House of Commons

Business, Innovation and Skills Committee

Rebalancing the Economy: Trade and Investment

Seventh Report of Session 2010–12

Volume III

Additional written evidence

Ordered by the House of Commons to be published 28 June 2011

Published on 19 July 2011
by authority of the House of Commons
London: The Stationery Office Limited

Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

Current membership

Mr Adrian Bailey MP *(Labour, West Bromwich West)* (Chair)
Mr Brian Binley MP (*Conservative, Northampton South*)
Paul Blomfield MP (*Labour, Sheffield Central*)
Katy Clark MP (*Labour, North Ayrshire and Arran)*
Rebecca Harris MP (*Conservative, Castle Point*)
Margot James MP (*Conservative, Stourbridge*)
Dan Jarvis MP *(Barnsley Central)*
Simon Kirby MP (*Conservative, Brighton Kemptown*)
Ian Murray MP (*Labour, Edinburgh South*)
Mr David Ward MP (*Liberal Democrat, Bradford East*)
Nadhim Zahawi MP (*Conservative, Stratford-upon-Avon*)

The following members were also members of the Committee during the parliament.
Luciana Berger MP (*Labour, Liverpool, Wavertree*)
Jack Dromey MP (*Labour, Birmingham, Erdington*)
Gregg McClymont MP (*Labour, Cumbernauld, Kilsyth and Kirkintilloch East*)
Nicky Morgan MP (*Conservative, Loughborough*)
Chi Onwurah MP (*Labour, Newcastle upon Tyne Central*)
Rachel Reeves MP (*Labour, Leeds West*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.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 Whitley (Inquiry Manager), Neil Caulfield (Inquiry Manager), Ian Hook (Senior Committee Assistant), Jennifer Kelly (Committee Assistant).

Contacts

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

List of additional written evidence

Written evidence

Written evidence from Amnesty International UK

Amnesty International is a worldwide movement of people who campaign for internationally recognised human rights to be respected and protected. Our vision is for every person to enjoy all of the human rights enshrined in the Universal Declaration of Human Rights and other international human rights standards. Our mission is to conduct research and take action to prevent and end grave abuses of all rights—civil, political, social, cultural and economic.

1. Summary of Recommendations

Amnesty International urges the BIS Committee to address the following issues with regard to the UK government's policy and actions on trade and investment:

Issue 1

How to ensure that the UK's approach to trade and investment promotion does not compromise human rights.

Issue 2

How to ensure that the UK's policy on trade and investment reflects the "due diligence" framework for the operations of multinational corporations that has been developed by the UN Special Representative on Business and Human Rights, Professor John Ruggie.

Issue 3

How to address the reputational and financial consequences faced by UK companies that fail to respect human rights in their overseas operations.

Issue 4

How to improve the accountability and oversight of the UK's Export Credits Guarantee Department (ECGD) for the human rights impacts of projects and transactions that ECGD supports.

Issue 5

How to ensure that the UK's policy on trade and investment contributes to higher standards for companies at inter-governmental level.

Issue 6

How to ensure that all treaties underpinning trade and investment that UK is a signatory to, whether Bilateral Investment Treaties (BITs), regional investment treaties, economic partnership agreements or free trade agreements can be framed in a way that does not undermine the international human rights law obligations of any of the States that are party to such agreements.

2. Background

2.1 Amnesty International is submitting evidence to this inquiry, because there are human rights implications arising from the UK's trade and investment strategy and policies. While this submission addresses specific issues of relevance to the UK, it is informed by the broader context of the interface between human rights and international trade and investment.

2.2 The integration of human rights into international trade and investment is a topical issue in the light of the growing body of evidence on the ways in which international trade and investment affects human rights, enhancing rights under some circumstances and undermining rights under others.[1] It is a development issue in so far as the integration of the norms, standards and principles of the international human rights system into the superstructure of inter-State trade and investment can influence plans, policies and processes of development.[2] It also engages general principles of international law and contract law with regard to mechanisms for embedding human rights into international trade and investment agreements and for adjudicating disputes.[3]

2.3 The term "human rights" is used here to refer to those standards that are guaranteed through international legal instruments, in particular the International Bill of Rights, various regional human rights instruments,

[1] S Aaronson and J Zimmerman, *Trade Imbalance: The Struggle to Weigh Human Rights Concerns in Trade Policymaking* (2007)

[2] M Robinson, "What Rights Can Add to Good Development Practice" in Alston, P and Robinson, M. (eds) *Human Rights and Development: Towards Mutual Reinforcement* (2005)

[3] J Hu, "The Role of International Law in the Development of WTO Law", in *Journal of International Economic Law*, (2002) Vol.13 No.4, p753–814; M Sornarajah, *The International Law on Foreign Investment* (2010)

customary international human rights law, general principles of international human rights law, case law, and officially documented opinions of the bodies established to monitor the implementation of these rights.

3. Specific Issues and Recommendations

3.1 Amnesty International urges the BIS Committee to consider steps that can be taken to ensure that the UK's approach to trade and investment promotion does not compromise human rights

3.1.1 The suggestion that the UK's focus on trade and investment promotion should not compromise human rights reflects the recommendations of the House of Lords and House of Commons Joint Committee on Human Rights (JCHR) in their December 2009 report "*Any of our Business? Human Rights and the UK Private Sector*". The JCHR drew attention to the need for a UK strategy on Business and Human Rights. Such a strategy would ensure that the UK's trade and investment policies are consistent with the UK's international human rights obligations, and with the evolving policies that different Government departments are adopting in the sphere of business and human rights.

3.1.2 Ensuring that human rights are taken account of in the UK's trade and investment strategy would require at the very least the following to be in place:

(a) Country desk officers and staff within UK missions should understand the human rights context of UK companies operating in their countries. The FCO-initiated Toolkit on Business and Human Rights is an important step in this direction, but it needs to be supported by training and awareness-raising, so that missions can intervene in contexts where UK companies are alleged to be contributing to human rights abuses, and can engage effectively with companies on these issues.

