK Music, The Publishers Association Ltd, China Britain Business Council, Dr Kerry Brown, Professor Peter Nolan, Simon Carter, Joan Turley, Surrey Satellite Technology Ltd, Dr Razeen Sally, Professor Jim Rollo, Vanessa Rossi, Susan Haird, Acting CEO, UKTI, Patrick Crawford, CEO, ECGD, David Frost CMG, Director for Europe, Trade and International Affairs, BIS, Ed Davey MP, Minister with Trade Portfolio and Lord Stephen Green, Minister of State for Trade & Investment.



10. We would also like to thank the British Business Ambassadors who came to tell us about their roles: Nick Fry, Chief Executive, Mercedes GP; Sir Roger Bone, President, Boeing UK Ltd; Lord Charles Powell; and Paul Skinner, Chair of Infrastructure UK.

11. UKTI, along with its delivery partners, plays a vital role overseas supporting UK companies. It was therefore important for us to see their work at first hand. We therefore undertook a visit to China—a market identified by the Government as a priority—to gain a better understanding of how UKTI supports British companies looking to export their goods. The visit enabled us to meet with Embassy and UTII officials as well as UK and Chinese businesses to discuss UK trade and investment opportunities and the role that Government should play in facilitating business opportunities. We would like to thank everyone who helped to make our visit a success. We will also be publishing a report shortly focusing specifically on what we learnt whilst in China.

## 2 Government Strategy

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12. Trade and investment strategy has to be diffused through so many areas of government that establishing a clear strategy, and having mechanisms through which that strategy is implemented across the different arms of government, is essential. One of the key aspects of this inquiry was therefore establishing how the Government had performed in this area.

### UKTI strategy

13. In July 2010, the Department published its *Draft Structural Reform Plan* which stated various targets for the new Government including (concerning trade):

- Developing a Trade White Paper setting out the Government's strategy for growth through free, fair and open markets, including trade agreements, promoting trade facilitation, and cutting global red tape by December 2010; and
- Publishing a UKTI strategy including measures to simplify regional activities by January 2011 (the previous UKTI five year strategy, *Prosperity in a Changing World* was published in 2006).<sup>10</sup>

14. The future and role of UKTI have been mentioned in numerous Coalition Government announcements and documents. In its Business Plan, published on 8 November 2010, the Department gave more detail on how the new UKTI strategy would be shaped, with emphasis placed on the need to:

- Build stronger connections between UKTI and UK businesses; and
- Improve the effectiveness of UKTI's overseas network in identifying export and inward investment opportunities.<sup>11</sup>

15. The Government failed to meet its own January 2011 target for publication, but in February 2011 the Department gave a further insight into its thinking with the publication of its Trade and Investment White Paper. This set the following aims relevant to UKTI:

Increase UK Trade and Investment's focus on emerging markets and launch: a new online service offering access to sales leads around the world; a new online peer-to-peer exchange to enable companies to help themselves and help each other; and a new high profile award for companies which are ready to export, but need encouragement to take the next step.<sup>12</sup>

16. These aims were further refined in the Department's *Plan for Growth* which was published alongside the Budget on 23 March 2011. This announced a number of new schemes which would be run by UKTI:

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10 Department for Business, Innovation and Skills, *Draft Structural Reform Plan*, July 2010

11 Department for Business, Innovation and Skills, *Business Plan*, November 2010

12 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011

- mentoring by senior business specialists for companies taking their first steps into new markets;
- an online peer-to-peer self help community network;
- new business service for SMEs in the defence and security sector. This will include specialist tailored advice on selling to foreign governments;
- UKTI will be used to provide UK businesses with local intelligence on high value projects overseas and intensive support to win these deals.
- Making better use of private sector expertise, with a clear focus on winning business for the UK
- a bespoke service to key inward investors, giving them direct access to UK ministers and speedy resolution of bureaucratic obstacles to investment.

17. When he came before us on 27 April 2011 (three months after the original deadline for publication of the strategy), we questioned the Secretary of State on the reasons behind the significant delay in publication of such an important piece of the Government's strategy for growth, particularly given that so much of it had been trailed in other BIS publications:

Q9 Chair: Is it not odd that something so central to all the plans for growth that underpin the Government's economic strategy has not had its own strategy published and outlined? [...] Why has UKTI been so delayed when it is central to everything else the Government wants to achieve?

Vince Cable: I think you may be over-dramatising this. As I have said, there is a very clear strategy and we have described it. I do not think that the publication date of a particular document should be regarded as utterly crucial.

Q10 Chair: With respect, a clear strategy comes with publication and it has not been published yet.

Vince Cable: The trade White Paper was a Government publication that I introduced to the Commons, and it described what we were trying to achieve in terms of trade and was strategic in its approach.

Q11 Chair: But not UKTI.

Vince Cable: I accept that clearly there will be more clarity and opportunity for you to hold us to account once that document is apparent, but it is not the only factor. As you know, the chief executive has not yet been appointed, and that is equally critical to giving a sense of strategic direction.<sup>13</sup>

18. The importance of having a Government trade strategy was highlighted to us by Phil Orford of the Forum of Private Business:

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<sup>13</sup> Oral Evidence taken before the Business, Innovation and Skills Committee, *The Government's Strategy for Growth*, HC 945-i, Qq 9–11

If you look at all the businesses out there exporting as sales managers, plying their trade internationally, what we need is a sales director, someone who defines strategy, someone who's going to lead from the front, and I think that's where the Government's role should be. There absolutely needs to be a national strategy for international trade.<sup>14</sup>

19. On 11 May 2011, the Department finally published the UKTI strategy, missing its own target by four months.<sup>15</sup>

**20. UKTI is a key delivery body in the Government plans for economic growth. The fact that it took a year to publish its strategy—and that publication was delayed by five months—does not reflect well on the Department. The Secretary of State told us that the strategy was outlined in the Trade White Paper and the Government's Plan for Growth. We therefore see no reason why the Government did not publish the UKTI strategy alongside either one of those documents.**

**21. While we welcome the Government's commitment to rebalancing the economy through an increase focus on trade and investment, its message and the perceived importance of this policy has been weakened by the late publication of the key strategy to deliver on this. We are concerned that this delay created uncertainty within UKTI at a critical time in the economic recovery and could have undermined its effective support for business.**

### Ministerial responsibility

22. Of further concern to us was a similar delay in the Government appointing a Trade Minister. Until the appointment of Lord Green in January 2011, the trade portfolio was covered by Ed Davey MP, Minister for Employment Relations, Consumer and Postal Affairs. The trade portfolio therefore had to compete with Mr Davey's other responsibilities which included postal affairs (Royal Mail and Post Office Limited), employment relations (including ACAS), consumer policy and consumer affairs, competition policy, corporate governance, company law (including Companies House), social enterprise, Insolvency Service (including company investigations), general oversight of Shareholder Executive and its portfolios, coordination of European business.<sup>16</sup> It is a concern that for such a priority area there was not a dedicated Trade Minister in place much earlier on in this Parliament. **For a Government to place such emphasis on trade policy without providing either a clear strategy or a Minister with responsibility for its delivery for so long was not a shining example of clear and decisive policy-making. Furthermore, it did not send out the right message to the business community. Given that the Department for Business, Innovation and Skills is a key Department tasked with rebalancing the economy, we would have expected it to do better.**

