House of Commons
Business, Innovation and Skills Committee

Rebalancing the Economy: Trade and Investment

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

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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.

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Mr Brian Binley MP (Conservative, Northampton South)
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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

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. 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 Whittley (Inquiry Manager), Neil Caulfield (Inquiry Manager), Ian Hook (Senior Committee Assistant), Jennifer Kelly (Committee Assistant).

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Summary

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

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.¹

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.²

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.³

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%.⁴ The UK share of manufacturing exports fell from 4.4% in 2000 to 2.8% in 2009.⁵ 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,⁶ which was described in the press by one commentator as “pretty horrendous”.⁷ 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.⁸

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”.⁹ We decided in this inquiry to test whether or not the Government was putting in place the necessary

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

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).10

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.11

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.12

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.13

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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13 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.\textsuperscript{14}

19. On 11 May 2011, the Department finally published the UKTI strategy, missing its own target by four months.\textsuperscript{15}

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.\textsuperscript{16} 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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\textsuperscript{14} Q 96
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\textsuperscript{15} UK Trade & Investment, *Britain open for business*, May 2011
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\textsuperscript{16} www.bis.gov.uk/ministers
\end{flushleft}
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\(^{17}\), welcoming incoming delegations—is very helpful.\(^{18}\)

Aerospace Defence Security (A\(\text{D}\)|\(\text{S}\)) 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.\(^{19}\)

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.\(^{20}\)

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.
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\(^{21}\) 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.\(^{22}\)

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.\(^{23}\)

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.\(^{24}\)

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.\(^{25}\)

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.\(^{26}\)

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

\(^{21}\) 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.27

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.28

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.29

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.30

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
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.31

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.32

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

31 “PM announces new Business Ambassadors”, Number 10 press release, 9 November 2010
32 Ev 144
• Support UK businesses, Heads of Mission (HM Ambassadors and High Commissioners) and UKTI trade teams overseas.33

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,34 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.35

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”.36

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.37

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.38

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.\footnote{Q 142}

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.\footnote{Q 143}

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.\footnote{Q 145}

\footnote{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 measurable 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.}

\footnote{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
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.42

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.43

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.44 The UKTI strategy announced that the 100 advocates already on board included CEOs of FTSE 100 companies and established entrepreneurs.45

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.46

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
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.47

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 respondents 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.48

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.49 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.50

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:

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.51

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

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.53

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.54 It should be noted that according to the Department there are nearly five million SMEs in the UK.55 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.

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
Global Factors

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.\textsuperscript{56}

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.\textsuperscript{57}

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.\textsuperscript{58}

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.\textsuperscript{59} 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.\textsuperscript{60}

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

\textsuperscript{56} Q 356
\textsuperscript{57} Department for Business, Innovation and Skills, \textit{Trade and Investment for Growth}, Cm 8015, February 2011
\textsuperscript{58} Ev 165
\textsuperscript{59} Q 362
\textsuperscript{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.\textsuperscript{61}

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.\textsuperscript{62} 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.\textsuperscript{63}

60. \textbf{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.

\textbf{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.\textsuperscript{64}

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.\textsuperscript{65}

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.”\textsuperscript{66}

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

\textsuperscript{61} Q 363
\textsuperscript{62} Ev 204
\textsuperscript{63} Q 81
\textsuperscript{64} Ev 165
\textsuperscript{65} Q 84
\textsuperscript{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 2011.67

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.68

64. The importance of completing the Doha Round has again recently been highlighted by the publication of the Trade Experts Group Report.69 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.70

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.

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

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.71

The new UKTI Strategy: Britain open for business

67. The UTKI 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.72

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.73

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

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.74

**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.75 UKTI’s FCO funding is contained within the FCO Vote, and the UKTI element pays for front line staff based overseas delivering key programmes.76

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.

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<td>317</td>
<td>317</td>
<td>-56</td>
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*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.77

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

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.79

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”.80 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.”81 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”.82

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.  

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.

76. When the Department sent in their supplementary memorandum 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%.**

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**
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.87 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.88

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”.89 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”.90

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.91

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.92

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. \(^93\)

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.\(^94\)

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.\(^95\) 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\(^96\)

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.\(^97\)

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.\(^98\)

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.\(^99\)

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**

\(^93\) 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
Rebalancing the Economy: Trade and Investment

29

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.

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.

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:
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.102

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.103

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.104

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.105

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”.[106] 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.[107]

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.[108]

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.[109]

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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107 UK Trade & Investment, *Britain open for business*, May 2011, p 8
108 Q 512
109 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. The successful candidate was Nick Baird, a career civil servant from the Foreign Office. Having previously been the Ambassador to Turkey, Mr Baird has most recently been Director-General for Europe and globalisation at the FCO.

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”. 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.

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 UTKI 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.

113 “Nick Baird Chief executive, UKTI”, The Independent, 11 May 2011
114 “Wrong Signal”, Financial Times, 26 March 2011
5 UKTI trade services

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. 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.

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.

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.

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:
83% find the services very useful and particularly the Passport to Export scheme, which is very much looking at readiness and getting businesses ready for exporting. So I think our plea would be not to try and reinvent the wheel. There are some good schemes there at the moment, and what we need to do is make sure that more businesses are aware of them.119

107. Overall, Passport to Export is well-received by business but there remains more to be done. We are concerned at how this is to be achieved with fewer resources to pay for training and fewer trade advisers out in the regions helping SMEs. The Department, and UKTI in particular, must guard against relying on statistics and process activity to demonstrate success in delivery. Results for business is the only real measurement of the programme’s success.

Gateway to Global Growth

108. Gateway to Global Growth was launched on 1 April 2009.120 UKTI said it was targeted at helping SMEs, with exporting experience, to raise their game, including entering more challenging markets overseas.121 It differs from the Passport to Export scheme in that it focuses on capabilities for widening and diversifying overseas business, and places greater emphasis on referrals to other services, including charged-for help from private sector providers. According to the Department’s figures, by the end of February 2011, nearly 3,000 companies had joined the programme.122

109. FSB recommended that more priority should be given to Gateway.123 FPB said that their research indicated that there was greater demand than supply for the service.124

110. We received little, if any, evidence on the Gateway to Global Growth but we note that the programme was a key factor in UKTI winning a global trade promotion award. We recommend the Department provides us with details on its assessment of the service in light of customer feedback. We remain concerned by the proposed cut in companies being served over the spending review period.

Additional services

111. UKTI said there were also a number of specific services which were often accessed as part of the Gateway and Passport programmes but which could also be taken in isolation. These included free advice from professional market researchers on how to conduct market research, as well as the option of a grant towards approved market research projects and a subsidised review from a communications expert on how to overcome cultural barriers to exporting.125 This service also offers advice on labelling and website design.126
112. UKTI is also able to provide detailed, bespoke subsidised help from UKTI staff, many of them locally engaged with local knowledge, in our Embassies, High Commissions and Consulates overseas.127 This assistance includes tailored information, contacts and on the spot assistance, as well as help to launch a product or host events for potential customers.128 Andrew Cave from the Federation of Small Businesses saw great value in these services and declared “we’d like UKTI to keep doing what it does, but with much more exposure”.129 Phil Orford from Forum of Private Business provided us with his organisation’s survey data which also showed that greater dissemination of information was necessary:

It was lack of information about prospective markets that was most frequently cited by members as a reason for their inability to export. If anything, we would like to see UKTI having a bigger brief on market intelligence. Market intelligence in the domestic market is increasingly important, whether that be related to customers’ credit ratings or sectors or demographics.130

113. In addition Andrew Cave told us that FSB members were:

Concerned that [UKTI] success is gauged by how many meetings are organised rather than how many contracts come out as a result of those meetings, and for a small business, where every pound and every hour counts, they can’t really afford the time or the money to engage in such activities unless they know there’s going to be a measurable output at the end.131

Andrew Scott from CBI agreed saying:

We think that some of the measurements have been a bit too much driven [...] by literally headcounts and box ticking. I think there has been a concern that when you talk, for instance, to some of the people on the ground in posts abroad, they find that what they are required to be doing is just in danger of becoming the numbers game, rather than focusing on the outcomes.132

The British Chambers of Commerce suggested:

UKTI’s targets should be changed to monitor the value of results associated with help given, such as growth in export sales and employment generated, rather than purely on the number of companies assisted.133

114. Although the services of UKTI are welcomed and appreciated by businesses, there remains the concern that UKTI still focuses more on processes than outcomes. Businesses want to be able to assess before embarking on working with the UKTI, clear evidence that it will benefit their bottom line. A more entrepreneurial culture within
UKTI should help improve this mindset, but the challenge remains for UKTI to continue to demonstrate its real value to UK businesses.

**Providers of trade services**

115. Susan Haird, the Acting Chief Executive of UKTI, explained that its trade services were contracted out to Business Link and Chambers of Commerce. This has previously been done on a regional basis on Regional Development Agency lines, often with the trade advisers based within the local RDA offices. This area of UKTI’s operations is currently experiencing significant upheaval.

116. The Secretary of State, when he introduced the Trade White Paper to the House on 9 February 2011, said:

> As many people on this side of the House who have run small businesses will know, the problem with Business Link was that it was a very ineffective system of business support. It has now been replaced, and in future small businesses will have access, through mentoring, to other business people, rather than to those who serviced Business Link, which was not a successful scheme.

In March 2011, the Government announced in a Ministerial Statement that the regional Business Link advisory service was to close by November.

117. The CBI appeared unimpressed with the decision and asserted that it would result in “a considerable lack of clarity about how SMEs will access trade support services going forward”. This view was echoed by the FSB whose Chief Executive Andrew Cave told us:

> At the moment there is a certain unknown as to what is going to happen with RDAs and Business Link being removed from that space, and how LEPs can possibly take that forward. We’re very concerned about that.