(b) Trade-promotion delegations should be aware of and find ways of raising human rights issues with their hosts, especially when these are relevant to the trade and investment activities of UK companies operating in the host country.

(c) There should be joined-up thinking on business and human rights across Government departments, including the Department for Business, Innovation and Skills (BIS), the Foreign and Commonwealth Office (FCO), the Department for International Development (DFID) and the Ministry of Justice (MoJ). Different governmental bodies relate to these issues in different and sometimes inconsistent ways. There is the need for all Government departments and agencies relating to trade and investment to consider how to encourage and incentivise companies to address their human rights impacts. For example, UK Trade and Investment (UKTI), an arm of the Government that promotes international trade and investment by UK companies, does not address human rights issues in its country briefings. Colombia is described misleadingly on UKTI's website as "*enjoying a long tradition of economic and political stability"*. Human rights are not referred to amongst the challenges for businesses operating in Colombia, despite the many UK companies that have had their reputations tarnished because of associations with human rights violations in that country.

3.2 Amnesty International urges the BIS Committee to press for the UK's policy on trade and investment to reflect the "due diligence" framework for the operations of multinational corporations that has been developed by the UN Special Representative on Business and Human Rights, Professor John Ruggie

3.2.1 The Mandate of the UN Special Representative on Business and Human Rights offers the prospect of bringing about a significant improvement in the human rights impacts of companies globally. The UK should promote and support the UN Special Representative's Guiding Principles when they are presented to the Human Rights Council in June 2011, as this will help create a level playing field on human rights, ensuring that responsible UK companies are not undercut by laggards operating to lower standards.

3.2.2 The UK should support the creation of a mechanism at the June 2011 Human Rights Council to take forward Professor Ruggie's Guiding Principles, with regard to each of the three pillars of his framework—the Duty of States to **Protect** human rights; the Responsibilities of Companies to **Respect** human rights and the need for victims to have access to **Remedy**.

3.3 Amnesty International urges the BIS Committee to consider the reputational and financial consequences faced by UK companies that fail to respect human rights in their operations abroad, and how the UK can do more to hold these companies accountable

3.3.1 Outward investment by UK companies that fails to respect the human rights of those individuals and communities affected by the investment does carry costs for the UK. This is particularly the case in areas of conflict, where many UK companies have suffered, reputational damage, experienced significant increases in their operating costs, and in some case have been unable to continue their operations.

3.3.2 Given the number and range of transnational companies based in the UK and the capacity of these companies to have significant impacts on human rights globally, the fact that there is at present only sporadic regulation of the extra-territorial impacts of corporate activity contributes to a serious regulatory failure. There are some spheres of activity in which UK companies are already subject to UK regulations that have extra-territorial effect, such as bribery and corruption, financing of terrorism, trafficking, and anti-competitive activity. Currently, however, the UK has not taken steps to regulate the extra-territorial human rights impacts of UK companies to ensure greater protection of human rights globally.

3.3.3 Research undertaken by Amnesty International[4] and its partners in the Corporate Responsibility (CORE) Coalition reveals that UK companies have committed or contributed to human rights abuses in many countries and contexts.[5] In some cases the company is the primary agent of the abuse, while in other cases it is the company's relationships with third parties, such as governmental agencies and security forces, that has given rise to the abuse.

3.3.4 The UK government, via the UK's National Contact Point under *The OECD Guidelines for Multinational Enterprises* (located within BIS), has declared several UK companies to be in breach of the Guidelines.[6] One of these companies, Vedanta Resources, was recently denied a licence to operate a mine in Orissa, India, and was refused permission to expand its existing refinery there on account of adverse impacts on human rights. The company has admitted that this is having significant consequences. This has been reflected in its share price, which has underperformed the market since these licences were refused. It has also led to concern amongst investors, some of whom have divested their shareholding.

3.4 Amnesty International urges the BIS Committee to consider steps to improve the accountability and oversight of the UK's Export Credits Guarantee Department (ECGD) for the human rights impacts of projects and transactions that ECGD supports. This should be done with regard to the following:

3.4.1 The extent to which fundamental policy decisions have been taken by the ECGD without any assessment of their impacts on human rights despite evidence that there is a human rights dimension to those policy changes. One such policy decision is the downgrading of the ECGD's Business Principles, which were introduced in 2000 to ensure that the ECGD's conduct is consistent with the UK's international obligations. Another policy decision is the removal of certain types of transactions, such as those falling under the remit of the Letter of Credit Guarantee Scheme (LCGS), from screening procedures that might identify prospective human rights abuses. Amnesty International takes the view that the failure of the ECGD to conduct an impact assessment of its proposed policy changes represents a failure to take reasonable and proactive steps to protect human rights.

3.4.2 The alignment of the ECGD's policies with steps that the UK government is taking to address the human rights impacts of UK companies operating abroad, including initiatives located elsewhere within BIS, FCO and MoJ.

3.4.3 The recommendations of UK Parliamentary Committees that have scrutinised the ECGD's activities, in particular those contained in reports of the Environmental Audit Committee (October 2008) and of the Joint Committee on Human Rights (December 2009). There appears to be a growing gap between the views of Parliament and those of Government with regard to the conduct of the ECGD.

3.5 There is the need for all Government departments and agencies relating to trade and investment to consider how the UK can promote stronger international frameworks for governing the human rights impacts of companies through the inter-governmental bodies of which the UK is a member. There are four significant inter-governmental processes at UN, OECD and World Bank level that offer opportunities for the UK to press for higher and more effectively implemented standards:

3.5.1 The UN Human Rights Council will determine in June 2011 what steps, if any, should be taken to give effect to the Guiding Principles on human rights for companies and for States that will be put forward by the UN Special Representative on Business and Human Rights.

3.5.2 The revision of the OECD Guidelines for Multinational Enterprises, undertaken by the OECD, is being led within the UK by BIS (i.e. UK National Contact Point). There is a real prospect of these Guidelines containing an explicit human rights chapter. We would like to see the UK pressing for a strong human rights framework to be incorporated into these Guidelines.