23. Although the position was late in being filled, we welcome the appointment of a Minister with the sole portfolio of trade and investment. Having started late, the Minister

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14 Q 96

15 UK Trade & Investment, *Britain open for business*, May 2011

16 [www.bis.gov.uk/ministers](http://www.bis.gov.uk/ministers)

has certainly hit the ground running. We were impressed by the number of visits undertaken by Lord Green both in the UK and overseas and his work to promote not only the UK as a country to do business with, but also to encourage UK businesses to export. We heard from UK businesses and their representative organisations the importance of ministerial visits overseas to give the impression that UK businesses have the support of the UK Government. The CBI said:

The involvement of key ministers in supporting UK business in overseas markets — e.g. by leading delegations on foreign trips, attending JETCOs<sup>17</sup>, welcoming incoming delegations—is very helpful.<sup>18</sup>

Aerospace Defence Security (A|D|S) also welcomed the attention given to trade by Ministers:

The support for exports that has been shown in recent months by the BIS Ministerial team on overseas trips to China and India for example is to be warmly welcomed.<sup>19</sup>

**24. We recognise the importance of the ministerial visits overseas and the impact that they have on the world image of “Britain is open for Business”. We welcome the appointment of Lord Green as Minister for Trade and the start he has made in this very important post.**

## Cross Government Working

25. Sir Andrew Cahn, the previous Chief Executive of UKTI, expressed concern (in an interview with the *Independent* newspaper on 8 March) that, outside the Foreign Office, few government Departments understood the importance of promoting Britain as a place to do business. He argued that the Civil Service had to take a more entrepreneurial approach toward decision-making and growing the economy:

We need the whole of Whitehall to push in the same direction, and at the moment I don't think they do. [...] The Foreign Office really has changed and is focused and rather effective on promoting inward investment. But in all sorts of other departments it has no sort of priority at all.<sup>20</sup>

In the same interview he gave the following examples of how Whitehall culture should change:

If you talk to the Department of Health they are simply not interested in pharmaceutical exports as an issue. You might say of course it's not high up their radar screen. But the fact is if you want to make sure that the big pharmaceutical companies are in this country, you need the Department of Health to play a role.

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17 Joint Economic and Trade Committees

18 Ev 165

19 Ev 149

20 “Whitehall must do more to promote UK, says Cahn”, *The Independent*, 8 March 2011

You need Defra to be focused on food companies. You need the Department of Transport to be focused on transport companies. You need the DECC<sup>21</sup> to be focused on energy companies. There is real scope for the whole of Whitehall to be focused on export promotion in a way that they certainly haven't done in the last five years.<sup>22</sup>

26. The Government appears to be alive to Mr Cahn's concerns. In its Trade White Paper all Departments have been asked to:

Examine how they can support trade and investment, as part of the Government's growth and prosperity agenda.<sup>23</sup>

27. This policy was expanded on in the UKTI strategy, which announced the creation of a new cross-government Strategic Relations Unit to be based within the UKTI. The Strategy states that the Unit will:

Enable the whole of Government to be harnessed for the drive to win large scale inward investment and high value business overseas for our exporters.<sup>24</sup>

28. The cross-Departmental approach to trade and investment has also been addressed at Ministerial level with the establishment of a new Cabinet sub-Committee with responsibility for trade and investment. Announcing the sub-Committee, the Trade White Paper said that the main functions of the sub-Committee would be to :

Provide[s] leadership in ensuring the whole of Government works toward supporting trade and investment and in challenging policies that risk or undermine this goal.<sup>25</sup>

It continued that the sub-Committee would:

Ensure coordinated action to implement the policies set out in this White Paper and continuous follow-through. The work of this committee will be prepared at official level by the most senior trade officials across Government, to enable the network of those with an interest to be fully plugged in and to ensure its decisions can be fully and expeditiously implemented.<sup>26</sup>

29. When he came before us, Lord Green said that the sub-Committee was to meet monthly and would have three standing items on its agenda. The first was the action plan with action steps, assigned responsibilities and timelines. The other two standing items had not yet been put in place but the Minister told us that one would be a grid of ministerial

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21 Department for Energy and Climate Change

22 "Whitehall must do more to promote UK, says Cahn", *The Independent*, 8 March 2011

23 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011, para 3.13

24 UK Trade & Investment, *Britain open for business*, May 2011, p 29

25 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011, para 3.14

26 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011, para 3.14

overseas visits (intended to introduce an element of co-ordination) and the other would be a monthly report on the most recent trade statistics.<sup>27</sup>

30. At the time of his evidence the sub-Committee had met twice and the Minister gave us the following assessment of its initial work:

I have to report that the atmosphere on them is very good. You might say that this is still a honeymoon period as far as I am concerned, and of course that is true. Nevertheless, I start with a very strong sense that everybody wants to work together to get this right, and I hope and believe it will continue that way.<sup>28</sup>

**31. We welcome the establishment of the new cross-government Strategic Relations Unit within the UKTI and a Cabinet sub-Committee with responsibility for trade and investment. We trust that these two new initiatives will link together to get the message across Whitehall that all Departments, and all Ministers, should be thinking about the role of trade and investment.**

### **UKTI-FCO Commercial Task Force**

32. The role of the FCO in this work is clearly crucial. The Government has formed a new UKTI-FCO Commercial Task Force with the aim of driving a central commercial imperative into all aspects of FCO activity to support the whole of government delivering for UK business. The Trade White Paper said that:

The FCO's Commercial Diplomacy initiative will harness more resource in FCO's overseas network to pursue our trade and investment goals, working closely with and complementing the work of UKTI's overseas trade teams.<sup>29</sup>

33. The FCO, at the time of the launch of the UKTI strategy, published "A Charter for Business" which contained seven points to inject commercialism into the Foreign Office. In this were announcements that included the creation of a new Commercial and Economic Diplomacy Department; a new Economics Unit; an increase of resources dedicated to the prosperity agenda; new commercial diplomacy training for staff; and a new emphasis on secondments and short attachments to business for British Ambassadors and High Commissioners.<sup>30</sup>

**34. We welcome the publication of the FCO's Charter for Business and will monitor its implementation. We will expect the Department for Business, Innovation and Skills to ensure that progress towards implementation of the Charter complements its own work on trade and exports. We recommend that in its response to our Report the Department's sets out the Government's progress in this regard.**

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27 Q 478

28 Q 478

29 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011, para 3.13

30 Foreign and Commonwealth Office, *A Charter for Business*, May 2011

## British Business Ambassadors

35. The British Business Ambassador scheme was set up under the previous Government in October 2008. On 9 November 2010, the Prime Minister announced a re-launch of the network with an expanded membership including, among others, Tamara Mellon, co-founder of Jimmy Choo, and former CBI Director General Lord Digby Jones. There are now 32 Ambassadors and a list of them is annexed to the back of this report.