118. **Business Link is still considered by many to be the major deliverer of UKTI trade advice services despite the fact that it is being closed by the Government and as yet to be replaced. It is unclear who will be providing trade advice services in the regions following the winding up of Business Links. This is not an acceptable situation and clarity on how these services will be provided, advertised and supported is urgently required from Government.**

**Tradeshow Access Programme**

119. UKTI’s Tradeshow Action Programme (TAP) helps new to export and new to market companies to participate in trade fairs. TAP supports UK SMEs to exhibit at overseas trade fairs, funds promotional activity to enhance UK exhibitor groups at those events and can
provide assistance for businesses who buy speaker time at international conferences to promote their goods or services. The UKTI highlights on its website that an international trade fair is valuable not simply for the immediate sales potential, which may not be the main reason for participating but that businesses can showcase new products, undertake market research and benchmark themselves against the competition, seek out possible agents and distributors. The grants currently available are of £1,000, £1,400 or £1,800. UKTI says that the level is set for each show after discussion with the Accredited Trade Organisation (ATO) responsible for recruiting for the event. Generally, higher grant levels will apply to selected shows outside Europe.

120. Throughout our inquiry our witnesses from business highlighted the importance of trade shows in developing exports. Simon Carter, a men’s clothing and accessories designer, gave the following assessment of their worth:

> It is my belief that the most effective use of government resources is to support viable, focussed, small to medium companies through subsidised trade fairs. It is the best way to showcase product, and meet both customers and prospective business partners. It is also vital to have continuity with such a programme. One criticism often levied in the past is that there is no certainty as to the subsidy for a certain trade fair and the policy seems to be at the whim of politics. It takes time to establish a market. Limiting subsidies to two or three showing is never enough.

Speaking from personal experience he argued that there was “absolutely no doubt” that his business “would not be in the position of strength that is now without the British Fashion Fair.”

121. The Engineering and Machinery Alliance (EAMA) argued that Trade Shows were “absolutely central to exporting in our sector, a factor amplified by globalisation which is tending to promote global ‘super-shows’, and added that the shows should be better targeted by UKTI in order to challenge countries like Germany, France and Italy:

122. These governments are investing heavily in support at trade shows and on missions. Their ambassadors attend the shows and extol the strengths of their countries’ manufacturing capabilities. In short they sell themselves very well. This was confirmed by the British Chambers of Commerce who told us that this was an area in which we spend ‘considerably less’ than our foreign competitors and that it formed a bigger part of the budgets of export promotion agencies in many other countries.

139 UKTI Website, Tradeshows Access Programme: www.ukti.gov.uk/pt_pt/export/howwehelp/item/108969.html
140 UKTI Website, Tradeshows Access Programme, Frequently asked Questions: www.ukti.gov.uk/pt_pt/export/howwehelp/item/108969.html
141 UKTI Website, Tradeshows Access Programme, Frequently asked Questions: www.ukti.gov.uk/pt_pt/export/howwehelp/item/108969.html
142 Ev 203
143 Ev 203
144 Ev 174
145 Ev 176
146 Q 10
123. EAMA told us that the UKTI’s budget for the Trade Show Action Programme had been cut. The cut is due to the reduction of the UKTI Programme Vote by 17%. The Secretary of State said that the answer was “more selectivity, choosing beneficiaries who can make best use of the grants.” He also reminded the Committee that it had been cut very severely in the past: “I think that in the 2004 spending review it was cut by half. There was a feeling even then that the money was not always best used. The thinking now is that it could be better used”. He continued:

Analysis has been done based on the feedback we get from the embassies, who are the people who see these exhibitions on the ground, together with feedback from the trade sector bodies, not all of whom are happy because there is some reduction involved. Through consultation with them and our own people on the ground, an attempt is being made to make evidence-based judgments.

Interestingly, the UKTI strategy states that the Trade Show Action Programme will be ‘improved’ and delivered in partnership with Trade Associations from Spring 2012. The Strategy outlines that there will be an ‘enhanced package of support for SMEs in innovative and high growth sectors.’ We await detail on this.

124. We have heard from a variety of industries the importance of Trade Shows and therefore the invaluable services of the UKTI’s Trade Show Access Programme. A more selective approach to supporting Trade Shows may be both beneficial and more efficient but we recommend that funding from the programme is reviewed before it is cut. We also look forward to detail from UKTI on how the Trade Show Access Programme will be enhanced in 2012 with potentially less funding.

**New Services**

125. Several new services have been announced as part of the Trade White Paper, Growth Review and most coherently in the latest UKTI strategy. These are summarised as:

- mentoring by senior business specialists for companies taking their first steps into new markets through Catalyst UK from autumn 2011;
- an online peer-to-peer self help community network for UK exporters which will pilot from late 2011 and roll out in 2012;
- a new business service for SMEs in the defence and security sector. This will include specialist tailored advice on selling to foreign governments and includes an interactive web presence;

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147 Ev 176
148 Oral Evidence taken before the Business, Innovation and Skills Committee, HC (2010–12) 945-i, Q 17
149 Oral Evidence taken before the Business, Innovation and Skills Committee, HC (2010–12) 945-i, Q 18
150 UK Trade & Investment, *Britain open for business*, May 2011, p 44
151 UK Trade & Investment, *Britain open for business*, May 2011, Appendix C What’s new?
152 UK Trade & Investment, *Britain open for business*, May 2011, Appendix C What’s new?
153 UK Trade & Investment, *Britain open for business*, May 2011, Appendix C What’s new?
• a new prize for a successful first time exporter, to encourage companies ready to export to take the next step. This will complement the Queen’s Award for Enterprise (International Trade), which is focused on firms who have exported successfully for at least 3 years. The new prize will reward the most promising new export idea from a British SME ready to trade internationally for the first time, using a panel of “dragons”.154

126. We questioned the Acting Chief Executive of UKTI on how these could benefit SMEs in particular the reason for introducing a new prize. She responded:

I think prizes are motivating: they generate a lot of interest, they generate a buzz and they generate publicity. [...] I believe they do drive new customers to us.155

With regard to the peer-to-peer online network she told us it would:

Enable them to share their experiences of exporting and comment on how to do things in particular markets.156

127. We welcome the new services proposed in the White Paper, but there is little detail on how these services will be delivered, or what they will provide. First, it is unclear how the peer-to-peer advice website will help prospective exporters and how experienced exporters will be encouraged to provide advice. Second, there is as yet no explanation of the business mentoring scheme, or how it will be provided by Catalyst. The Department needs to set out clearly, the role of mentors, the number of companies each mentor will be working with, on average, and the outcomes on which they will be judged.

Other Trade Service Providers

128. UKTI support for businesses, and in particular SMEs, should not be seen in isolation. Chambers of Commerce and Trade Associations also have an important role to play advising their members on the benefits of exporting and offering appropriate advice and support.

129. We have already noted that the current picture on business support is blurred, particularly given the abolition of the RDAs and the situation was neatly summarised by Stephen Perry, who submitted written evidence:

The core of the problem is that different aspects of the operations are housed in different silos. Private sector Trade Associations, some receiving funding, most not, compete with Chambers – some getting funding, some not, who are competing with UKTI and China Britain Business Council (CBBC), working largely from government funds. Then there is the CBI, the Institute of Directors and other similar bodies.
Compare this to the simpler forms of Germany’s Chamber based approach, or Hong Kong’s HKTDI, and we can see that we need to simplify this.

For our businesses, Trade Promotion and services are offered by a myriad of organisations, who often compete with each other.

The unifying of organisations like CBBC and UKTI and the Chambers and Trade Associations within one structure, would lead to economies, and provide a better environment for drawing in private sector specialists to lead the regional and sector divisions. CBBC, whilst separate from UKTI, is still led by the staff and not by China specialists.\(^{157}\)

We discuss the China-Britain Business Council in our report on China.

130. This lack of a ‘joined-up’ approach in trade promotion was also raised by the British Chambers of Commerce who told us:

More work still needs to be done on linking up Government-provided services such as UKTI, and the work of other organisations working in the field of export promotion and support. The Government therefore needs to develop one stop shops for trade promotion and investment by pursuing the integration of business support agencies such as Business Link, UKTI, and Enterprise Europe Network. It must also take into account the trade promotion and support work undertaken by Chambers of Commerce and other private sector bodies such as trade associations. Many of their services are complementary and are more accessible to business if can be found in one place (whether physically or electronically).\(^ {158}\)

Andrew Cave from the FSB argued that the number of networks need not be a problem, as long as there was a consistency of message. He raised the point that most of the FSB members looked to the banks for advice and support with exporting. So he suggested that the UKTI should target information through the banks.\(^ {159}\)

131. Phil Orford from FPB admitted when asked how his organisation interacted with the UKTI and encouraged SMEs to export that:

I think first of all, being honest, we’ve probably not engaged as much as we could or should have done and indeed the amount we will be doing in the future. [...]it’s fair to say we could have done more and we will be doing more to support export trade as part of the overall growth strategy for the UK.\(^ {160}\)

Andrew Cave from FSB was equally honest and told us:

We were quite surprised by our latest survey data that revealed so many of our members were engaged in exporting. That wasn’t the case years ago when we

\(^{157}\) Ev w55  
\(^{158}\) Ev 160  
\(^{159}\) Q 107  
\(^{160}\) Q 110
undertook similar research. So it’s an area that we as an organisation need to step up to, I think, and work much more closely with UKTI.161

132. This inconsistency of message and gap in communication and signposting has been recognised by the UKTI. Its new strategy states that:

We will leverage the communication channels of business partners such as the British Chambers of Commerce, the Confederation of British Industry, the Institute of Directors, Trade Associations, business schools and Local Enterprise Partnerships, to reach the high growth and innovative companies with the potential to benefit by exporting. We will also develop outreach partnerships with the UK’s major commercial banks and with the accountancy and legal professions. And we will plug into the business networks of communities with overseas connections and activities.162

133. We believe that British Chambers of Commerce and trade associations can play a larger role in promoting the importance of exports to SMEs. We were concerned by the lack of active engagement between business organisations and their members on the issue of exporting. This situation has to improve. The provision of export support should not solely be the responsibility of the UKTI and the Government. We recommend that the Government and UKTI work with the Chambers of Commerce, trade associations and banks to project a clear message on exporting with clear signposting on where to go for help, advice and financing.