3.5.3 The harmonisation of social and environmental standards for export credit agencies (known as *The Common Approaches*) is being undertaken at OECD level. The current review provides an opportunity for integration of human rights into the screening procedures adopted by all the export credit agencies of OECD States. We would like to see the UK pressing for the Guiding Principles of the UN Special Representative on Business and Human Rights to be incorporated into the revised Common Approaches.

3.5.4 The World Bank's private sector lending arm, the International Finance Corporation (IFC), is currently reviewing its Performance Standards for companies it lends to. The UK as a Shareholder and Board Member of the IFC has an important role to play in pressing for human rights to be integrated into these Performance Standards.

---

[4] *Nigeria: Petroleum, Pollution and Poverty in the Niger Delta*, Amnesty International, 2009; *Don't Mine us Out of Existence: Bauxite Mine and Refinery Devastates lives in India*, Amnesty International, 2010

[5] Five case studies of UK companies were published by the Corporate Responsibility (CORE) Coalition and the LSE in *The reality of rights: Barriers to accessing remedies when business operates beyond borders*, 2009

[6] http://www.bis.gov.uk/policies/business-sectors/low-carbon-business-opportunities/sustainable-development/corporate-responsibility/uk-ncp-oecd-guidelines/cases

3.6 Amnesty International urges BIS to address the need for all treaties between States that underpin trade and investment, whether Bilateral Investment Treaties (BITs), regional investment treaties, economic partnership agreements or free trade agreements, to be framed in a way that does not undermine the international human rights law obligations of any of the States that are party to such agreements. The UK should ensure that all of its agreements are consistent with this principle, including any investment agreements negotiated by the European Union on behalf of member States.

3.6.1 The human rights implications of investment agreements are related to a particular feature known as the "stabilisation clause". From the investor's perspective, the aim of such a clause is to ensure that future changes in the legislation of the host State do not vary the terms of the contract or the basis on which the investment was made. Such clauses are intended to immunise the foreign investor from a range of interventions by the host State that impose costs beyond what was written into the contract. These can arise from a range of matters such as taxation, environmental controls and other regulatory requirements, including those that might be necessary for the protection and fulfilment of human rights. The rationale for such a clause is that the host State's sovereignty gives it the legislative power to alter the effect of the State-investor contract in a way that will undermine the profitability of the investment. It is in the interest of the foreign corporation to neutralise this power.[7]

3.6.2 From a human rights perspective, the problem arises when the rights of foreign investors under such agreements come into conflict with the State's duty to protect human rights under international law.[8] Amnesty International believes that States should not promote or enter into treaties that place constraints on their ability to give effect to their international human rights obligations, or on the ability of other states to do so.

January 2011

Written evidence from British Airways plc

Executive Summary

Aviation is one of the most successful industries in the UK. It enables international trade and tourism and is a vital ingredient in maintaining the UK's core economic base and its competitiveness with other nations.

British Airways employs about 40,000 people mostly based in the UK. We have many highly-skilled employees, such as engineers, pilots and IT specialists and we are determined to help improve the quality of the British workforce through apprenticeships and skills training.

As the UK's only global network carrier, we wish to support the UK economy through the provision of improved connectivity to and from this country. However, we are restricted in improving UK connectivity, as our hub airport, Heathrow, is full.

The continued success of the UK economy demands expansion of the range and breadth of the established network of routes offered to and from UK. Lack of capacity at our hub airport will diminish the nation's competitiveness, as London will become a less attractive location for international business. There have been marked increases in airport capacity in other European and Middle East countries in recent times and these countries stand to benefit from their improved connectivity.

It is of key importance that the government recognises the relationship between a hub airport and the ability of air carriers to operate to a wide and extensive network of routes. Without transfer passengers many routes are simply not sustainable as there is insufficient point to point traffic to make them viable.

Changes to aviation taxation need to be transparent and trustworthy and most importantly, they should help and not hinder the UK aviation industry. Aviation is a key sector that can aid the country's economic recovery and we need to send a message to the world that Britain is open for business. British Airways' concern is that the current unacceptably high levels of APD, and plans to introduce a per plane tax, do exactly the opposite.

The UK's visa regime can impact our ability to compete internationally. We recognise that immigration must be controlled but our visa rules must be designed to avoid discouraging people from visiting the UK on business.

Introduction

1. British Airways welcomes the opportunity to submit comments to the Business, Innovation and Skills Committee inquiry—Rebalancing the Economy: Trade and Investment. It should be noted that several of the points made in this submission are included in our earlier response to the Trade White Paper—Call for Evidence as opened by the Department for Business, Innovation and Skills in November 2010.

2. British Airways employs around 40,000 people mostly based in the UK, and we are determined to help improve the quality of the British workforce through apprenticeships and skills training. We already have

---

[7] M Sornarajah, *The International Law on Foreign Investment* (2010, p281–282)

[8] *Stabilization Clauses and Human Rights* (2008); this paper was the output of a research project conducted for the IFC and the UN Special Representative on Business and Human Rights

several apprenticeship schemes, including 125 student engineers, in place and more are planned. We undertake all of our engineering work in-house and here in the UK. This is unlike many other airlines that outsource their maintenance to companies abroad. We want to continue this practice but we will only be able to do so if we are able to remain competitive and maintain profitability in the longer term.

3. Our joint business venture with American Airlines and Iberia offers customers a network of 433 destinations in 105 countries and more than 5,100 daily flights. Last year British Airways alone carried nearly 32 million passengers and 760,000 tonnes of cargo on our fleet of 238 aircraft.

Connectivity and the UK Economy

4. Aviation is one of the most successful industries in the UK. It enables international trade and tourism and is a vital ingredient in maintaining the UK's economic base and its competitiveness with other nations. Aviation supports the export of services such as those in the consultancy, financial and creative industries and balances that by facilitating inward foreign investment to the UK. In a recent year, measured as Gross Value Added (GVA), the aviation sector generated directly £8.8 billion of economic output, or 0.7% of the total GVA of the UK economy. Aviation provides 141,000 jobs in the UK, or 0.5% of total UK employment; this rises to 0.85% when the supply chain employment is taken into account[9]. Unlike road and rail transport, aviation is not a burden on the taxpayer or Government as it funds its own infrastructure, including airports and runways.