36. The Prime Minister, announcing the re-launch, gave a flavour of how the Business Ambassadors would help promote UK businesses and UK Trade:

The appointees, who together have a wealth of business experience and knowledge gained from a series of sectors and geographical markets, will join the Prime Minister and the Coalition Government in promoting the UK's excellence in overseas markets. They will also assist UK businesses to recognise and exploit business opportunities.<sup>31</sup>

### *The role of Business Ambassadors*

37. The Business Ambassadors volunteer their time and do not have any formal role in Government. The Department stated that their role is:

- When travelling on business, carry out priority meetings at the request of UK Trade & Investment (UKTI), for example lobbying to remove barriers to market access or leading events for SMEs;
- Undertake dedicated overseas visits or lead missions in agreement with UKTI;
- Advise UK Ministers and Ambassadors on key business priorities and interests as they might arise;
- Meet overseas Ministers and inward missions;
- Provide insights into how UK Trade & Investment (UKTI) can best deliver for business; and
- Contribute to Government-to-Government dialogues with China, India, Brazil, Russia, Vietnam, Eastern Europe and other key markets.<sup>32</sup>

38. UKTI stated that the key objectives for the network were to use each Business Ambassador's individual experience of doing business internationally, and their unique market and sector knowledge, to:

- Promote the UK's excellence and the UK's favourable business environment;
- Help UK businesses recognise and exploit overseas opportunities; and

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31 "PM announces new Business Ambassadors", Number 10 press release, 9 November 2010



- Support UK businesses, Heads of Mission (HM Ambassadors and High Commissioners) and UKTI trade teams overseas.<sup>33</sup>

39. While business organisations generally supported the British Business Ambassadors scheme, and welcomed its re-launch, a number of concerns were raised by our witnesses. The CBI was unclear about the ability to identify the impact of the scheme,<sup>34</sup> and A|D|S commented that there was a need for:

Greater clarity and guidance from Government as to the remit of each Ambassador and the process by which trade associations can represent their members, particularly SMEs.<sup>35</sup>

40. Particular concerns were raised with us about the range of sectors represented by the Business Ambassadors. The British Chambers of Commerce argued that the Network's membership was almost exclusively drawn from very large companies which was not necessarily helpful to SMEs:

A lot of SMEs with which I come into contact from my membership or even just from the wider SME community would say to me, "I don't see how this person can help me represent my interests overseas".<sup>36</sup>

41. In a similar vein, the food and drinks industry and the creative industries were both concerned that their sectors lacked a representative on the Business Ambassadors Network.<sup>37</sup>

**42. We recognise the concerns of SMEs, the creative industries and the food and drink industry that they are not fully represented on the Ambassador's Network. We recommend that the Government ensure that all sectors of the UK economy have a representative on the Network who can speak for their interests and that this should not be limited to individuals from big business.**

43. When we questioned several of the new Ambassadors about their role and effectiveness, Nick Fry, believed that they should be judged on results:

I think we do need very specific targets; I think the business ambassadors need a clear mandate, and to be given objectives. The way we run our business is with an almost laser like focus on achieving results, and if this initiative is to be a success we do need to follow through from general advertising about how good we are, to setting out the things we hope to achieve with very clear targets. Then we can get back to measuring whether we achieved these and if not, why not.<sup>38</sup>

Sir Roger Bone explained how he saw his role:

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33 Ev 131

34 Ev 169

35 Ev 152

36 Q 9

37 Q 234 & Q 67

38 Q 144

It is a mixture of advocacy, of targeting potential inward investors, as well as helping, in a hands on way, potential exporters overseas. In my own case, as an ambassador for British business, I have both interacted with business men on the west coast of the United States, potential investors here, and spoken at a forum of SMEs at Loughborough University in the West Midlands, preparing to invest overseas in emerging markets for the first time.<sup>39</sup>

Lord Powell thought it was in fact very hard to measure the impact of the work of Business Ambassadors in precise terms because:

At the end of the day, we don't do the business. It is the companies that do the business and that is where the impact is felt. I would say that yes, I think I have contributed to raising awareness of Asian opportunities across the UK, particularly amongst SMEs. That is quite specific but you cannot measure it in pounds gained in export orders. You can see export figures for Britain go up, and you can think "Maybe I helped with that", but you cannot give anyone credit for that, other than the companies that actually make the sales.<sup>40</sup>

Sir Roger Bone suggested:

We dip in and out of the process. We give of our time as and when we are somewhere, and when we can add value to an ongoing process. Looking back on it, I sometimes feel that it is difficult for us to get a feel as to how much our personal contribution has been to the process or target. So, more feedback from UKTI on how we have done would certainly be welcome.<sup>41</sup>

**44. The British Business Ambassadors Network is a useful tool at the Department's disposal. While we appreciate that the Ambassadors give their time for free, we agree with Nick Fry (a member of the Network) that they should have both a clear remit and measureable targets. We do not necessarily recommend individual assessment but we believe that the effectiveness of the Network would benefit from review. It may be that the Ambassadors themselves would be best placed to judge their effectiveness against the criteria set out by the Department. We recommend that the Department publishes these assessments—in terms of activities and outcomes— at regular intervals.**

### **Catalyst UK**

45. The British Business Ambassadors have been tasked with promoting the UK on a senior global level. The UKTI is also looking at a similar scheme on a more populous level. Lord Green said:

A further opportunity yet to be developed—an idea that came from Ed [Ed Davey, Minister for Employment Relations, Consumer and Postal Affairs], in fact—is the notion of using the diaspora in this country of people with connections. South Asia is an obvious part of the world but not the only one. Making use of their connections

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39 Q 142

40 Q 143

41 Q 145

with and enthusiasm for being in this country as part of support for exports into their countries of origin is something we have not tapped and we should look at.<sup>42</sup>

46. In evidence, UKTI told us that it was establishing Catalyst UK, a global network of 100 “advocates for Britain” from the business and academic communities to deliver this aim. Catalyst UK is described by the Government as a network:

Made up of people who are trusted in their fields and can make a case for investing in the UK and doing business with UK companies and includes business people and academics with a strong affinity for Britain, including generations of Britons who have moved to other countries and many thousands of business people from overseas who have studied here, traded with British companies, or invested in Britain.<sup>43</sup>

The intention is that these advocates would share their experience and insights with less experienced exporters and therefore mentor companies, especially SMEs, taking their first steps into new markets.<sup>44</sup> The UKTI strategy announced that the 100 advocates already on board included CEOs of FTSE 100 companies and established entrepreneurs.<sup>45</sup>

47. This is a welcome initiative but one which is not new. In January 2010, our predecessor Committee was told of the establishment of ‘UK Global Connections’—funded by the Strategic Investment Fund—which would be:

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.<sup>46</sup>

**48. We welcome the creation of ‘Catalyst’ as a useful lever to attract inward investment. However, given the fact that this was an existing activity in UKTI we see little merit in a rebranding exercise which diverts valuable resources from delivering meaningful services to business. If it is a different programme then the Department should set out in detail how it has changed and how it will utilise the diaspora in this country and alumni of UK universities living abroad.**

## The UK exporting culture

49. Outside and above the structures put in place by Government to promote overseas trade and investment, at the end of the day success comes down to decisions by individual

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42 Q 535

43 UK Trade & Investment, *Britain open for business*, May 2011

44 UK Trade & Investment, *Britain open for business*, May 2011

45 UK Trade & Investment, *Britain open for business*, May 2011

46 Business Innovation and Skills Committee, Third Report of Session 2009–10, *Exporting out of Recession*, HC 266, para 112

companies and entrepreneurs. Lord Powell, one of the Business Ambassadors, told us that the UK's 'mercantile' spirit needed to be 'liberated':

I think it has become rather submerged by regulation and tax, and reforms in the economy are strongly needed to set it free again.<sup>47</sup>

There have been a number of business surveys carried out recently looking into whether UK companies are exporting and if not what is preventing them.

50. The FSB in its report *Made in the UK: Small businesses and an export led recovery* based on a survey of its members found that under a quarter (23%) of its members exported. 67% of UK companies that were not exporting felt their business only satisfied local need and 73% of respondees said they lacked a suitable product or service to export. Of the countries which FSB members exported to 87% exported only within the EEA and 45% exported to USA. Its members suggested better promotion of support available, tax breaks and tailor made information for small firms recommended to encourage exporting among small businesses.<sup>48</sup>

51. The British Chambers of Commerce (BCC) survey in 2009 *Exporting Britain* had similar results. Of the businesses that did export, 58% did so because they had been approached by a customer. A further survey carried out by the BCC into manufacturing found that of the businesses that responded 32.7% felt that better export support from the Government would be one of their top three policy changes to get manufacturers exporting.<sup>49</sup> The BCC also claimed that incentives that had encouraged both first time and existing exporters to enter new markets have been gradually removed over the past 20 years. It gave the example of taxation allowances which it believed had had a role in encouraging exports. Of particular note to the BCC was that prior to the early 1990s, companies were able to offset entertainment of foreign clients at home and abroad against Corporation Tax. It believed that exporters could be spurred into exploring new markets if companies were able to offset the costs of exploring new markets against Corporation Tax in the same way as capital investments. It also noted that previously export salesmen were able to claim income tax rebates if they had spent over thirty days in a row outside the UK. The BCC highlighted that this acted both as an incentive for British firms to send their employees out into the world, and as a recruiting tool for a role that involves spending long amounts of time away from their home and families.<sup>50</sup>

52. The Forum of Private Business (FPB) research *Exporting and Foreign Exchange* found that lack of information was the most frequently cited reason as a barrier for developing business either into exporting or into expanding exports. They too found that a large amount—67% of businesses who were not exporting—felt that their business was not conducive to exporting or that their business only satisfied a local need. Phil Orford of the FPB believed it was a mindset issue which was also:

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47 Q 136

48 Ev 179

49 Ev 160

50 Ev 159 para 2.2-2.3

Clearly both an educational issue, but also, at the risk of overdoing the word, a mentoring issue. These businesses owners do need to see practical examples of what's going on on the ground, and the development of that sort of network would be very helpful.<sup>51</sup>

The FPB also recommended that greater support and training was needed from Government if it was determined to encourage businesses to internationalise.<sup>52</sup>

53. The Secretary of State recognised that getting SMEs to export was a challenge:

I think that a third of British SMEs get involved in international trade; in Germany it is much, much higher. If we are to turn the country round in terms of trade performance, those are the people we have to engage. That is why a special effort has to be made.<sup>53</sup>

54. In response to these concerns and the need for support, and possibly, the need to raise awareness of potential export opportunities, the UKTI strategy has set the target of 'reaching out' to 25,000 UK companies a year up from an average of 20,000 over the last three years.<sup>54</sup> It should be noted that according to the Department there are nearly five million SMEs in the UK.<sup>55</sup> We discuss in Chapter 5 the tools the Government has at its disposal to achieve this aim.

**55. We take the view that the mercantile spirit in the UK is alive and well, but we also recognise that in difficult economic times, hard-pressed small businessmen and women may be so busy concentrating on domestic business that they do not have the time or resources to consider the international market. In this context additional support from UKTI is vital and we look forward to hearing whether UKTI can deliver on its outreach target. The Government should also consider what incentives could be put in place or reintroduced to encourage companies to explore moving into international markets.**

**56. The fact that survey data suggest that few businesses are pro-actively pursuing export opportunities demonstrates the importance of an aggressive marketing strategy, run by UKTI, to highlight to SMES the benefits of exporting. In that respect, the outreach target of UKTI developing contacts with 25,000 UK companies represents a modest figure considering the fact that there are just under five million SMEs in the UK.**

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51 Q 110

52 Ev 184

53 Oral Evidence taken before the Business, Innovation and Skills Committee, HC 945-i (2010–12), Q 23

54 UK Trade & Investment, *Britain open for business*, May 2011, p 13

55 Department for Business, Innovation and Skills, Economics and Statistics, Enterprise Directorate: Small and Medium Enterprise Statistics for the UK and Regions

## 3 Global Factors

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57. While there are many influences which the Government can bring to bear, a significant proportion of trade agreements are conducted at a multinational level. As Dr Sally from the LSE highlighted:

Most of our trade policy is conducted in Brussels and it is a pretty centralised operation. In that sense the UK does not have a trade policy. Rather we have an input into EU trade policy made in Brussels.<sup>56</sup>

This reality was recognised in the Trade White Paper:

Trade and FDI policy (though not trade and investment promotion) is an EU competence and the Commission negotiates on behalf of Member States in accordance with instructions given by them.<sup>57</sup>

58. The CBI took the view that the impact of the UK's input needed to be maximised and argued that the Government should play to the UK's strengths by pushing for comprehensive liberalisation across all sectors in trade agreements:

It must fight to ensure that liberalisation of the services sector, which make up over 40% of the UK's exports, is at least as ambitious as goods liberalisation. It should also, in consultation with business, draw up a priority list of fast-growing emerging economies, based on the opportunities and challenges each one presents to UK businesses, particularly in high-growth, high-value sectors, and ensure that FTAs are put in place.<sup>58</sup>

Dr Sally also argued that historically, UK Governments were guilty of “punching well below [their] weight” which resulted in other European nations being allowed to direct trade policy in a way which did not benefit the United Kingdom.<sup>59</sup> He also had particular concerns about the increasing role of the European Parliament:

The Parliament now has powers to block. It has got to be taken into account in terms of trade policymaking. Globalisation-sceptical constituencies find support amongst certain members of the European Parliament, and some of them are actually on the International Trade Committee. Actual knowledge about international trade is sadly lacking, and that is also true of many members of the Trade Committee.<sup>60</sup>