Large Companies

134. UKTI has rightly placed great emphasis on supporting UK SMEs wishing to export. However, the CBI argued that this should not be at the expense of support for larger companies. It believed that UKTI needed to expand “beyond its core SME customer base, and reach out to mid-cap and larger companies”.163 Those companies did not need what the CBI described as the “classic UKTI offerings”; rather they would benefit from up-to-the-minute and informed economic and political intelligence.164 In order to deliver this, the CBI argued for “excellent communication between UKTI and ‘pure’ Foreign Office staff on the ground”.165 It also believed that UKTI should “move to a more account management style of interaction with its largest client companies”.166

135. Lord Green addressed some of these concerns at the time of the publication of the Trade White Paper:

161 Q 110
162 UK Trade & Investment, Britain open for business, May 2011, p 14
163 Ev 167
164 Ev 167
165 Ev 167
166 Ev 167
We will have individual ministers held accountable for particular relationships, as it were assigned to overseas relationships with particular big exporters on a name by name basis.\textsuperscript{167}

The Trade White Paper stated that the Government needed to “Strengthen relationships with major exporters, overseas buyers and investors. There will be greater focus in future on relationship management with key exporters and investors. The whole of government approach will ensure that traders’ voices are better heard within Government and that problems can be solved sooner”.\textsuperscript{168}

136. However, we were also told that too great a focus on particular large companies ran the risk of distorting trade. Dr Sally from the LSE said:

Do we really want Prime Ministers, the Duke of York and others going around the world batting for particular companies when some companies clearly have more influence on public policy than others? Who are they representing? Are they representing an individual company’s interest or the national interest? It is very easy in these circumstances to conflate the interest of one particular company with the national interest.\textsuperscript{169}

137. On the other hand, citing the example of Germany, Andy Scott from the CBI told us that active support of larger companies brought with it an additional potential benefit to SMEs:

I think the key route through which many SMEs do gain market access is thorough those [larger company] supply chains.\textsuperscript{170}

This argument was also put forward by British Business Ambassador Paul Skinner:

I think there is a role for our leading global corporations, hosted in the UK, to play a supportive role towards small and medium-sized enterprises, who are trying to get more involved in overseas markets. The larger companies are perhaps going to have a better understanding of the ways those markets work, and they will probably be operating supply chains from which smaller UK-based companies can benefit.\textsuperscript{171}

138. Susan Haird, Acting Chief Executive of UKTI, reminded us that large UK companies investing abroad generated benefits for the UK economy: “either [a company] adds to the stock of wealth of the country and/or profits and dividends are repatriated back to the United Kingdom”.\textsuperscript{172}

139. The UKTI strategy launched the High Value Opportunities scheme. The Strategy stated that the UKTI aims to:

\begin{itemize}
  \item \textsuperscript{167} “Government ministers copy bankers to boost UK trade”, \textit{The Daily Telegraph}, 10 February 2011
  \item \textsuperscript{168} Department for Business, Innovation and Skills, \textit{Trade and Investment for Growth}, Cm 8015, February 2011 para 3.40
  \item \textsuperscript{169} Q 358
  \item \textsuperscript{170} Q 100
  \item \textsuperscript{171} Q 144
  \item \textsuperscript{172} Q 379
\end{itemize}
Help bring high value opportunities home through a programme of intensive support for larger companies seeking to win overseas contracts ranging from £250 million upwards – the market for very large scale, high value projects, which also bring major supply chain opportunities for SMEs, runs into trillions of pounds and covers a wide range of sectors.\textsuperscript{173}

140. The strategy gives the examples of the development of transport networks in several high growth and emerging markets, in the USA and the Gulf; the building of new cities in Saudi Arabia and low cost housing in South Africa; energy projects in China; and the Navi-Mumbai airport development in India.\textsuperscript{174} The UKTI said it has developed a clear methodology to evaluate opportunities in terms of potential monetary value, UK capability, accessibility and competitive position. It is hoped that this would enable UKTI to prioritise effectively and target its resources to where the greatest impact and value to UK companies and supply chains can be achieved. The strategy declared that UKTI would focus on around fifty high value opportunities at any one time and it had formed new teams to pursue those opportunities, with expertise from the UKTI, the wider overseas diplomatic network as well as private sector business specialists. It also made clear that the consortia:

Have an important role to play in pulling through SMEs as part of their supply chains.\textsuperscript{175}

141. We welcome the Department’s commitment to refine UKTI’s relationship with larger companies and the development of a more business-orientated account-management style through the High Value Opportunities scheme. Those companies have the potential to help SMEs in their supply chain to also benefit from exports by introducing them to overseas markets, though we note that this relationship is a complex one. UKTI can play an important role in providing incentives to larger companies to take their supply chain with them, and we recommend that the Government consider how companies receiving UKTI support through the scheme be encouraged to help ‘pull through’ their SME supply chains.

**Emerging Markets**

142. Both the Trade White Paper and the *Plan for Growth* highlighted the importance of emerging markets to UK exporters. The *Plan for Growth* stated that:

Faster growing emerging and developing economies contribute around $11.5 trillion, creating great opportunities for UK businesses. This provides an opportunity for strong export growth, as was evidenced by the 40 per cent growth in UK goods exports to China in 2010, with car exports to China trebling to around £1.5 billion. The Government is determined to get behind British business and provide the support they need to take advantage of these trade and investment opportunities.\textsuperscript{176}

\textsuperscript{173} UK Trade & Investment, *Britain open for business*, May 2011, p 4
\textsuperscript{174} UK Trade & Investment, *Britain open for business*, May 2011, p 21
\textsuperscript{175} UK Trade & Investment, *Britain open for business*, May 2011, p 21
\textsuperscript{176} HM Treasury and Department for Business, Innovation and Skills, *The Plan for Growth*, March 2011, p 30
143. The Trade White Paper also made particular reference to the emerging markets, arguing that UKTI was already well-placed to assist UK companies in these countries:

Some 40% of UKTI’s overseas resource is in seventeen of these markets, with one in seven of its overseas staff based in China and India. UKTI also supports a number of formal Ministerial bilateral economic and trade dialogues (JETCOs) with key emerging and high growth markets, such as Brazil, China, India, Russia, Turkey and the UAE. These aim to strengthen economic, industrial and commercial ties between the UK and these markets and also look at barriers to trade between these countries. Business from both countries is closely involved.177

144. A|D|S called for the strengthening of political and economic relationships with emerging markets and believed that there was scope for the government to provide more information about the business opportunities in emerging markets. A|D|S had created “Ambassadors’ Packs” to help inform the diplomatic community about the strengths of the sectors it represents.

145. UKTI said it used a range of criteria—including market size and potential for growth, strategic importance and match to UK capability—to assess the importance of individual markets and the likelihood of UKTI helping British business interests:

In this way we can determine which high growth and emerging markets to prioritise in order to deploy our resources to best effect.178

146. The UKTI strategy provides detail on the Government’s support of emerging economies. It specifies that the UKTI will be targeting the following priority markets for the next five years: Brazil, China, Colombia, Egypt, India, Indonesia, Malaysia, Mexico, Qatar, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey, UAE and Vietnam. It said it would also target Hong Kong, both as a market in its own right and as a springboard into the mainland China market.179

147. The UKTI strategy states that the UKTI will increase the proportion of its overseas resources in high growth and emerging markets and will move more resources there over the lifetime of the strategy, ‘to match both the opportunities and the demands from our customers.’180

148. However, even though the emerging markets of the BRIC have much higher growth rates than those of the developed markets, Adam Marshall, representing the British Chambers of Commerce, highlighted that:

Very large numbers of first time exporters will want to go somewhere familiar, and that means generally Europe or North America, because they’re seen as the easiest markets, in many cases, to start out in.181

177 Department for Business, Innovation and Skills, Trade and Investment for Growth, Cm8015, February 2011 para 3.39
178 Ev 143
179 UK Trade & Investment, Britain open for business, May 2011, p 35
180 UK Trade & Investment, Britain open for business, May 2011 p 36
181 Q 14
Institute of Directors research also found that:

When we asked our members, of those that export, which areas they see the growth coming from in terms of their export activity, it was quite interesting that the majority of our membership felt that the European Union was the area over the next five years where they’d see the greatest growth. Now, I think that’s quite a surprising finding, and I think in some ways it means that it is necessary for the White Paper to address a dual-track approach here, between its focus on the emerging economies but also upon rather more traditional economies, with whom our members still believe there’s still a great deal of growth to be had.182

149. The FPB research had a similar result but it also disentangled reasons why businesses tended to focus on the EU:

Obviously proximity is one of the reasons, but interestingly the common currency is another, rather than multi-currencies, and the similarity of regulatory systems. We may not think that we’ve got similarities with the rest of Europe, but we have bigger differences with the rest of the world.183

The importance of developed markets was also brought to our attention by UK music but for the reason of intellectual property (IP) rights:

UK Music recognises that there is a strategy to prioritise emerging markets [...]. However this will not deliver export growth in our sector. Our industry, which is made up of mainly micro and small businesses, has asked that in a climate of limited resources that UKTI focus on established markets where firms can guarantee returns. In emerging markets, we would urge Government to support the development of strong IP frameworks. This will provide the base from which music exports can subsequently develop.184

150. While UKTI is rightly focussing its attention on the emerging markets, it also acknowledged the importance of existing markets to SMEs:

Successful companies of all sizes know the importance of nurturing the markets where they have already achieved results. In 2009, more than 70 per cent (£277 billion) of the UK’s total exports went to the European Union, North America, Japan and Australasia, and these markets generated 77 per cent of our new investment projects. So we will continue to maintain a proportionate presence in these and other developed markets.185

151. The Secretary of State, however, reinforced the importance of emerging markets to us and UKTI’s role:

British export and investment performance is impressive at the moment; rapid growth is taking place. Of course, that is due overwhelmingly to the activities of the

182 Q 129
183 Q 132
184 Ev 202
185 UK Trade & Investment, Britain open for business, May 2011, p 37
companies involved, but it is also due to the support they are receiving from officials and support staff of UKTI and to some degree, arguably, from political leadership as well.186

152. The Government is right to concentrate on emerging markets but it needs to strike an appropriate balance between new and existing markets. Many SMEs look to start exporting to the EU and the USA as they are perceived to be both easier and safer. The confidence which comes from exporting to existing markets should not be underestimated and UKTI should be mindful of this when it develops its market strategies.