5. A strong, successful aviation industry is vital to maintaining the UK's international competitiveness and its position in the global economy, especially in these challenging and difficult times. As the UK's only global network carrier, we support the UK economy through the provision of global connectivity to and from this country. Good connectivity is important as it reduces travel times and provides a larger choice of destinations therefore providing benefits to the economy through better access to existing and new markets. However, we are restricted in improving UK connectivity, as our only effective hub airport, Heathrow, is full. It will therefore be difficult, if not impossible, to offer our customers direct flights or increase frequencies to the new and important developing markets in countries such as China, India and Brazil. Those wishing to travel to destinations not served by Heathrow have to fly by way of other hub airports outside the UK to reach their destinations. Our concern is that the Coalition government does not appear to have a coherent policy for aviation expansion in the UK; and, its aviation taxation policy (Air Passenger Duty) can act as a disincentive for those doing business with the UK. Given the long lead times associated with providing new airport and associated infrastructure, this concern must be addressed urgently. Otherwise, Heathrow will lose its status as a primary hub airport and will be served at the end of a branch line from larger and more important overseas hubs.

6. The continued success of the UK economy needs expansion of the range and breadth of the established network of routes offered to and from UK. British Airways cannot stand still as it faces increasing competition from other airlines in Europe whose networks have expanded greatly in recent times. We must match their offering if we are to remain a sustainable business and serve the needs of our customers and the UK economy. Lack of capacity at our hub airport will diminish UK competitiveness, as London will become a less attractive location for international business. There have been marked increases in airport capacity in other European and Middle East countries in recent times and these countries are benefitting from their improved connectivity. Without a coherent aviation policy that recognises the global nature of the industry and the role of UK aviation in facilitating international trade and investment, the UK risks being marginalised as a global trading power. We believe this is already in evidence: Chinese inward investment to Europe is becoming skewed towards Germany and France in part because of the better air connectivity to those countries. Chinese airlines are tending to partner with the Star and Skyteam alliances because of better airport slot availability at the Paris, Amsterdam and Frankfurt hubs.

7. Last year David Cameron said: "he was proud to have taken a 'really big' trade delegation to China to try and forge deals between UK and Chinese companies". He expressed similar sentiments during his trade mission to India earlier in the year. British Airways supports the Prime Minister's ambition to promote and encourage trade between the UK and emerging trading countries such as China, India and Brazil. However, we believe that the Coalition's absence of a coherent policy on UK aviation undermines the UK's ability to trade on a global basis. British Airways wants the opportunity to serve more destinations and on a more frequent basis than we do today, but we are unable to do so because there are no plans for expansion of aviation in the South East.

8. It is of key importance that the government recognises the relationship between a successful hub airport and the ability for carriers to operate to a wide network of routes including flights to new markets and to existing routes that return marginal profitability. Without transfer passengers many routes are simply not sustainable as there is insufficient point to point traffic to make them viable. That is why only Heathrow serves certain key international trade routes and why it is highly unlikely that other major UK airports such as Stansted, Gatwick or Birmingham will ever serve them. Heathrow is a successful hub airport—the others are not.

9. However, Heathrow as a hub airport is falling behind competitor hubs such as Amsterdam, Paris CDG, Frankfurt, Munich and Madrid in Europe; and, is threatened further by new hubs in the Middle East, for

[9] Statistics in this paragraph extracted from Oxera report—What is the contribution of aviation to the UK economy? Nov 2009.

example, Dubai. The chart below illustrates how Heathrow has declined against other EU hubs in terms of the number of destinations served since 2005.

HEATHROW IS FAST LOSING GROUND TO COMPETITOR HUBS IN EUROPE

Airport	*Runways*	*No. Destinations served (2005)*	*No. Destinations served (2010)*
Frankfurt	3	293	288
Amsterdam	5	245	264
Paris CDG	4	233	259
Munich	2	211	225
Madrid	4	151	194
Heathrow	2	200	183

10. Because Heathrow is now full, carriers operating from the airport are very limited in the number of destinations they can add to their schedules. As a result Heathrow has become less competitive and over time it may well become an airport on a branch line. Those wishing to travel to destinations not served by Heathrow will have to fly by way of other hub airports outside the UK to reach their destinations. This is already the case for those wishing to travel to some cities in China. Lufthansa already serves more cities in China directly than do carriers from Heathrow. Furthermore, British Airways has stated that if it is not able to expand at Heathrow, it will focus on growth at Madrid airport. Not only will this make it more difficult for those travelling to and from the UK in the future, it will influence companies when deciding where they will locate their headquarters. A key influencing factor in their decision making will be accessibility by air.

11. Stagnation of Heathrow will be detrimental to the UK economy. A recent report published by the British Chambers of Commerce[10] stated that not adding capacity at Heathrow would cost the economy between £300 million and £500 million per annum in lost productivity. Some commentators believe that Heathrow is already a second tier hub and that risks the UK becoming less competitive as a trading nation.

Aviation Taxation

12. Air Passenger Duty (APD) is another factor which can act as a disincentive for business to trade with the UK. British Airways supports the Government's determination to oversee the recovery of the economy. We recognise that to tackle the budget deficit, there must be an economic rebalancing with cuts and tax rises. However, it is essential that tax rises are both targeted and fair. If the UK is to maintain international competitiveness, attract investors to Britain, and create jobs, we need the best environment to do that.

13. British Airways is keen to play its part in driving the UK's recovery. There is a risk that the current levels of air passenger duty and the threatened per plane tax will damage the recovery. In a recent poll[11] undertaken for British Airways, the overwhelming majority said that they were concerned that an increase in aviation taxes would hurt our vital tourism industry and that of our economic recovery.

14. As an island trading nation we are heavily reliant on aviation for business links. Changes to aviation taxation need to be transparent and trustworthy and most importantly they should help and not hinder the aviation industry. Aviation is a sector that will aid the economic recovery and British Airways wants to work with the Government to assist the economic recovery and send a message to the world that Britain is open for business. Our concern is that the current unacceptably high levels of APD, and plans to introduce a per plane tax[12], do the opposite.