He concluded:

I think it is important for the British Government and for companies and indeed for parliamentarians to have much closer contact with the European Parliament and, on these issues, with the International Trade Committee in particular, partly to educate

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56 Q 356

57 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011

58 Ev 165

59 Q 362

60 Q 363

them as to the facts of the world and to have trade policy go in the right direction, and not be derailed by this or that often non-trade issue that might hijack a trade agenda.<sup>61</sup>

59. We were told that in some areas the UK had suffered due to its lack of engagement in EU bilateral trade agreements. The Society of Motor Manufacturers and Traders (SMMT), for example, highlighted that the EU South Korea Free Trade Agreement had disadvantaged the UK car industry.<sup>62</sup> Paul Everitt, SMMT's Chief Executive said:

Our disappointment was that there were a number of European Governments with concerns about the Korean Free Trade Agreement; the UK was not one of them and, therefore, some of the other major vehicle manufacturing countries, which could have come together to have done something slightly more productive on that Agreement, did not have all the support that they might have required.<sup>63</sup>

**60. We welcome the Government's assertion that it will be more active in shaping EU trade policy. However, we note that previous Governments have used similar rhetoric with mixed results. The Government will be judged on its delivery of an EU trade policy which benefits the United Kingdom. As a key negotiator in world trade the EU will play an important role.**

## WTO and the Doha Round

61. In addition to policy formation at the European Level, a crucial driver in world trade is the WTO and the Doha round of negotiations. The importance of Doha was noted by the CBI. It stressed the importance of an early conclusion to negotiations and urged the Government to do all it could both within the EU and as part of other groupings (such as the G20) to secure the necessary political support.<sup>64</sup>

62. Other organisations we spoke to were all keen for Doha to be completed. Melanie Leech from the Food and Drink Federation told us:

In general terms, in the UK food and drink industry, we want to buy globally traded commodities at a competitive price. We want to export value added products into global markets, so a multilateral trade liberalisation has to be the priority for us, so Doha is absolutely critical.<sup>65</sup>

The SMMT also called on Government and BIS Department to "prioritise an effective, balanced and fair conclusion to the Doha Development Round of WTO trade talks".<sup>66</sup>

63. The Trade White Paper acknowledged the importance of Doha to trade:

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61 Q 363

62 Ev 204

63 Q 81

64 Ev 165

65 Q 84

66 Ev 204

Concluding the DDA (Doha Development Agenda) is the overarching trade priority for the UK Government and 2011 is the make or break year. The deal on the table represents the most ambitious multilateral trade deal yet, covering agriculture, industrial goods, services, intellectual property and trade facilitation. The Government will work hard to enable a conclusion to the Round in 2011.<sup>67</sup>

However, the UK can only influence the WTO through the EU. Dr Sally reminded us that the UK does not negotiate on its own in the WTO but as part of the European Union:

The EU commission sits there, albeit with the Council sitting on its shoulder like 27 parrots trying to whisper in its ear. Nonetheless, that is the issue in all of this. We can go around and talk to people; job owning is always a good thing to do if you want something to happen in a political sense, but the bottom line is it is not within our gift to complete this.<sup>68</sup>

64. The importance of completing the Doha Round has again recently been highlighted by the publication of the Trade Experts Group Report.<sup>69</sup> The group was set up by the UK, Germany, Turkey and Indonesia to consider the actions needed to combat protectionism and boost global trade. The report concluded that the Doha negotiations had produced the most substantial package of trade liberalisation and called on national leaders to seize the opportunity.<sup>70</sup>

**65. We recognise the fact that the UK's influence on the WTO can only be exercised through its membership of the European Union. However, the lack of a direct influence should not deter the Government from using established bilateral relations to press for an early conclusion to the Doha round. This is a complicated area of international agreement and we support the Government's desire for an agreement which will deliver the right environment for free trade. We look forward to an update on progress when the Government responds to this Report.**

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67 Department for Business, Innovation and Skills, *Trade and Investment for Growth*, Cm 8015, February 2011

68 Q 365

69 The leaders of the United Kingdom, Germany, Indonesia and Turkey set up the high level group in October 2010 to provide analysis and recommendations in support of trade liberalisation and revitalisation. It was co-chaired by Professor Jagdish Bhagwati and Peter Sutherland.

70 Peter Sutherland and PR Jagdish Bhagwati, *World Trade and the Doha Round*.



## 4 UK Trade & Investment

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### The Role of the UKTI

66. UK Trade & Investment (UKTI) is the UK's trade and investment promotion body. Under the previous Government, the UKTI's last five year strategy, *Prosperity in a Changing World*, set out the work of UK Trade & Investment from 2006 to 2011:

We will help business to internationalise and contribute to the prosperity of the UK. We will make the marketing of the UK professional and world-class. To deliver this we need to change how we work, the skills we use and the way we serve UK business and inward investors. We start from a good position. UKTI is well regarded internationally, our staff are dedicated and we have met our targets. But now we must do much more: we must change our culture and raise our game.<sup>71</sup>

### **The new UKTI Strategy: Britain open for business**

67. The UKTI strategy (when it was finally published) answered some of the criticisms we had heard throughout this inquiry. The foreword to the strategy set out the overall mission for UKTI:

This strategy sets out how UKTI will provide practical support to exporters and investors over the next five years. It marks a step change in the way that UKTI and the rest of government will focus its efforts, by adopting a proactive approach to bringing opportunities home, and focusing on the export and investment markets that provide the best opportunities for growth.<sup>72</sup>

The strategy set out four main plans for the UKTI:

- i. Targeting services at innovative and high growth SMEs to encourage more companies to export, and help existing exporters reach more high growth and emerging markets.
- ii. Winning high value opportunities in overseas markets for UK businesses of all sizes.
- iii. Delivering high quality inward investment, with a drive to market large British infrastructure and regeneration projects to foreign investors.
- iv. Building strategic relationships at the highest levels with the most significant inward investors, including overseas institutions such as Sovereign Wealth Funds, and with the UK's top exporters and major overseas buyers.<sup>73</sup>

68. In response to the strategy, the International Chamber of Commerce UK told us:

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71 UK Trade & Investment, *Prosperity in a Changing World*

72 UK Trade & Investment, *Britain open for business*, May 2011, p 1

73 UK Trade & Investment, *Britain open for business*, May 2011, p 11

Whilst we welcome the core elements of the “Britain Open for Business” strategy, we think that more detail is required about how the proposals will work in practice—and specifically what needs to change to deliver a better service. In this connection, it is our view that careful consideration needs to be given to how the various strands of the strategy can best be implemented to provide real “value-added” for UK businesses.<sup>74</sup>

## Funding and Personnel

69. One of the main concerns we have heard throughout our inquiry has been funding and staffing levels of the UKTI in light of the Comprehensive Spending Review. While we welcome the publication of the strategy, it is lacking any real detail on manpower or resources available to UKTI.