153. The additional support necessary of SMEs to enter the emerging markets has been recognised by Government and it has increased UKTI staff in both China and India. There remains, however, a gap between UKTI support for SMEs overseas and its capacity in the UK to highlight the opportunities and advantages of exporting to those markets. Budget constraints mean that it will be difficult for UKTI to do both. In the UK, UKTI should demonstrate to us how it will be utilising local partners, including Chambers of Commerce, trade associations and local banks to provide domestic support to SMEs.

**Sector Support**

154. In the previous Parliament, UKTI was tasked with specific support for the following sectors: financial services and the City, information and communication technologies (ICT), life sciences, creative industries, and energy.187

155. The Department highlighted a number of areas in which the Government was keen to enhance UKTI support:

Promoting UK companies and institutions that provide environmental solutions and technologies in response to climate change, with green export campaigns in the markets where research has identified the greatest potential, will be at the heart of UKTI’s sector focus.188

The White Paper went on to list other sectors such as “ICT, life sciences, financial and professional services, creative industries and defence and security, advanced engineering and low carbon technologies; companies that are innovative and R&D intensive”, which also had a high potential to benefit from doing business overseas.189

156. The UKTI strategy announced the sectors which will be focused on by the UKTI over the next five years. There are 18 priority sectors which fall into five groupings outlined in the table below:

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186 Oral Evidence taken before the Business, Innovation and Skills Committee, HC (2010–12) 945-i, Q 38
188 Ev 143
157. The strategy says that the UKTI’s chosen sectors will be overseen by a small number of new Sector Group Task Forces, with membership recruited from major UK-based businesses. In addition to this there will be Sector Advisory Groups consisting of approximately 200 business figures, which will “provide detailed business input, validation and challenge to UKTI’s activities in respect of their individual industries”.

158. We believe it is right for UKTI to have a sectoral focus which will concentrate its efforts on those areas where the UK has a competitive advantage. We note the Department’s plans to establish Sector Group Task Forces and Sector Advisory Groups staffed by the private sector. As we highlight earlier in this Report, the Department will need to demonstrate how it will attract suitably qualified personnel from the private sector at a time when UKTI’s funding is being reduced.
6 UKTI inward investment services

159. In the previous section we set out UKTI’s role in supporting UK exports. Its other key role is to support inward investment to the UK. In its written evidence the Department told us that UKTI played an important role in attracting foreign investment into the UK:

Evidence shows that help from UKTI can have significant influence on investor decisions, resulting in a more than seven-fold increase in High Value Foreign Direct Investment (FDI) over the past 4 years, helping to maintain the UK as a top location in Europe for inward investment, and globally second only to the USA. In 2009/10, UKTI played a role in securing 759 investment projects into the UK—almost half the total UK figure of 1,619 and a 26.5% increase on the previous year. These projects have helped create some 47,000 jobs (more than 32,000 new jobs created and some 14,000 jobs safeguarded), a 61% increase on 2008/09.191

Over 70% of inward investors report some significant influence from working with UKTI, most often through enabling the inward investor to overcome barriers to accessing information and contacts. Within this, 49% said UKTI had influenced their decision to locate in the UK. Some 57% report significant business benefits as a result of UKTI help enabling them to overcome such barriers.192

160. UKTI stated its services in the area of inward investment included:

- Segmentation and bespoke proposition development – to ensure a tight focus on the needs of high value investors in making global location decisions.

- Access to Government and other networks relevant to the success of investment projects.

- Targeted marketing to cover subjects such as the UK business environment, sectoral and sub-sectoral information, and bespoke sales information: key information needed to reach the final decision to invest in the UK.

- A systematic investor development programme to ensure UKTI remains a high value-adding partner for those investors growing their business in and from the UK. Foreign-headquartered companies that have a UK presence can also avail themselves of the full range of UKTI export services.193

161. The Trade White Paper stated that the Government would be contracting out its inward investment delivery services. On 4 April, Susan Haird, Acting Chief Executive of UKTI, wrote to us confirming that the Inward Investment contract had been awarded to PA Consulting Ltd in partnership with OCO Consulting and the British Chambers of Commerce. No date was given for the transfer of responsibility for inward investment to

191 Ev 133
192 Ev 133
193 Oral Evidence taken before the Business, Innovation and Skills Committee on 27 April 2011, HC (2010–12) 945-i, Q 25
the consortia, but the Department’s expectation was that it would happen as early as possible in the 2011–12 Financial Year. The Secretary of State told us:

It is a £14 million contract over a three-year period. Essentially, its remit is to replace the inward investment promotion activities of the RDAs in the English regions other than London. Because that original system involved quite a lot of duplication, we think we can deliver a perfectly good service with less resource. Incentives are built in—payment by results.194

162. Further details have since been released about the contract. It is a £41.7 million contract and the contractors role will be to:

- Co-ordinate and manage foreign investment propositions on behalf of the UK with prospective foreign direct investors, working with local partners across England, the devolved administrations and wider FDI network;
- Provide sufficient geographically dispersed resource to support the FDI delivery arm for England;
- Provide direct relationship management and investor development, in association with international, national and local stakeholders to nominated existing investors in England as agreed with UKTI.195

163. The UKTI strategy set out even more detail on the Government’s plans for inward investment and the role of the contractors:

The private sector delivery partner will be incentivised to attract high quality inward investment projects, on a “payment by results” basis, to agreed service standards. The quality of this service will be verified independently by customer surveys.196

In addition, the Strategy set the target of a pipeline of around 750 foreign direct investment projects per annum over the next five years, of which 500 would be characterised as “high quality” by 2014–15 (up from an annual average of 630 and 280 respectively over the last three years).197 The Governments says that “high quality projects” are defined by “respected academic research” as benefiting UK economy through productivity spillovers, and by bringing new ideas and ways of working, as well as valuable knowledge and technologies. They are generally R&D intensive, promote growth and competition, and are focused in sectors where the UK is strong because of its comparative advantage.198

164. We welcome the Government’s recognition of the importance of inward investment. However, we are concerned with the delay at announcing the contractor for regional inward investment services in the UK. The Government needs to be more proactive in attracting inward investment and the delay in awarding the inward investment contract following the winding up of the RDA’s has not been convincing. In

194 Oral Evidence taken before the Business, Innovation and Skills Committee on 27 April 2011, HC (2010–12) 94S-i, Q 25
196 UK Trade & Investment, Britain open for business, May 2011, p 26
197 UK Trade & Investment, Britain open for business, May 2011, p 26
198 UK Trade & Investment, Britain open for business, May 2011, p 26
its response to this Report we will expect to receive a detailed update on the structures which will be put in place by the partnership arrangement with PA consulting, OCO and British Chambers of Commerce to deliver a high level service across the country.

**Account management of inward investors**

165. The CBI argued that UKTI needed to identify and establish in-depth relationships with the highest value Foreign Direct Investment (FDI) prospects, both from within the UK and developed economies and from emerging economies. BRIC\(^{199}\) countries currently account for less than 6 per cent of all global FDI; their increasing economic power makes it important to establish the UK’s credentials as a prime destination for investment.

166. The Plan for Growth announced that there would be an enhanced service for major inward investors. Where the Government identifies large-scale investors, UKTI will be tasked to provide a “bespoke service” which will include “direct access to UK ministers and speedy resolution of bureaucratic obstacles to investment”\(^{200}\). As Lord Green noted, Ministerial involvement is not new, and the Government’s commitment to major investors is to be welcomed:

> “I certainly would not want to imply that nothing of this kind has been happening over the years. We all know it has been going on”.\(^{201}\)

167. The UKTI strategy noted that “enhanced, strategic relationship management of the most significant inward investors, including institutions” would be at the heart of its inward investment plans. As noted earlier in this Report, the Government is setting up a new cross-government Strategic Relations Unit based in UKTI. The strategy also stated that Ministers would “play an important part in helping to develop and sustain winning relationships with major investors, including institutions such as Sovereign Wealth Funds”. The Secretary of State explained:

> For very large inward investors who could make a really big impact on the UK economy, we would like to provide what we call a bespoke service. A whole range of problems arise with planning and visas. It is not suggested in any sense that they will be given favoured treatment, but the bureaucratic obstacles could be overcome. If you approach a potentially large inward investor and discuss with them all the obstacles and make sure they are resolved quickly, that provides a better service than they are used to in other countries or that we have provided in the past. [...] Ministers will be directly involved in making sure that the obstacles are overcome.\(^{202}\)

He went on to say:

> I do not want to imply in any sense that people are getting preferential treatment simply because they are big and foreign owned; that is not the point, but there are companies that make a major contribution to the UK economy. I already spend quite

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199 BRIC countries are: Brazil Russia India and China  
201 Q 514  
202 Oral Evidence taken before the Business, Innovation and Skills Committee on 27 April 2011, HC (2010–12) 945-i, Q 21
a lot of time meeting their representatives as they come through London. I see that as a key part of my job. In many cases, for them to be able to feel that they are speaking to a secretary or minister of state makes a difference. These are companies that often bring 10,000 or more jobs to this country. They have to be taken seriously, made to feel welcomed, and told that the country is open for business and we want their relationship to be properly managed.203

168. **We recommend that the Government set out its “rules of engagement” in the area of Ministerial assistance to inward investors and the criteria under which companies will be eligible to receive this enhanced service. In the spirit of transparency, we also recommend that the Department sets out the form of assistance and access it provides to major investments, on a quarterly basis.**