UK Visa Regime

15. One final domestic factor, which frustrates our ability to compete internationally, is that of our visa regime. We recognise that immigration must be controlled but our visa rules must be designed to avoid discouraging people from visiting the UK on business. A business visitor to the UK must pay £70 for a short term visit visa, £230 for a visit of up to two years, £420 for up to five years and £610 for up to 10 years. These fees are considerably higher than those wishing to visit other countries in Europe and applying for a Schengen visas.

16. Visas are of particular concern for those visiting Europe and wishing to include UK in their itinerary. A short stay Schengen visa costs £50 and will facilitate travel to several EU countries, whereas visiting the UK will require a further visa application at a cost of £70. The cost and inconvenience associated with applying for a second visa will discourage many from including the UK in their travel plans.

January 2011

---

[10] British Chambers of Commerce: Economic Impacts of Hub Airports July 2009

[11] CTF Partners: APD and PPD Research—October 2010

[12] A per plane tax will drive transfer passengers and air cargo from UK hub airports to those located in the EU and Middle East It will also encourage UK passengers to fly long-haul from EU hubs and threaten UK routes and connectivity.

Written evidence from the Campaign Against Arms Trade

1. The Campaign Against Arms Trade (CAAT) in the UK works to end the international arms trade. Around 80% of CAAT's funding comes from individual supporters.

2. In September 2010, CAAT made a submission to your Committee's earlier inquiry into Government assistance to industry, concentrating on the role of the Department for Business, Innovation and Skills (BIS) in providing support for exports in one industry. CAAT drew attention to the problems engendered by the arms trade; pointed out that its promotion by the Government is controversial, not apolitical; said that the supposed economic and employment benefits to the UK are far from proven; and proposed that the support given to the arms companies be redirected to newer industries tackling climate change, with benefits to both the economy and security.

3. Unaware that the Committee would shortly be holding this more specific inquiry, CAAT's September submission focussed on UK Trade & Investment (UKTI) and the Export Credits Guarantee Department (ECGD). The key points CAAT made about these two bodies are summarised below.

4. Additionally, in this submission, CAAT looks at the measurement of "success" with regards to Government support for trade. More military exports should not be counted as a "success". However, there is certainly room for much improvement to be made in reporting and general transparency, to allow a wider and more informed discussion when policy is being formulated.

UK Trade & Investment

5. UKTI gives hugely disproportionate support to military exports. There are about 160 staff in UKTI's Defence and Security Organisation (UKTI DSO) dedicated to promoting military exports, more than those providing specific support to all other sectors of industry put together. (The rest of UKTI's staff provide support for all sectors of industry, both military and civil.) This is despite military equipment being only 1.5% of total UK exports, and the fact that, even then, 40% of the content of these exports is comprised of imports.

6. UKTI DSO 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. (Hansard, 28 June 2010 *Col 418/9W)* The only criteria for inclusion on this list appears to be the willingness and ability to pay for the equipment.

7. Globalisation is also an issue that needs consideration when UK governments use taxpayers' money to promote exports. There is a real danger of the interests of big companies and those of the UK people being mistakenly conflated. As an example, CAAT pointed out in its September submission that according to notes of a meeting on 16 April 2008 between Alan Garwood, Marketing / Business Development Director of BAE Systems, and the acting Head of UKTI DSO the former asked about UKTI support for a BAE project where the manufacture took place the US. He was told that this was worth discussing if a specific opportunity arose.

Export Credits Guarantee Department

8. For many years support for arms sales accounted for between a third and a half of all government export insurance through the ECGD. A massive drop in this proportion, to just 1%, occurred in 2008 when BAE stopped the cover on its arms deals with Saudi Arabia, cover which documents obtained from the National Archive and through Freedom of Information (FoI) requests show the Treasury, the ECGD itself and the Bank of England all had reservations about. This drop, however, could prove to be temporary unless the conditions for ECGD support change to exclude support for military goods.

9. The ECGD has more formally addressed the level of UK government support for a multi-national commercial enterprise. In June 2007 it accepted that it would support projects with a foreign content of up to 80%.

Measuring "Success"

10. Your Committee's examination of the Government's measurement of "success" in its support for trade and investment is most welcome. In the case of military goods, this does not mean increased exports as such sales can have negative ramifications in terms of security, corruption, human rights and economic development. However, there is an urgent need for more reliable figures in this sector and CAAT has made a number of Freedom of Information (FoI) requests in this area.

11. On 23 July 2010, UKTI DSO issued a press release with the headline: "UK second most successful global defence exporter". New military export orders were said to be over £7 billion, as against £4.2 billion in 2008. CAAT made a FoI request for the working papers on which the figures were based and was sent some rather vague graphs and pie-charts, plus an explanation that other figures had been based on a survey of military companies and that this was being withheld under the FoI Act's commercial interest exemption.

12. CAAT went back to UKTI DSO and asked for the sources used to calculate the non-UK figures and, with regards to the UK, the methodology used. In response , for the non-UK figures, UKTI DSO did not provide a list of sources, but stated that it made "use of a range of information published by governments,

periodicals, published reports and websites." With regards to the UK, CAAT was told: "...there is no documented methodology as such. Companies that have agreed to take part in our annual survey provide figures covering new orders won for the calendar year in question. The survey return includes information on overseas customers, the product or service to which the order relates, and its value." (Letter from UKTI DSO, 25 November 2010) It is notable that UKTI DSO's figures are strikingly at odds with other international sources The US Congressional Research Service figures for 2009 arms export orders, put the UK in eighth place with 2.6%.

13. UKTI DSO's figures are, in any event, unsatisfactory as an authoritative measurement. Firstly, although announced by Government, these "official" figures are not the result of Government or independent research, but instead a compilation of figures provided by industry. UKTI, the industry and the individual companies within it all have a vested interest in the figures looking as good for them as possible.

14. Secondly, to base the figures on orders, as distinct from deliveries, can be misleading for several reasons. Export orders can be announced several times. In which year, or years, would this deal be counted within the figures? Orders can also be cancelled or amended, how is this accounted for in the figure? A particular headline deal might contain components from other companies—what is done to stop "double counting"?