70. UKTI has three main funding streams. It has its own directly funded UKTI Programme Vote for which the UKTI Chief Executive is the Accounting Officer and has overall financial authority. In addition, it receives funding from both the Department for Business, Innovation and Skills (BIS) and the Foreign & Commonwealth Office (FCO), for which the UKTI Chief Executive has a level of delegated budgetary control cascaded from the BIS and FCO Accounting Officers as appropriate.<sup>75</sup> UKTI’s FCO funding is contained within the FCO Vote, and the UKTI element pays for front line staff based overseas delivering key programmes.<sup>76</sup>

71. The Department provided us with partial information on the levels of funding available to UKTI over the course of the Comprehensive Spending Review. This information is set out in the table below and is considered in subsequent paragraphs.

UKTI Budget Baseline Profile for 2010–11 and SR10 (2011–12 to 2014–15) on a cash basis							
	2010–11	2011–12	2012–13	2013–14	2014–15	difference £m's	difference %
UKTI programme Vote							
Gross	94	91	88	86	85	-9	-10%
Income	5	7	8	9	11	6	120%
Net	89	84	80	77	74	-15	-17%
FCO funding	204						
BIS funding	40	39	38	36	33	-7	-18%
Total resources	333	327	322	317	277	-56	-17%
*No further figures are currently available for FCO resource.							

*Figures provided by UKTI Ev 148*

74 Ev 215

75 Ev 147

76 Ev 147

### **UKTI Programme Vote**

72. The funding in UKTI's own Programme Vote pays for front line trade and foreign direct investment activity including grants and business support services, for example, Passport to Export and the Trade Access Programmes (which we discuss in more detail later in this Report). Susan Haird, acting Chief Executive of UKTI, explained to us that the Programme Vote:

Is essentially the money that is spent directly with customers. For example, it includes the grants that are given to companies to exhibit at trade fairs overseas and the grants given to companies going through Passport to Export. It includes provision for our frontline staff in the English regions, who are paid for out of programme[...]. Those things paid for out of programme spend are indeed frontline spend on customers, and they are being cut because our programme budget is being cut. There is nothing that can be done about it.<sup>77</sup>

That Vote was subject to a 17% cut as part of the Comprehensive Spending Review settlement.<sup>78</sup>

### **DBIS and RDA funding**

73. UKTI's DBIS administration funding is ring-fenced within the Department, and pays for front line and support staff based in the UK, and their associated costs.<sup>79</sup>

74. This funding, which covers inward investment as well as trade services, is also being reduced as a result of the abolition of the RDAs. Susan Haird told us that regarding inward investment "the RDAs used to top up the money we gave them with money of their own, and that money has gone".<sup>80</sup> With regard to trade services, she also explained that while the Department funded the contracts which delivered UKTI's international trade advice in the English regions "the RDAs used to put more money into the delivery partners that we have there. That money also has gone as a result of the abolition of the RDAs."<sup>81</sup> To conclude she acknowledged that the Spending Review and the demise of the RDA had resulted in "a net loss in terms of money available".<sup>82</sup>

### **FCO funding**

75. The Foreign and Commonwealth Office (FCO) funds the overseas posts for the UKTI. When we asked the Department for the figures from the Comprehensive Spending Review for this we were told that they had not yet been decided and were therefore unavailable. In oral evidence, Susan Haird told us:

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77 Q 404

78 Ev 147

79 Ev 147

80 Q 435

81 Q 430

82 Q 390

The Spending Review set the totals for the overseas network for the next four years, so those figures are available. In terms of the amount available to individual overseas posts, that will be coming out shortly, jointly between the Foreign Office and us.<sup>83</sup>

However, we were later told by Departmental officials that the Foreign Office figures had not been finalised. At a subsequent evidence session Ms Haird was questioned again:

Q499 Nadhim Zahawi: Ms Haird, you told us on Tuesday that the Foreign Office funds for UKTI were published as part of the Comprehensive Spending Review. Your officials have since told us otherwise. Can you shed some light on the situation when it comes to the UKTI overseas budget?

Susan Haird: As I understand it, they have sent to you the overall totals for the spending review. That was sent in yesterday evening. [...]

Q500 Nadhim Zahawi: We were told that these were just assumptions and estimates by UKTI but not published, contrary to what we were told on Tuesday by you.

Susan Haird: Maybe I did not use the word “published” in a strictly correct manner. I meant that they were available. They will be in the accounts and so on. The way funding works between us and the Foreign Office is complex. We have some money allocated through a ring-fenced budget, which pays for certain things; we have some money allocated direct to post, which pays for other things; and there are overheads to do with accommodation, the cost of school fees and so on.<sup>84</sup>

76. When the Department sent in their supplementary memorandum<sup>85</sup> following the evidence sessions the FCO figures were still not available (see earlier table). We pursued the issue of funding for overseas staff with the Secretary of State when he came before us. However, he was unable to shed any further light on FCO funding for UKTI:

No, I am not in a position to tell you exactly the number of personnel and what they are doing. We know the aggregate financial figures, of which I think you are aware anyway. This is a cash reduction overall of about 17%.<sup>86</sup>

Following the evidence from the Secretary of State we again asked for the figures and have yet to receive them from the Department.

**77. We are concerned with the lack of clarity over the FCO UKTI budget which pays for overseas posts. We find it hard to believe that Ms Haird, the Acting Chief Executive of UKTI, thought the figures had been published when they had not and still refused to acknowledge they were not in the public domain even when questioned on the matter. Furthermore, the Secretary of State was also not aware that the figures had yet to be agreed by the Foreign Office. It is disturbing that the Acting Chief Executive of, and the**

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83 Q 393

84 Q 500

85 Ev 146-149

86 Oral Evidence taken before the Business, Innovation and Skills Committee, *The Government's Strategy for Growth*, Oral HC 945-i, Q 32

**responsible Secretary of State for, such a highly important body do not have a grip on the details of the UKTI's FCO budget.**

### *Industry Concerns*

78. There is concern about whether services will be lost as a result of the Government spending cuts. The CBI, for example, highlighted the importance of the Passport to Export Scheme and Gateway to Global Growth and stated that they should be expanded not cut.<sup>87</sup> In Business, Innovation and Skills Questions in the House in March the Chair of this Committee sought clarity from Secretary of State on the matter:

Mr Adrian Bailey (West Bromwich West) (Lab/Co-op): Over the next four years, UKTI is set to have its budget cut by some 17%. The schemes most commended by the CBI are passport to export and gateway to global growth. Will the Minister give an assurance that among the budget cuts those services will be protected?