**Local Enterprise Partnerships**

169. The UKTI’s letter to the Committee regarding the awarding of the inward investment contract also stated that PA Consulting will be “working with local partners across England” and “UKTI recognises the important role that LEPs will have to play in support of FDI promotion”.204 In the previous Parliament, UKTI worked alongside the Regional Development Agencies to deliver inward investment. Early in this Parliament, the Government announced the abolition of the RDAs, to be replaced by Local Enterprise Partnerships (LEPs). In December 2010, we published our initial assessment of the role of LEPs. That Report considered the involvement of LEPs in supporting inward investment. The Government’s initial position was described as follows:

> We are reviewing all the functions of the RDAs. We believe some of these are best led nationally, such as inward investment, sector leadership, responsibility for business support, innovation, and access to finance.205

However, the Government’s Local Growth White Paper, published in October 2010, acknowledged that LEPs could have a role to play as delivery bodies:

> It is clear that effective delivery will require strong partnership working between central government and local levels. Local Enterprise Partnerships can play a key role in these partnerships and may have a role in bidding to be a delivery agent for nationally commissioned trade development support.206

170. It was made clear in evidence to us earlier on in the inquiry that not all business organisations welcomed this role for LEPs. The Institute of Directors argued that one of the LEPs should not be involved in international trade and investment matters and that

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203 Oral Evidence taken before the Business, Innovation and Skills Committee on 27 April 2011, HC (2010–12) 945-i, Q 22
204 Ev 145
206 Department for Business, Innovation and Skills, Local growth: realising every place’s potential, Cm 7661, October 2010, p 17
responsibility should be retained by UKTI as it was “far and away the most well regarded of the information resources available”.207

171. Andrew Cave of the FSB also highlighted problems with the current patchwork of LEPs which he believed would create inconsistencies across the UK:

   There will be parts of the country where businesses do not have the same access because the LEP does not take that responsibility or is not strong enough in that area.208

172. There have been long-standing concerns that even under the RDAs, a disproportionate number of UKTI inward investment projects went to London and the South East. Historically, London has taken around 40% of all inward investment projects. The fear of a number of our witnesses was that this disparity would only be enhanced as a result of the uneven spread of LEPs. 209

173. However, Susan Haird asserted that LEPs could make a positive contribution to attracting inward investment:

   [LEPs] would bring a huge amount of local knowledge to the inward investor, both as the inward investor is seeking something in the UK for the first time, and as the inward investor then seeks to grow out of the UK base. The kind of things that are important for inward investors to do, and to have help with, can be very local in their dimensions. They can be to do with access roads, local transport in terms of services and that sort of thing, as well as bigger issues that also are local. We shall be working very closely with them.210

174. Adam Marshall, representing the British Chambers of Commerce, agreed that LEPs could provide valuable local knowledge and should be used to introduce potential investors to the local area:

   When a foreign investor does come calling in a city or town around the UK, to take that investor by the hand, show them around the area, why it’s dynamic, why they should be there, etc. It’s really the service on the ground here in the UK where the LEPs may have a role in making sure that a potential investor has seen the best of an area.211

175. The UKTI strategy stated that:

   UKTI, with the private sector delivery partner, will actively explore with each Local Enterprise Partnership how they can most effectively help to land new investments – in particular, by building relationships with investors and providing local knowledge and information on why their offer to investors is internationally competitive. They may also help investors deal with local issues, such as planning, site locations and

207 Q 108
208 Q 109
209 Institute of Directors, FSB, CBI and FPB Ev 28-34
210 Q 438
211 Q 26
utilities, and have an important role in sustaining relationships with investors once a project is up and running.\textsuperscript{212}

176. Local knowledge is important and we recognise the value of involving LEPs in giving an informed local view for investors. However, until there is an established and comprehensive coverage of LEPs across England, the Government will need to ensure that valuable opportunities are not being missed by areas which have yet to establish a LEP to promote their locality. There needs to be greater clarity of what is expected of LEPs with regard to attracting inward investment and their interaction with PA consulting, the Foreign Direct Investment contractor. Although PA Consulting holds the contract, it is for Government to set the parameters for LEP involvement. We recommend that the Department sets out in its Response a detailed explanation of the level, range and extent of LEP involvement in delivering inward investment, alongside the costs and resources necessary for them to carry out this role.

\textsuperscript{212} UK Trade & Investment, \textit{Britain open for business}, May 2011, p 26
7 UKTI Effectiveness and Efficiency

Introduction

177. The memoranda we received on UKTI performance has been mixed but the headline is one of achievement. When it works well, it appears to work very well. For example, the UKTI recently won the Excellence in Export Development Initiatives’ Award for the Best Trade Promotion Organisation from a Developed Country at the 8th World Conference of Trade Promotion Organisations in Mexico City.213 In a similar vein, UKTI also won the award for the best Pavilion at the Shanghai Expo.214

178. While these examples are to UKTI’s credit, it faces a challenging period ahead, in which it will need to continue to improve its performance in the context of reduced resources.

179. UKTI asserted that efficiency savings have constantly been sought and claimed that over the last three years it cut the average cost of assisting business by 25% from around £14k to around £10.5k. It also told us that over this same period, the satisfaction of its trade customers had remained steady, and the number of businesses who had recorded improved performance as a result of working with UKTI had increased. UKTI argued that together this demonstrated that it was becoming more efficient and effective while maintaining the standard of service to its trade customers.215

PIMS

180. UKTI performance is now measured by the PIMS system (Performance and Impact Monitoring Survey). PIMS measures the impact of UKTI trade services on the companies using them, and UKTI’s performance in delivering those services. The surveys are carried out by an independent market research company and comprise quarterly telephone surveys of a statistically representative group of users of UKTI services.216 UKTI told us that the survey questions cover both qualitative and quantitative business benefits; financial benefits; access to information and contacts not otherwise available; improvements to overseas marketing strategy; and their assessment of the quality of, and overall satisfaction with, UKTI services.217

181. Approximately 4,000 businesses are interviewed each year. An annual survey of UK exporters who have not used UKTI services is also carried out, as an additional way of assessing the difference UKTI’s services can make to companies.


214 UK Trade & Investment, Britain open for business, May 2011, p 64. Q 163

215 Ev 134

216 Ev 142

217 Ev 142
182. The PIMS survey covering 2009–10 showed that UKTI helped some 23,600 UK businesses and concluded that British companies attributed an additional £5bn to their bottom line profits as a result of working with UKTI, up from £3.6bn the previous year.\(^{218}\) The £5bn additional profit reported by UKTI clients represents over £35bn additional UK exports generated as a direct result of the support UKTI provided.\(^{219}\)

183. According to UKTI analysis this represents a £19 benefit to the UK for each £1 of Government spend on UKTI trade services. The UKTI strategy announced that this had been increased to £22 for each £1 in the last 12 months.\(^{220}\)

184. Data from the survey also found that:

- 41% of companies reported new or safeguarded jobs as a result of using UKTI trade services.
- 67% of UKTI customers reported significant business benefit from upgrading their approach to overseas markets, gaining access to contacts and information not otherwise accessible, and overcoming legal or regulatory difficulties or cultural differences affecting access to opportunities overseas.
- 39% of UKTI clients expect substantial growth over the next five years compared with 23% of other UK exporters. Some 87% of UKTI trade clients expect at least moderate growth, compared with 78% non-user exporters.
- On average, UKTI trade support generates an additional £65k of research and development (R&D) per trade client. This reflects the role trade support can play in increasing the UK’s overall innovation capability and R&D.
- Some 53% of all businesses assisted through UKTI trade services improved their business performance as a direct result of UKTI support.
- Around 70% of businesses assisted reported improved productivity and competitiveness.
- Users of UKTI services are much more likely than non users to be in high growth markets (61% vs. 44% for non users); are more likely to plan to increase exports in response to the depreciation of Sterling (47% vs. 37%); and are more likely to have benefited from the depreciation overall (33% vs. 25%).\(^{221}\)

185. The PIMS system was subject to scrutiny as part of the National Audit Office 2009 value-for-money report on UKTI’s Trade Support in 2009.\(^{222}\) The NAO found that:

> UK Trade & Investment is making good progress against its targets and has in place a robust system (PIMS) of assessing delivery.\(^{223}\)
It also noted that “UK Trade & Investment has put in place extensive arrangements to obtain regular and systematic feedback on the quality of its services”.

186. In addition, as part of its annual work on reviewing the appropriateness of departmental performance measurement systems, the National Audit Office concluded that the UKTI performance measurement system (PIMS) merited the NAO’s highest assessment.

187. We welcome the positive assessment of UKTI’s trade services work as set out in its PIMS performance measurement system. The fact that the PIMS system is highly rated by the National Audit Office gives greater credibility to the PIMS results. While we cannot confirm the accuracy of the claim that UKTI generates £22 benefit for each £1 of Government spend on UKTI trade services, it is clear that UKTI does provide a service valuable to UK companies.

188. Reductions in its budget and resources will put additional pressure on UKTI in maintaining its current performance levels. While we recognise that UKTI will have to do more with less, we believe that the Government should keep a close eye on PIMS data. Any significant reduction in the satisfaction levels of companies with UKTI’s services will have to be addressed at the earliest opportunity.

**Inward Investment**

189. Unlike its export activities, the efficiency and productivity of its inward investment services are not measured by an independent organisation. UKTI undertakes analysis of the effectiveness of its inward investment network, providing an assessment of its performance. Its latest figures stated that:

- Nearly half—758 of the 1,619 inward investment projects landed by the UK in 2009–10—were assisted by UKTI.
- Of these, nearly 80% agreed that UKTI (or its RDA delivery partners) had a significant, favourable influence on the decision to locate or expand in the UK, or on the scale or scope of the project.