15. Thirdly, with a global industry, how do the figures account for a deal announced by a UK company, but where most of the production is taking place overseas? For instance, the £700 million BAE Systems Hawk deal with India, announced in July 2010, will support only 200 UK jobs. Will the whole £700 million be added to the 2010 UK military exports figure or just the proportion of that which might actually feed in to the UK economy?

16. There are now even fewer official military export figures than used to be the case. Until 2007, the UK Annual Reports on Strategic Exports used to include a table on the value of exports of military equipment. Even this was produced with the qualification that it was only indicative as customs classifications did not match the list of exports needing military export licences. From 2008 even these indicative figures have not been produced. Likewise, the annual figures provided by Defence Analytical Services and Advice on employment generated, directly and indirectly, by military exports ceased with the 2007–08 figures included in the 2009 report. The reason given for deciding not to continue to produce the figures was that "the data do not directly support MOD policy making and operations."

17. Despite frequent speeches by ministers and others, such as, recently, Prime Minister David Cameron saying: "I strongly support our defence industrial base, which is one of our great industries and a great export earner for our country. We should support it." (Hansard, 19 October 2010, *Col 80*) these assertions of the benefits of military industry do not appear to be based on any analysis. In fact, there appears to be a general unwillingness by Government to investigate military industry and the economic justifications used to support it. For example, in 2005 CAAT made FoI requests to the Ministry of Defence and the then Department of Trade and Industry regarding the UK's largest arms deal, the Al Yamamah arms sales to Saudi Arabia. The responses revealed that neither department had conducted any studies into the economic impact of the deals.

18. Even when BIS claims to have carried out some analysis this cannot be taken as fact. Towards the end of the Labour government a parliamentary response said: "The Department's analysis is that a minimum of 8,600 jobs should be directly sustained in the UK by the commitment to Tranche 3 of the Eurofighter Typhoon procurement." (Hansard, 26 October 2009, *Col 117/8W)* CAAT made a FoI request for the analysis. It seems that BAE Systems, Rolls-Royce and Selex Galileo were asked for the figures of the job losses which would occur a) directly and b) in the supply chain if Tranche 3 were to be cancelled. The "analysis" was limited to adding the six figures together.

January 2011

Further evidence from the Campaign Against Arms Trade (CAAT)

1. The Campaign Against Arms Trade (CAAT) in the UK works to end the international arms trade. Around 80% of CAAT's funding comes from individual supporters. CAAT is responding to your Committee's welcome inquiry into Government assistance to industry, focussing on UK Trade & Investment (UKTI) and the Export Credits Guarantee Department (ECGD).

2. In this submission, CAAT will draw attention to the problems engendered by the arms trade; point out that its promotion by the Government is controversial, not apolitical; say why the supposed economic and employment benefits to the UK are not proven; and suggest that the support given to the arms companies be redirected to newer industries tackling climate change, with benefits to both the economy and security.

Not All Trade is Welcome

3. Not all trade is beneficial, either to the people of the UK or beyond, so before your Committee looks at the effectiveness of Government trade assistance programmes, CAAT would urge it to examine what kinds of trade or projects are appropriate to receive such support.

4. Although CAAT's focus is on military trade, and this is what we examine below, Government support for specific projects has also been questioned by environmentalists, human rights campaigners and development charities. A common feature of all these concerns is that the Government has supported commercial companies without due regard for the consequences of doing so.

5. Addressing specifically the support for military exports, this can have an adverse impact on human rights, conflict and development, as well as on the struggle to end corruption.

Human Rights

6. Military equipment can be used to carry out human rights abuses directly. The indirect consequences can, however, be just as devastating as the receipt of UK arms increases general military capacity and conveys a message of international acceptance and approval. Criticism of governments of countries such as Saudi Arabia, identified by the Foreign and Commonwealth Office as a country of major human rights concern, is muted as senior UK government figures court the abusers to promote arms.

7. The denial of human rights to women in Saudi Arabia, to its overseas workers and to dissidents continues because, for successive UK governments, these people have seemingly been of less importance than the desire to sell military equipment. The UK's priorities need to change.

Conflict

8. Arms exports increase tension and fuel conflict around the world. Equipment produced in the UK has been used in action in numerous conflicts.

9. It has been used by the Indonesian military in East Timor, Aceh and West Papua, by Zimbabwe in the Democratic Republic of Congo, by Argentina (against UK armed forces) in the Falklands war, and by both sides in the Iran-Iraq war. UK arms sold to Israel have been used in Lebanon and the Occupied Territories, and the sales continue despite widespread condemnation of Israel’s actions. The UK supplied arms to Sri Lanka throughout its bitter civil war. The tension between India and Pakistan makes South Asia one of the most volatile regions of the world, yet the UK supplies arms to both countries.

10. The suffering consequent on these conflicts is obvious. It is not sufficient to say that much of it would have happened even if the UK had not supplied military equipment. Doing wrong because others also are is no excuse. The UK should refuse to be complicit in conflict by proxy.

Development

11. The arms trade affects development through the money wasted on arms purchases as well as through the conflict it fuels. In 1998, as part of a massive European deal heavily promoted by Government, BAE Systems sold military aircraft to the South African government, even though millions of South Africans were unable to afford anti-retroviral medication for HIV and AIDS.

12. Sometimes these sales rebound. In the mid-1990’s British Aerospace Hawk aircraft, as well as tanks and armoured personnel carriers, were sold to President Suharto’s Indonesia. Despite committing crimes against humanity in East Timor, prosecuting brutal wars in the provinces of Aceh and West Papua, and using UK equipment against civilians, the Indonesian Army continued to receive a steady supply of weapons from the UK, until it was unable to pay for them.

13. In 1998, Indonesia became one of the victims of the Asian financial crisis and subsequently defaulted on its payments. It had built up very large debts as a result of its arms purchases from the UK over the previous 20 years. In February 2007, Indonesia still owed £757 million, of which three-quarters related to military equipment.