Vince Cable: I can assure the hon. Gentleman that UKTI is capable of and committed to providing an increased range of activities and a better service even within its budget.<sup>88</sup>

79. A number of other witnesses were concerned that the UKTI financial settlement would adversely affect its ability fully to support UK companies wishing to export. Graham Chisnall from A|D|S argued that “if export is one of the highest priorities then one has to pay attention to those enabling mechanisms”.<sup>89</sup> He believed that the Government needed to find savings which did not result in “losing the resources affiliated with the UK’s export agenda that can help rebalance and grow the UK economy”.<sup>90</sup>

80. Airbus, one of the UK’s major exporters, believed that budget reductions in UKTI had the potential to:

Lead to a reduction in the trade advisers based not only in the UK but also in the Embassies abroad. They play an important role in briefing the Ambassador on industry issues.<sup>91</sup>

This view was supported by representatives of other sectors of the UK economy. Feargal Sharkey from UK Music gave the following assessment:

If we are to fulfil this ambition of developing our overseas markets and pushing and expanding, that is going to take more time, more effort, more in the way of resource and more investment. So quite clearly, if anything was going to scale back or put further pressure on that, it is quite clearly going to have an impact and my instinct would be that it would be a negative one.<sup>92</sup>

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87 Ev 167

88 HC Deb, 31 March 2011, col 499

89 Q 200

90 Q 200

91 Ev 157

92 Q 270

Richard Mollet from the British Publishers Association agreed:

Where the government is giving that money, we need those levels to be sustained or exporters will suffer.<sup>93</sup>

81. The Secretary of State told us that the number of companies helped through the Passport to Export Scheme would be sustained despite the cuts, but with regards to Gateway to Growth there would be a temporary dip from 1,750 to 1,250 in the number of companies supported. It was his intention that the number of companies supported should return to previous levels by the end of the spending period.<sup>94</sup>

82. We have noted previously in this report that UKTI plans to ‘reach out’ to 25,000 companies each year up from an average of 20,000 over the last three years.<sup>95</sup> When we questioned the Lord Green on how more could be done with less we were told:

I think there is scope to use more internet-based assisted networking and sharing of experience among SMEs as they get engaged in international markets. I do not think as much of that has happened as could do, and that is an area that is extremely cost efficient<sup>96</sup>

He also said:

In the ideal world you would want a larger budget, because the evidence is that the more you do, the greater the payoff. That would not be true all the way up the curve, but it looks as though we are at a point in the curve where that would be true, but there is the real world in which UKTI operates.<sup>97</sup>

In conclusion, the Minister gave the following summary of the Government’s position:

We still believe that you can, if you will, wring the sponge and make it more efficient.<sup>98</sup>

83. In the previous Parliament, our predecessor Committee had a similar debate with the then Government on the need for adequate UKTI funding. It concluded that:

Care must be taken to ensure that efficiency savings result in real efficiencies, Too often, short sighted attempts to make savings lead to unforeseen long term costs.<sup>99</sup>

**84. While we understand the need for all Departments to deliver cuts in their expenditure, we are not convinced that the Department for Business, Innovation and Skills has given sufficient thought to where its cuts will fall. UKTI is a key delivery agency for the expansion of UK exports and a reduction to its budget appears to be in**

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93 Q 270

94 Oral Evidence taken before the Business, Innovation and Skills Committee, HC (2010–12), 945-i, Q 12

95 UK Trade & Investment, *Britain open for business*, May 2011, p13 and para 54

96 Q 498

97 Q 497

98 Q 498

99 Business, Innovation and Committee, Third Report of Session 2009-10, *Exporting out of Recession*, HC 266, para 95

direct contradiction to the Government's commitment to increase growth through trade and investment. We concur with our predecessor Committee that "care must be taken to ensure that efficiency savings result in real efficiencies. Too often, short-sighted attempts to make savings lead to unforeseen long term costs".

85. We welcome the candid acknowledgement of the Secretary of State that budget reductions will result in a short-term decrease in the number of companies supported through some of UKTI's programmes. Equally, Ministers have assured us that in the longer-term UKTI will be able to do more with less. This is a bold statement and the Department will have to demonstrate to us and the House that it is delivering on that assertion.

### UKTI staffing

86. UKTI employs 1,300 people and delivers services in 162 locations in 96 overseas markets. In evidence, Susan Haird, Acting Chief Executive of UKTI, gave us a helpful breakdown of composition of that figure:

15% of our staff are diplomats from the Foreign Office. Some 85% are locally engaged staff, engaged for their market knowledge. Many of them will have business backgrounds. In the English regions our services are contracted out to organisations such as Business Links and Chambers of Commerce. The majority of the international trade advisers, our frontline staff in the English regions, are people from business. In headquarters we are civil servants, who are, in the main, drawn from the Department for Business, Innovation and Skills and the Foreign Office, but we also make use of a large number of business specialists. For example, our R and D scheme has a business specialist running it. Our sector champions are drawn from business backgrounds. The staff working on our new high value opportunities were aimed at bringing back really high-value opportunities and matching them proactively with the capabilities of British companies. These are all business specialists. We are a mix.<sup>100</sup>

### *Headcount: overseas and UK*

87. During her evidence, Susan Haird provided us with an assessment of how the reduction in UKTI's budget would affect its headcount:

Overseas we hope not to lose headcount overseas. The decline through the spending review is lower on the Foreign Office side than elsewhere. There are ways in which we can save quite a bit of money overseas without cutting headcount, including in particular continuing the policy we have pursued for a number of years of localising posts where possible.<sup>101</sup>

88. On 11 May 2011 the Foreign Office announced that it would be increasing staff in its embassies in the emerging high growth economies. The Foreign Secretary told Parliament:

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100 Q 389

101 Q 389

We will embark on a substantial reinvigoration of the diplomatic network to make it ready for the 21st century; to expand our connections with the emerging powers of the world, and to signal that where Britain was retreating it is now advancing. [...]

The only way to increase our national prosperity and secure our growth for our economy is through trade, and our Embassies play a vital role in supporting British business. [...]

We will strengthen our frontline staff in China by up to 50 officials and in India by 30, working to transform Britain's relationship in their fastest growing cities and regions.

We will also make a substantial expansion of our diplomatic strength in Brazil, Turkey, Mexico and Indonesia.

We will add diplomatic staff in all of the following countries or places: Thailand, Burma, South Korea, North Korea, Taiwan, Mongolia, Malaysia, Nigeria, Angola, Botswana, Chile, Argentina, Colombia, Panama, Peru, Pakistan, Vietnam, and the Philippines.<sup>102</sup>

89. In respect of UK staff, Susan Haird explained that out of a team of 265 trade advisers there was likely to be a 19% reduction:

As to the English regions, where there is a loss not only of UKTI funding as a result of the spending review but also [...] a loss of RDA funding because the RDA has topped up the spending on trade in those regions, it looks like we will lose about 50 international trade advisers.<sup>103</sup>

She also admitted that it was these regional trade advisers who:

Work very much with companies that are new to exports through Passport to Export and companies that are moving on, perhaps after a couple of years of export experience, and want to diversify.<sup>104</sup>

90. We questioned the Secretary of State on this point and he told us:

We believe they can improve their service even within a small budget because they have already shown in the last few years a very big increase in their physical productivity. If you measure the activities they have undertaken in relation to the number of trade advisers, they have increased by about 50% over four years. Their expenditure in order to achieve a particular result has improved by about 25% over three years, so we believe that greater productivity and better organisation can deliver these improvements.<sup>105</sup>