190. UTKI explained that an assessment that it had assisted in the decision made by a company was arrived at by satisfying a set of criteria, populated by data from investing companies and agreed with UKTI’s partners in the English Regions and the Devolved Administrations. Other data analysing the decision to invest, made by companies assisted by UKTI, is taken from PIMS’ inward investment survey, October 2010.

191. The contracting out of the delivery of inward investment services will make it more difficult to assess the performance of UKTI in this area. However, that does not mean
that it is any less necessary. The PIMS system of monitoring export support should be assessed as a possible vehicle for the monitoring of all inward investment services.

**Awareness of UKTI**

192. While UKTI’s performance monitoring has concluded that it provides a good service, surveys conducted by business organisations indicate that the UKTI still has a lot of work to do. Andrew Cave from the FSB said he found it “staggering how few businesses are aware of what UKTI can do for them”.229 A recent FSB survey of its members found that while 45% of its members had used a high street bank for business support and 44% had used Business Link, only 6% had used UKTI services.230 The Government recognised itself in the Plan for Growth that:

> Small and medium sized enterprises, in particular, say that they have difficulties in obtaining support, advice and the required financing needed for accessing overseas markets.231

193. UKTI said that it had made considerable efforts to raise awareness of services through its website and through appropriate marketing activities, and through organisations such as Chambers of Commerce and trade associations, links with banks and through press articles.232 It further highlighted a variety of outreach events based on regions, markets and sectors which were designed to enable companies to meet UKTI staff based in the UK and overseas, who could provide them with more detailed help.233

194. On a more positive note Alexander Ehmann from the IoD told us that when its membership was asked about their preferable mode of trade advice the responses demonstrated that:

> UKTI was the preferable mode of advice for 27% of our overall membership. We were second, as the IoD, at 9% and then the Chambers at 7%.234

195. We are concerned that although companies that use the services of the UKTI value them, only 6% of SMEs in the FSB have accessed UKTI services. We recognise that the UKTI is trying to reach out to these SMEs but we believe that more proactive work can and should be done. This needs to be addressed if the Government is to fulfil its growth aim of getting more SMEs exporting.

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229 Q 105
230 Ev 179
231 HM Treasury and Department for Business, Innovation and Skills, *Plan for Growth*, March 201, p 57
232 Ev 147
233 Ev 147
234 Q 107
8 Export Credit Guarantee Department

196. Most industrialised nations have an Export Credit Agency (ECA) which supports its export market by providing government-backed guarantees, insurance and sometimes loans. The status of ECAs varies: in some countries, private companies underwrite business for the government account (for example, France, Germany), while in others they are public bodies (the Canadian ECA for example, is a Crown corporation). The Export Credit Guarantee Department (ECGD) is, by contrast, a government Department.

197. The UK export credit agency (ECA), ECGD supports UK exports and investments made overseas by issuing:

- insurance contracts to exporters and investors; and
- guarantees to banks that make loans to overseas borrowers. ECGD does not lend directly.

198. In 2009–10, ECGD supported £2.21 billion of new business (up from £1.46 billion in 2008–09). Looking forward, ECGD expects to see a further material increase in the amount of exports it supports by the end of financial year 2010–11, possibly by over 50% by comparison with the previous financial year. The increase in demand has been across a number of sectors, but is led principally by civil aerospace and the oil, gas and civil construction sectors.

199. ECGD’s total exposure to credit risk currently stands at just under £16.5 billion.

Criticisms of ECGD

200. Throughout this inquiry we have heard criticism of the ECGD and its work. British Exporters Association data appears to demonstrate that, in 2009–10, 90% of ECGD’s portfolio concentrated on the commercial airline industry while its non-aerospace business declined by nearly 90%. In comparison to other OECD Credit Agencies, ECGD’s overall business had declined by 70% over the last 10 years.

201. The British Exporters Association (BexA) survey also found that ECGD staffing numbers had reduced from an average of 366 in 2003–04 to 207 in 2009–10. This was in contrast to its European counterparts which had increased staffing over the past decade: France up 258%; Germany up 37%; Italy up 325%; and Belgium up 188%.
202. As the BexA figures show, the majority of ECGD activity supports a core of large aerospace exporters, particularly Airbus and Rolls-Royce. Graham Dewhurst of EAMA argued that such a concentration on one sector demonstrated that the ECGD was not “fit for purpose”:

It is not doing what it needs to do— if 90% of that £2.2 billion is in aerospace, that leaves £200 million. They’re not interested. The other thing that I found really interesting was that division one was aerospace, [...]; division two was civil and defence; and division three didn’t have anyone as a director. That again tells a story about being fit for purpose.243

203. Susan Ross, Chair of BexA argued that ECGD had “got into a rut” and while it was good at servicing the aerospace sector it wasn’t “out there looking for other business.”244 Paul Everitt from the SMMT concluded that the ECGD had lost sight of its core role to serve more than just the aerospace industry:

There’s a point here about what the organisation thinks it’s there for [...] it’s understood that its function is, by and large, to support aerospace projects around the world.245

204. Surrey Satellites, an SME exporter was unhappy about what it saw as the “apparently restricted mandate of ECGD” and criticised ECGD’s “limited significant contact with SMEs”. Steve Young of Surrey Satellites argued that in relation to his sector ECGD had shown:

Unwillingness to support credit to UK telecommunication operators for purchase of European satellites, even though services from those satellites are supplied at significant risk into international markets.246

205. In written evidence ECGD argued that it did support SMEs under its Sovereign Star Trade Finance facility. The facility is a financing programme aimed primarily at supporting SME export contracts. However, none of the witnesses we questioned were aware of its existence.247

206. The CBI has also been critical of the ECGD and argued that it was in need of serious reform. In particular, it believed that the following areas were in need of an overhaul:

- A review of the governance and application of the rules that ECGD operates under, to ensure greater flexibility and responsiveness to future financial shocks; and

243 Q 71
244 Q 39
245 Q 70
246 Ev 207
247 EAMA Q 72; FSB, Institute of Directors, FPB and CBI Q 114
• An overhaul of the marketing and product range of ECGD, starting with a study to understand the potential demand for further government-backed export finance, to help boost the UK’s export performance.248

207. In an interview with the Financial Times on Wednesday 19 January, Lord Green acknowledged that ECGD was no longer offering an acceptable service across all sectors of the economy:

Almost every quarter of government recognised the “need to do something” about widening the range of products and services being offered by the Export Credit Guarantee Department.

When you look at it in relation to what other credit agencies in our main competitive countries offer, you can see where the gaps are.249

Trade White Paper and Trade Finance

208. Criticism of the ECGD appears to have been taken on board and the Government’s Trade White Paper announced four new schemes to help exporters get access to credit and insure themselves against risk:

• Export Enterprise Finance Guarantee Scheme established by the Department for Business, Innovation & Skills, offering export finance valued up to £1m to SMEs.

• ECGD will launch the Export Working Capital Scheme for those not eligible for the Export EFG, offering export finance worth over £1m.

• Bond Support Scheme offered by ECGD, under which the Government will share risk with lending banks on the issue of contract bonds.

• ECGD will support banks offering foreign exchange hedging contracts to small and medium enterprises (SMEs) by sharing credit risk.250

In addition, ECGD will extend its existing short-term export insurance to cover a broader range of exporters, including SMEs. Announcing the new schemes, Lord Green confirmed that ECGD would be offering an “expanded, better coordinated range of products to large and small businesses alike”.251

209. The Export Enterprise Finance Guarantee Scheme will be based on the Enterprise Finance Guarantee Scheme (EFG). It is aimed at SME exporters with annual turnover up to £25m, who will access the scheme through a range of commercial providers, many of whom already participate in the EFG.252 The extended insurance will be available directly from ECGD in March. The Bond Support Scheme will be available from participating

248 Ev 165
249 www.ft.com
250 Department for Business, Innovation and Skills, Trade and Investment for Growth, Cm 8015, February 2011, pp 56-58
banks and is also expected to be available in March. The other two ECGD measures are expected to be made available from participating banks in April.

210. Patrick Crawford, Chief Executive of ECGD argued that:

There has to be a very active exercise to reintroduce ECGD to exporters, particularly smaller firms. The 1991 privatisation of our short term products was a long time ago, and there is a whole generation of exporters for whom ECGD is not known, not recognised, or for whom its products are not thought to be relevant. The announcements have changed that fundamentally, and ECGD has to reintroduce itself to the exporting community. 253

He also acknowledged that ECGD had to change the perceptions that it was “not relevant to many sectors and many small firms”. 254

211. We welcome the improvements to trade finance provided by ECGD. As these products are new to the market we expect the Department to update us on their availability and their take-up by business in its Response to this Report. ECGD has failed to support the wider business community, and in particular SMEs for far too long. It will have to make significant efforts to restore business faith in its operations and we expect it to demonstrate, in detail, how it is going to re-engage with all sectors of the economy and in particular with SMEs. Furthermore, we will expect the Department to prove, through regular publication of statistics, that ECGD is supporting more businesses from across the sectoral spectrum.

**ECGD Funding and staffing**

212. ECGD has already undergone a process of staff reduction over the past decade. As we mentioned earlier, between 2003–04 and 2009–10, staff numbers declined from 366 to 207. ECGD told us that it expects this trend to continue during the lifetime of this Parliament, in compliance with government policy to reduce the costs of the public sector. 255 Patrick Crawford, Chief Executive of ECGD, told us his Department’s CSR settlement was based on assumptions on demand for its services but that should demand increase, there was the possibility of returning to Ministers to justify an increase in that settlement:

Underlying it, however, was an understanding with Ministers that, while we had put forward assumptions on our business volumes, and derived costs from that, we were not in a position to predict demand. However, we were in a position to say that if demand grew, then our income would grow, and we would be able to go back and justify an increase in the settlement. 256

213. We find it surprising that an organisation tasked with providing a wider range of services is doing so at the same time as reducing its headcount. Efficiencies can always be found, but should demand for ECGD services outstrip capacity further reputational

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253 Q 411
254 Q 419
255 Ev 135
256 Q 409
damage may be occur. We will expect to receive a detailed assessment of potential demand for ECGD services and an assurance that ECGD capacity can meet that demand in the Department’s response to this Report.