Corruption

14. Military deals are often large and complex, are shrouded in officially sanctioned secrecy and a small group of people make the decision to buy. This environment is perfect for corruption. Bribery doesn’t just mean that bidders are shuffled with no impact on the buying country and population. Corruption is likely to inflate the cost of procurement, and also provides an incentive for decision-makers to purchase weapons that they might not otherwise have bought.

15. Corruption at its worst can undermine government accountability and democracy. In the aftermath of the 1998 South African arms deals, investigations into corruption allegations against senior African National Congress leaders led the party and Government to undermine the country’s new parliamentary institutions. The Indonesian deal mentioned above, as well as sales to Saudi Arabia, were also tainted by corruption.

Accountability

16. Despite the examples above, there is still a prevalent idea that all trade is good and warrants support from Government and funding from taxpayers. This acceptance of trade as apolitical has extended to the accountability of trade ministers. In recent years, they had predominantly been industrialists or financiers,

brought into Government and given a seat in the House of Lords. The Trade ministers with responsibility for the UKTI and the ECGD were Lord Digby Jones from 2007 to October 2008 and Lord Davies of Abersoch from January 2009 to May 2010. These junior ministers reported to the Secretary of State, Lord Mandelson.

17. CAAT was pleased that this trend was broken when Mark Prisk MP and Ed Davey MP assumed responsibility for UKTI and ECGD respectively in the Coalition government, and extremely disappointed to learn that HSBC's Stephen Green is likely to take over from them when he becomes Trade Minister towards the end of 2010.

18. Leaving aside the policy content and the individual personalities involved, CAAT feels this presents a major problem with accountability. These brought-in ministers responsible for, and making decisions about, trade cannot respond to debates in the House of Commons, nor can they answer parliamentary questions in their own right. They are not exposed to constituents who might question the morality of some UK exports, or to local political parties or human rights or development groups which might raise the issue in debate.

Promotion

19. Notwithstanding the negative consequences of arms exports, effective lobbying by military manufacturers has made successive governments into arms sellers, promoting the wares of the military manufacturers. While governments talk of strict export controls, the policy and practice has been to promote arms sales with little or no regard for the damage they might cause or the wider implications of supplying military goods.

20. *UK Trade & Investment*

The UK government's arms sales unit is now located within UKTI. There are about 160 staff in UKTI’s Defence and Security Organisation (UKTI DSO) dedicated to promoting military exports, more than those providing specific support to all other sectors of industry put together. This is despite arms being only 1.5% of total UK exports, and the fact that even then, 40% of their components are imported.

21. UKTI DSO liaises with the companies they are selling the arms for, builds relationships with overseas governments and military officials, arranges political assistance for arms deals, ensure that members of the UK armed forces are on hand to help the companies’ sales efforts, and assists with arms fairs.

22. UKTI DSO 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. (Hansard, 28.6.10 *Col 418/9W)* The only criteria for inclusion on this list appears to be the willingness and ability to pay for the equipment.

23. *Export Credits Guarantee Department*

For many years support for arms sales accounted for between a third and a half of all government export insurance through the ECGD.

24. A massive drop in this proportion, to just 1%, occurred in 2008 when BAE stopped the cover on its arms deals with Saudi Arabia, cover which documents obtained from the National Archive and through Freedom of Information (FoI) requests show the Treasury, the ECGD itself and the Bank of England all had reservations about. This drop, however, could prove to be temporary unless the conditions for ECGD support change.

25. The direct cost of UKTI DSO, £14.6million in 2008–09 (Hansard, 10.6.10, *Col 232W)*, is a relatively minor component of what many studies have revealed to be a considerable subsidy afforded to arms exports. Export credits, when this facility is used, are a more important factor, as is unrecouped research and development spending and the distortion of procurement choices. Other costs include those associated with the use of military attachés and official visits. While the studies, which include Stephen Martin’s “The subsidy saving from reducing UK arms exports”, *Journal of Economic Studies,* 26:1 (1999) and the Oxford Research Group and Saferworld’s *The Subsidy Trap: British Government Financial Support for Arms Exports and the Defence Industry* (July 2001), were undertaken a few years ago, it is unlikely the general picture of assistance has changed.

26. Even the MoD has accepted that the economic picture is not as traditionally portrayed. In its Defence Industrial Strategy (December 2005) it says: “Arguments for supporting defence exports in terms of wider economic costs and benefits eg the balance of payments, are sometimes also advanced. A group of independent and MoD economists (M Chalmers, N Davies, K Hartley and C Wilkinson—*The Economic Costs and Benefits of UK Defence Export*s. York University Centre for Defence Economics, 2001) examined these by considering the implications of a 50% reduction in UK defence exports. They concluded that the “economic costs of reducing defence exports are relatively small and largely one off...as a consequence the balance of argument about defence exports should depend mainly on non-economic considerations.”

27. Despite this, it is still claimed that arms sales are good for the economy. No independent study seems to have been undertaken which supports this. Freedom of Information (FoI) requests by CAAT to the MoD and the then Department of Trade and Industry revealed that neither conducted any studies into the economic impact of Al Yamamah 1 or 2. A parliamentary answer (Hansard, 26.10.09, *Col 117/8W)* referred to the Department for Business, Innovation and Skills’ (BIS) “analysis” of the number of jobs sustained in the UK

by Eurofighters ordered by the MoD. Follow-up FoI requests, however, revealed that the figures given had been arrived at by asking three companies the number of jobs they and their supply chains would lose if the order was cancelled. No independent analysis had been undertaken by BIS or independent researchers.

28. Jobs figures for military projects are also frequently hailed without any consideration of the costs of the relevant equipment to the taxpayer or the opportunities forgone because that money was not spent elsewhere.

A Global Arms Industry

29. Today, military industry is internationalised with most equipment containing components and sub-systems from a variety of companies. The companies may have their headquarters in one country, but have subsidiaries in several others.