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102 "For the first time in decades our diplomatic reach will be extended not reduced" Foreign Office press release, 11 May 2011

103 Q 503

104 Q 511

105 Oral Evidence taken before the Business, Innovation and Skills Committee, HC (2010–12) 945-i, Q 8



91. **If it is the Government's plan to get SMEs exporting it seems incoherent to be cutting the number of trade advisers at the 'coal face' by 19%. In the words of the Acting Chief Executive these are the very advisers who work with those SMEs that are new to exporting or that need help moving on and diversifying. We are concerned that these short-term efficiency savings will be at a long term cost of reducing the number of SMEs moving into exports.**

### Encouraging Entrepreneurship within UKTI

92. The Plan for Growth also signalled the Government's desire to drive a cultural change within UKTI with far more emphasis placed on an entrepreneurial approach which "makes better use of private sector expertise".<sup>106</sup> The UKTI strategy built on that view:

UKTI will become a more entrepreneurial organisation. We will bring more private sector expertise into strategic relationship management of major exporters and inward investors.<sup>107</sup>

93. We questioned the Minister about this strategy and how people from business could be attracted to work in or with the UKTI within the current budget restraints. Lord Green told us:

I think the real issue arises when you want levels of senior leadership within UKTI. I believe that we need more people from the private sector engaged in key positions in UKTI. For example, I would like to see the unit [...] that supports relationship management and big-ticket inward investment headed by somebody we recruit from the private sector, and there plainly you are into considerations of cost per head.<sup>108</sup>

He added:

To the extent that we are successful in recruiting some key private sector people into UKTI, we have to look at their packages and make sure they are competitive, and maybe those have to have some kind of performance-related component. [...] We have to get it right, but clearly you have to be competitive, and the fact is that most industry has a component of incentive performance in people's compensation.<sup>109</sup>

94. It would seem this process of recruiting from the private sector has recently begun. On 23 May 2011 the Government issued a press notice announcing that a former Ernst and Young Global Board Member, Michael Boyd, had joined UKTI as Managing Director of the Strategic Relationship Management Team. The aim of his role is to build and ensure high level relationships with significant inward investors, including overseas institutions such as Sovereign Wealth Funds.

**95. We support the Government's aim to make the UKTI a more entrepreneurial organisation by bringing in private sector expertise to UKTI posts. However, with**

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<sup>106</sup> HM Treasury and Department for Business, Innovation and Skills, *Plan for Growth*, March 2001, p 7

<sup>107</sup> UK Trade & Investment, *Britain open for business*, May 2011, p 8

<sup>108</sup> Q 512

<sup>109</sup> Q 513

**UKTI managing significant budget reductions cuts we are not convinced the Department will be able to offer competitive packages to the business personnel it hopes to attract.**

### ***The new Chief Executive of UKTI***

96. On 11 May, four months after the previous Chief Executive of UKTI retired, the Department announced the appointment of the new Chief Executive of the UKTI.<sup>110</sup> The successful candidate was Nick Baird, a career civil servant from the Foreign Office.<sup>111</sup> Having previously been the Ambassador to Turkey, Mr Baird has most recently been Director-General for Europe and globalisation at the FCO.<sup>112</sup>

97. We have yet to meet Mr Baird and therefore cannot comment on his suitability for the post. However, we find it surprising that, at a time when the UKTI is trying to commercialise its operations, it recruits a head of the organisation with no reported commercial experience. As the *Independent* newspaper commented “there was some hope that UKTI might recruit a big-hitter from the private sector for the job – the word is the money on offer wasn’t good enough”.<sup>113</sup> The Financial Times reported ahead of the appointment:

Wanted: new figurehead to promote UK plc: Air Miles membership handy, independent wealth essential. [...] A decision to slash the salary of UKTI’s next boss may have left the shortlist looking a little more threadbare than ministers in the Department for Business Innovation and Skills would wish. [...] Paring the salary of the head of the country’s main trade promotion body sends out entirely the wrong message.<sup>114</sup>

**98. We are disappointed that the office of Chief Executive of UKTI was left vacant for four months before it was filled on a permanent basis. This recruitment process should have run faster at such a crucial time for the UKTI.**

**99. We welcome the appointment of Nick Baird as new Chief Executive. That said, we were surprised that the post was filled by a career civil servant rather than a business leader with a track record of success in the private sector.**

**100. We welcome the Government’s ambition to make UKTI more entrepreneurial. However, we remain unconvinced that UKTI can attract suitable applicants from the business world at a time when cuts to its funding will put a strain on its ability to offer competitive packages to the business world. This may already be evident in the recruitment of a career civil servant rather than a business leader as the new Chief Executive of the UKTI.**

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110 Department for Business, Innovation and Skills press release, “Britain open for business”, 10 May 2011

111 Department for Business, Innovation and Skills press release, “Britain open for business”, 10 May 2011

112 Department for Business, Innovation and Skills press release, “Britain open for business”, 10 May 2011

113 “Nick Baird Chief executive, UKTI”, *The Independent*, 11 May 2011

114 “Wrong Signal”, *Financial Times*, 26 March 2011

## 5 UKTI trade services

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101. UKTI provides a whole range of trade service products. It works with both SMEs and large companies; it works in the UK as well as overseas markets, with a focus on emerging high growth markets. It is also tasked with the promotion of specific sectors. In this section of our Report, we consider these services.

### SMEs

102. About ninety percent of UKTI's trade service work is with SMEs.<sup>115</sup> The UKTI works with both SMEs which are completely new to exporting through its Passport to Export scheme and SMEs who are already exporting but who wish to expand through its Gateway to Growth programme.

### *Passport to Export*

103. For SMEs new to exporting, UKTI offers a range of support services under its Passport to Export Scheme:

- Access to a local International Trade Advisor to help develop a plan of action;
- Specialist help with tackling cultural and language issues; and
- Advice on how to go about conducting market research.<sup>116</sup>

104. UKTI states that companies looking for UKTI support will be provided with an assessment of their ability to export, help with an action plan to get them started, training to help develop their capability, and help to put their plans into action, including support to find the right market and to make their first visit. According to UKTI, since its creation in 2001, the Passport to Export service has supported around 14,000 companies.<sup>117</sup>

105. Phil Orford from the Forum of Private Businesses (FPB) explained the importance of support for businesses when beginning on the road to exports:

There is a real difference in going from trading within your town, your county or your region, or even within the UK, to taking that step to international trade, and we certainly believe that there's a lot more that could be done in terms of workshops on export readiness, bringing in practical mentors, those who do it day in day out, to try and break down some of the perception barriers that exist within businesses that have a desire to export but don't really know how to take that next step.<sup>118</sup>

106. Commenting on SME support, Andrew Cave from FSB told us that a survey of his members gave favourable feedback on the Passport to Export scheme:

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115 Q 379

116 Ev 132

117 Ev 146

118 Q 95

































































