Wider scrutiny of Export Credit Agencies

214. ECGD must be satisfied that the transactions it supports are acceptable and conform to the following guidelines:

- Credit risk—transactions are assessed in order that ECGD can be satisfied they meet its minimum risk standards;

- Environmental and social impacts—transactions must meet international standards as required by the OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits;

- Bribery and corruption—ECGD takes precautions that no corruption is involved in the transaction as far as ECGD can reasonably ascertain, in compliance with the OECD Council Recommendation on Bribery and Officially Export Credits; and

- Sustainable lending—where the export is to an IDA—only country (International Development Association) or to a country subject to the non-concessional borrowing policy of the IMF, ECGD must satisfy itself that the provision of export credits reflect sustainable lending practices (that it supports a borrowing country’s economic and social progress without endangering its financial future and long-term development prospects), while at the same time preserving the country’s debt sustainability. This is in accordance with the OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries.257

215. Export Credit Agencies are subject to particular scrutiny from a number of NGOs who look to hold them to account under these rules. During the course of our inquiry we received submissions from the Jubilee Debt Campaign, Worldwide Wildlife Fund, The Corner House, Campaign Against Arms Against Trade and Amnesty International all expressing concerns with the projects ECGD supports and the role of the UKTI.

216. In February, the Jubilee Campaign published a Report in February entitled Department for Dodgy Deals about ECGD-supported exports, calling it a “rogue department that acts with impunity, fuelling human rights abuses and environmental destruction.” It highlighted the sales of Hawk fighter jets to the Indonesian air force, a hydroelectric project in Kenya and oil pipelines through the Caucasus as examples of projects which should not have been supported by ECGD.258 Amnesty International also argued that “fundamental policy decisions have been taken by the ECGD without any assessment of their impacts on human rights”.259

257 Ev 134
258 www.jubileedebtcampaign.org.uk/dodgydealsreport
259 Ev w3
217. Campaign Against Arms Against Trade also wrote to us arguing against the “hugely disproportionate” support given by UKTI to military exports, in particular to countries it believed should not be in receipt of military goods:

UKTI DSO [Defence and Security Organisation] is not discriminating about the records of Governments to which it promotes arms. Its priority markets for 2010/11 include Algeria, with a poor human rights record; regional rivals India and Pakistan; unstable Iraq; recent "pariah" Libya; and repressive Saudi Arabia.260

218. Susan Ross of British Exporters Association believed that scrutiny by NGOs had resulted in ECGD taking an overly cautious attitude to the provision of their services:

They were covered in the problem of having always to explain to NGOs what they were doing, and gradually withdrew to things that were they tried and tested. They weren’t prepared to stick their necks out.261

A|D|S acknowledged the fact that the defence and security industries face stringent export controls and regulations, but believed that that ECGD application of the rules was sometimes overdone:

There is a feeling amongst A|D|S Members that ECGD tends to implement internationally-agreed guidelines in a more stringent way than international counterparts.262

As a result, ADS argued that this made ECGD less competitive internationally.

219. We support the OECD rules which govern all Export Credit Agencies. We also acknowledge that many NGOs do not have faith that all ECAs abide by them. We look to the Government to work towards the highest level of transparency in ECGD transactions so that all interested parties can have confidence that ECGD activities abide by both the letter and the spirit of the OECD rules.
Annex

The 32 British Business Ambassadors are:

<table>
<thead>
<tr>
<th>Sir Anthony Bamford—JCB</th>
<th>Brent Hoberman—Lastminute.com</th>
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<tr>
<td>Malcolm Brinded—Royal Dutch Shell</td>
<td>Sir Roger Bone—Boeing UK</td>
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<td>Richard Lambert—CBI</td>
<td>Lord John Browne—Royal Academy of Engineering</td>
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<td>Chris Patten—Chancellor University Oxford</td>
<td>Lady Barbara Thomas Judge—Pension Protection Fund</td>
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<td>Alan Parker—Brunswick</td>
<td>Lord Ara Darzi—Imperial College</td>
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<tr>
<td>David Brewer—Former LM of London/Chair China British Business Council</td>
<td>Malcolm Grant—President &amp; Provost UCL</td>
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<td>Lord Charles Powell</td>
<td>Bob Wigley—Yell</td>
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<td>Bob Wigley—Yell</td>
<td>Baroness Sarah Hogg—Financial Reporting Council</td>
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<td>Hermann Hauser—Amadeus capital Partners</td>
<td>Julia King—VC Aston University</td>
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<td>Caroline Plumb—Freshminds</td>
<td>Sir Kevin Smith—GKN</td>
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<td>Anya Hindmarch—Anya Hindmarch</td>
<td>Sir John Sorrell—The Sorrell Foundation</td>
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<td>Larry Hirst—Ex–IBM</td>
<td>Marcus Agius—Barclays</td>
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<td>Nick Fry—Mercedes</td>
<td>Sir John Bond—Vodafone</td>
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<td>David Reid—Tesco</td>
<td>Dick Olver – BAEs</td>
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<td>Tamara Mellon—Jimmy Choo</td>
<td>Lord Digby Jones—HSBC/Triumph</td>
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<td>Sir Victor Blank—Formerly Lloyds</td>
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<td>Samir Brikho—AMEC</td>
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<td>Paul Skinner—Infrastructure UK</td>
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Conclusions and recommendations

**Government Strategy**

1. 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. (Paragraph 20)

2. 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. (Paragraph 21)

**Ministerial Responsibility and Whitehall**

3. 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 BIS is a key department tasked with rebalancing the economy, we would have expected it to do better. (Paragraph 22)

4. 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. (Paragraph 24)

5. 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. (Paragraph 31)

6. 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. (Paragraph 34)

**British Business Ambassadors**

7. 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. (Paragraph 42)

8. 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 measurable 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. (Paragraph 44)

Catalyst

9. 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. (Paragraph 48)

Exporting Culture

10. 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. (Paragraph 55)

11. The fact that survey data suggest that few businesses are pro-actively pursuing export opportunities highlights 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. (Paragraph 56)

Global Factors

12. 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 rewards. 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. (Paragraph 60)
13. 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. (Paragraph 65)

**UKTI Funding**

14. 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 of BIS 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 responsible Secretary of State for, such a highly important body do not have a grip on the details of the UKTI’s FCO budget. (Paragraph 77)

15. 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 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”. (Paragraph 84)

16. 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. (Paragraph 85)

**UKTI staffing**

17. 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. (Paragraph 91)

18. 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 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. (Paragraph 95)

19. 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. (Paragraph 98)

20. 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. (Paragraph 99)

21. 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. (Paragraph 100)

UKTI Trade Services

22. Overall, Passport to Export is well-received by business but there remains more to be done. We are concerned at how this is to be achieved with fewer resources to pay for training and fewer trade advisers out in the regions helping SMEs. The Department, and UKTI in particular, must guard against relying on statistics and process activity to demonstrate success in delivery. Results for business is the only real measurement of the programme’s success. (Paragraph 107)

23. We received little, if any, evidence on the Gateway to Global Growth we note that the programme was a key factor in UKTI winning a global trade promotion award. We recommend the Department provides us with details on its assessment of the service in light of customer feedback. We remain concerned by the proposed cut in companies being served over the spending review period. (Paragraph 110)

24. Although the services of UKTI are welcomed and appreciated by businesses, there remains the concern that UKTI still focuses more on processes than outcomes. Businesses want to be able to assess before embarking on working with the UKTI, clear evidence that it will benefit their bottom line. A more entrepreneurial culture within UKTI should help improve this mindset, but the challenge remains for UKTI to continue to demonstrate its real value to UK businesses. (Paragraph 114)

25. Business Link is still considered by many to be the major deliverer of UKTI trade advice services despite the fact that it is being closed by the Government and as yet has no replacement. It is unclear who will be providing trade advice services in the regions following the winding up of Business Links. This is not an acceptable situation and clarity on how these services will be provided, advertised and supported is urgently required from Government. (Paragraph 118)

26. We have heard from a variety of industries the importance of Trade Shows and therefore the invaluable services of the UKTI's Trade Show Access Programme. A more selective approach to supporting Trade Shows may be both beneficial and
more efficient but we recommend that funding from the programme is reviewed before it is cut. We also look forward to detail from UKTI on how the Trade Show Access Programme will be enhanced in 2012 with potentially less funding. (Paragraph 124)

27. We welcome the new services proposed in the White Paper, but there is little detail on how these services will be delivered, or what they will provide. First, it is unclear how the peer-to-peer advice website will help prospective exporters and how experienced exporters will be encouraged to provide advice. Second, there is as yet no explanation of the business mentoring scheme, or how it will be provided by Catalyst. The Department needs to set out clearly, the role of mentors, the number of companies they will be working with on average each and the outcomes on which they will be judged. (Paragraph 127)

28. We believe that British Chambers of Commerce and trade associations can play a larger role in promoting the importance of exports to SMEs. We were concerned by the lack of active engagement between business organisations and their members on the issue of exporting. This situation has to improve. The provision of export support should not solely be the responsibility of the UKTI and the Government. We recommend that the Government and UKTI work with the Chambers, trade associations and banks to project a clear message on exporting with clear signposting on where to go for help, advice and financing. (Paragraph 133)

29. We welcome the Department’s commitment to refine UKTI’s relationship with larger companies and the development of a more business-orientated account-management style through the High Value Opportunities scheme. Those companies have the potential to help SMEs in their supply chain to also benefit from exports by introducing them to overseas markets, though we note that this relationship is a complex one. UKTI can play an important role in providing incentives to larger companies to take their supply chain with them, and we recommend that the Government consider how companies receiving UKTI support through the scheme be encouraged to help ‘pull through’ their SME supply chains. (Paragraph 141)

30. The Government is right to concentrate on emerging markets but it needs to strike an appropriate balance between new and existing markets. Many SMEs look to start exporting to the EU and the USA as they are perceived to be both easier and safer. The confidence which comes from exporting to existing markets should not be underestimated and UKTI should be mindful of this when it develops its market strategies. (Paragraph 152)

31. The additional support necessary of SMEs to enter the emerging markets has been recognised by Government and it has increased UKTI staff in both China and India. There remains, however, a gap between UKTI support for SMEs overseas and its capacity in the UK to highlight the opportunities and advantages of exporting to those markets. Budget constraints mean that it will be difficult for UKTI to do both. In the UK, UKTI should demonstrate to us how it will be utilising local partners, including Chambers of Commerce, trade associations and local banks to provide domestic support to SMEs. (Paragraph 153)
32. We believe it is right for UKTI to have a sectoral focus which will concentrate its efforts on those areas where the UK has a competitive advantage. We note the Department’s plans to establish Sector Group Task Forces and Sector Advisory Groups staffed by the private sector. As we highlight earlier in this Report, the Department will need to demonstrate how it will attract suitably qualified personnel from the private sector at a time when UKTI’s funding is being reduced. (Paragraph 158)

UKTI Inward Investment Services

33. We welcome the Government’s recognition of the importance of inward investment. However, we are concerned with the delay at announcing the contractor for regional inward investment services in the UK. The Government needs to be more proactive in attracting inward investment; the delay in awarding the inward investment contract following the winding up of the RDA’s has not been convincing. In its response to this Report, we will expect to receive a detailed update on the structures which will be put in place by the partnership arrangement with PA consulting, OCO and British Chambers of Commerce to deliver a high level service across the country. (Paragraph 164)

34. We recommend that the Government set out its “rules of engagement” in this area of Ministerial assistance to inward investors and the criteria under which companies will be eligible to receive this enhanced service. In the spirit of transparency, we also recommend that the Department sets out the form of assistance and access it provides to major investments, on a quarterly basis. (Paragraph 168)

35. Local knowledge is important and we recognise the value of involving LEPs in giving an informed local view for investors. However, until there is an established and comprehensive coverage of LEPs across England, the Government will need to ensure that valuable opportunities are not being missed by areas which have yet to establish a LEP to promote their locality. There needs to be greater clarity of what is expected of LEPs with regards to attracting inward investment and their interaction with PA consulting, the Foreign Direct Investment contractor. Although PA Consulting holds the contract, it is for Government to set the parameters for LEP involvement. We recommend that the Department sets out in its Response a detailed explanation of the level, range and extent of LEP involvement in delivering inward investment, alongside the costs and resources necessary for them to carry out this role. (Paragraph 176)

UK effectiveness and efficiency

36. We welcome the positive assessment of UKTI’s trade services work as set out in its PIMS performance measurement system. The fact that the PIMS system is highly rated by the National Audit Office gives greater credibility to the PIMS results. While we cannot confirm the accuracy of the claim that UKTI generates £22 benefit for each £1 of Government spend on UKTI trade services, it is clear that UKTI does provide a service valuable to UK companies. (Paragraph 187)
37. Reductions in its budget and resources will put additional pressure on UKTI in maintaining its current performance levels. While we recognise that UKTI will have to do more with less, we believe that the Government should keep a close eye on PIMS data. Any significant reduction in the satisfaction levels of companies with UKTI’s services will have to be addressed at the earliest opportunity. (Paragraph 188)

38. The contracting out of the delivery of inward investment services will make it more difficult to assess the performance of UKTI in this area. However, that does not mean that it is any less necessary. The PIMS system of monitoring export support should be assessed as a possible vehicle for the monitoring of all inward investment services. (Paragraph 191)

39. We are concerned that although companies that use the services of the UKTI value them, only 6% of SMEs in the FSB have accessed UKTI services. We recognise that the UKTI is trying to reach out to these SMEs but we believe that more proactive work can and should be done. This needs to be addressed if the Government is to fulfil its growth aim of getting more SMEs exporting. (Paragraph 195)

Export Credit Guarantee Department

40. We welcome the improvements to trade finance provided by ECGD. As these products are new to the market we expect the Department to update us on their availability and their take-up by business in its Response to this Report. ECGD has failed to support the wider business community, and in particular SMEs for far too long. It will have to make significant efforts to restore business faith in its operations and we expect it to demonstrate, in detail, how it is going to re-engage with all sectors of the economy and in particular with SMEs. Furthermore, we will expect the Department to prove, through regular publication of statistics, that ECGD is supporting more businesses from across the sectoral spectrum. (Paragraph 211)

41. We find it surprising that an organisation tasked with providing a wider range of services is doing so at the same time as reducing its headcount. Efficiencies can always be found, but should demand for ECGD services outstrip capacity further reputational damage may be occur. We will expect to receive a detailed assessment of potential demand for ECGD services and an assurance that ECGD capacity can meet that demand in the Department’s response to this Report. (Paragraph 213)

42. We support the OECD rules which govern all Export Credit Agencies. We also acknowledge that many NGOs do not have faith that all ECAs abide by them. We look to the Government to work towards the highest level of transparency in ECGD transactions so that all interested parties can have confidence that ECGD activities abide by both the letter and the spirit of the OECD rules. (Paragraph 219)
Formal Minutes

Tuesday 28 June 2011

Members present:

Mr Adrian Bailey, in the Chair

Brian Binley
Dan Jarvis
Simon Kirby

David Ward
Nadhim Zahawi

Draft Report (Rebalancing the Economy: Trade and Investment), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 219 read and agreed to.

Annex and Summary agreed to.

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

Ordered, That the Chair 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, together with written evidence to be published on 18 January, 1 February, 8 March, 27 April, 10 May, 14 and 21 June 2011.

[Adjourned till Thursday 30 June at 9.00 am]
Witnesses

Tuesday 18 January 2011

Susan Ross, Chairman, British Exporters Association (BExA), and Dr Adam Marshall, Director of Policy and External Affairs, British Chambers of Commerce

Ev 1

Tuesday 25 January 2011

Paul Everitt, Chief Executive, Society of Motor Manufacturers and Traders (SMMT), Melanie Leech, Director-General, Food and Drink Federation (FDF), Graham Hayes, President, Engineering and Machinery Alliance (EAMA), and Graham Dewhurst, Director-General, Manufacturing Technologies Association (MTA)

Ev 12

Tuesday 1 February 2011

Andy Scott, Director of International and UK Operations, CBI, Andrew Cave, Head of Policy, Federation of Small Businesses, Phil Orford, Chief Executive Officer, Forum of Private Business, and Alexander Ehmann, Head of Parliamentary and Regulatory Affairs, Institute of Directors

Ev 21

Tuesday 8 February 2011

Nick Fry, Chief Executive, Mercedes GP, Sir Roger Bone, President, Boeing UK Ltd, Lord Charles Powell, Chairman, Asia Task Force, and Paul Skinner, Chair, Infrastructure UK

Ev 37

Graham Chisnall, Managing Director, Commercial Aerospace and Operations, ADS, Stephen Phipson CBE, Vice-President of Security, ADS, and President of Smiths Detection, Bob Keen, Head of Government Relations, BAE Systems plc, and Katherine Bennett OBE, Vice President, Airbus

Ev 46

Tuesday 15 February 2011

John McVay, Chief Executive, PACT, Feargal Sharkey, Chief Executive Officer, UK Music, Paul Redding, International Managing Director, Beggars Group, and Richard Mollett, Chief Executive Officer, The Publishers Association

Ev 58

Stephen Phillips, Chief Executive, China-Britain Business Council, Dr Kerry Brown, Head of Asia Programme, Chatham House, and Professor Peter Nolan, Cambridge University

Ev 72

Simon Carter, fashion designer, Joan Turley, author, and Steve Young, Head of Business Development and Sales, Surrey Satellite Technology Ltd

Ev 84
Tuesday 8 March 2011

Dr Razeen Sally, London School of Economics, Professor Jim Rollo CMG, Sussex University, and Vanessa Rossi, Senior Research Fellow, International Economics, Chatham House

Susan Haird, Acting Chief Executive, UKTI, Patrick Crawford, Chief Executive, ECGD, and David Frost CMG, Director for Europe, Trade and International Affairs, Department for Business, Innovation and Skills

Thursday 10 March 2011

Lord Green of Hurstpierpoint, Minister for Trade and Investment, Edward Davey MP, Parliamentary Under-Secretary of State, Department for Business, Innovation and Skills, Susan Haird, Acting Chief Executive, UKTI, and Patrick Crawford, Chief Executive, Export Credits Guarantee Department
List of printed written evidence

(published in Volume II: Oral and written evidence (HC 735-II))

1. Department for Business, Innovation and Skills Ev 131; Ev 142; Ev 145; Ev 146
2. A|D|S Ev 149; Ev 152
3. Airbus Ev 156
4. British Chambers of Commerce Ev 158
5. British Exporters Association Ev 163; Ev 164
6. CBI Ev 164
7. China-Britain Business Council Ev 169
8. Engineering and Machinery Alliance Ev 173
9. Federation of Small Businesses Ev 178
10. Food and Drink Federation Ev 179
11. Forum of Private Business Ev 181; Ev 185
12. Institute of Directors Ev 186
13. International Chamber of Commerce UK Ev 214
14. Pact Ev 189
15. PRS for Music Ev 193
16. The Publishers Association Ev 198
17. Simon Carter Ev 202
18. The Society of Motor Manufacturers and Traders Ev 203; Ev 205
19. Surrey Satellite Technology Ltd Ev 206
20. UK Music Ev 211

List of additional written evidence

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1. Amnesty International UK Ev w1
2. British Airways plc Ev w4
3. Campaign Against Arms Trade Ev w7; Ev w8
4. City of Bradford Metropolitan District Council Ev w13
5. City of London Corporation Ev w14
6. Clyde Blowers Ltd Ev w15
7. The Corner House Ev w16
8. Export Action Ltd Ev w22
9. The Institution of Engineering and Technology Ev w23
10. Jubilee Debt Campaign Ev w27
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