30. BAE Systems (BAE) provides an illustration of this. It sells more to the US Department of Defense than it does to the UK Ministry of Defence (MoD), most of its shares are held outside the UK and only around 40% of its employees are in the UK. It would already be a US company had it been able to persuade one of the massive US companies to buy it. BAE and the other major arms companies exist to maximise profits for their international shareholders and have little, or no, commitment to the UK and UK “defence”.

31. The global nature of the arms industry has not prevented recent UK governments from using taxpayers' money to support it. Alan Garwood was Head of the previous government arms export promotion unit, the Defence Export Services Organisation (DESO), between 2002 and 2007. In a letter dated 9 September 2005 he told CAAT: “The broad test for assessing DESO support to a UK-based defence exporter is not company ownership, but the added value that the export would bring to the UK defence industrial base.” This is a somewhat vague and unspecific concept.

32. There are, however, signs that even this may be watered down. On 16 April 2008, now working for BAE as Marketing/Business Development Director, Alan Garwood met with the acting Head of UKTI DSO. According to notes of the meeting received by CAAT as a result of an FoI request, Alan Garwood asked about UKTI DSO’s stance towards supporting a BAE project manufactured out of the US. He was reminded that his own DESO stance still applied, but was told that “... these things evolve and it was worth discussing when a specific opportunity arose.”

33. The ECGD had also addressed the level of UK government support for a multi-national commercial enterprise. In June 2007 it accepted that it would support projects with a foreign content of up to 80%.

Employment

34. Turning to employment, as Alan Beattie, World Trade Editor of the *Financial Times*, pointed out: “You can have as many arms export jobs as you are prepared to waste public money subsidising.” In 2007–08, the latest year for which Defence Analytical Services and Advice employment statistics are available, the 65,000 jobs supported by arms exports accounted for 0.2% of the UK workforce and 2.24% of manufacturing employment. A further 150,000 workers were employed producing equipment for the UK armed forces, but even the military industry total of 215,000 jobs makes up less than 0.68% of the UK workforce and 7.41% of manufacturing jobs.

35. Since the beginning of the 1980's, at the height of the Cold War, numbers of employees in the sector have dropped rapidly, levelling out over the past few years. There is little reason to suppose that the decline will be reversed, owing to the capital-intensive nature of the industry and outsourcing to countries with lower production costs.

36. The arms companies and journalists sympathetic to them are, not unnaturally, prone to exaggerate the number of jobs sustained by the arms industry. In the run-up to the decision to stop the Serious Fraud Office inquiry into BAE Systems’ arms deals with Saudi Arabia, figures of up to 50,000 Eurofighter jobs under threat were appearing in the press. However, a June 2006 report commissioned by the Eurofighter PR and Communications Office stated that the Saudi Eurofighter deal would secure around 11,000 jobs throughout the whole of Europe. Fewer than 5,000 of these jobs would be located in the UK.

37. The sale of Eurofighters to Saudi Arabia also illustrates another trend in which the buying country insists that an assembly line is set up in that country. Of the 72 Eurofighters sold under the 2007 agreement, 48 are to be assembled in Saudi Arabia, leading to the reported creation of thousands of skilled jobs there. Similarly, the £700 million deal signed during Prime Minister David Cameron's visit to India in July 2010 will see 57 Hawk aircraft manufactured under licence there by Hindustan Aeronautics Limited. The logical extension of this is that HAL will produce Hawks for the global market. The number of UK jobs said to be supported by the Hawk deal is just 200.

38. A common misconception is that UK arms industry jobs are primarily in areas of high unemployment, whereas the largest number of military industry jobs are in the low-unemployment South West and South East regions. It is only after these that we come to the North West, where there is a significant amount of BAE employment. There are only a handful of areas that could be described as having a residual dependency on arms employment. Of these, only three sites—BAE Warton in Lancashire, BAE Brough in East Yorkshire and AgustaWestland (owned by Finmeccanica of Italy) in Yeovil—have significant export contracts. BAE Brough

already faces an uncertain future. There were 450 redundancies in 2008 and another 212 announced in September 2010.

39. Government support for arms exports cannot, therefore, be seen an efficient way of boosting employment in the UK.

New Opportunities

40. UK governments have chosen to allocate taxpayers' money to support arms exports and production. Ending the support for military exports and the spending on prestige procurement projects would free up resources to help other sectors that might be more efficient and innovative and be likely to grow rather than decline. It is not within CAAT's competence to explore these in detail.

41. An obvious example, however, is the response to climate change. A key factor in addressing the threat is the rapid expansion of renewable energy research and development and production, and this requires public investment and skilled engineers. In 2008 UK government-funded research and development (R&D) for renewables was around £66 million, compared to over £2,500 million for arms.

42. Arms industry workers have skills that are needed to meet these new challenges. BAE likes to portray itself as a major provider of high-tech jobs, but these jobs are dependent on R&D funding from the tax-payer; if the money changed sector it is likely the jobs would follow. Resources could be targeted at those locations which might be disproportionately affected during the changes, as clearly these areas would have workers with good skills to undertake alternative engineering projects.

43. This was acknowledged by Dr Sandy Wilson, President and Managing Director, General Dynamics UK, and VP-Defence, ADS Group Ltd, when he gave evidence to the Defence Committee on 8 September 2010: "A point that I have made to this Committee previously is that the skills that might be divested of a reducing defence industry do not just sit there waiting to come back. They will be mopped up by other industries that need such skills. We are talking about high-level systems engineering skills, which are often described as hen's teeth. It is an area in which the country generally needs to invest more. You can think of the upsurge in nuclear and alternative energy as being two areas that would mop up those people almost immediately. Then the question would be not of choice, but of them just not being there."

Proposals

44. CAAT has made many of the above points to the Treasury for consideration as part of its Comprehensive Spending Review. The proposals that follow are also included in CAAT's submission to the CSR.

45. Currently, a disproportionate amount of UK government political and financial support goes to an industry whose products are not only controversial in their nature, but also a drain on the UK economy. CAAT believes the arms companies have persuaded governments to give them this support because of the strong links they have enjoyed over decades and not because any analysis has shown that military spending and exports are vital for the economy or employment. The recession presents an opportunity for a rethink about the emphasis of government support for manufacturing. Ending the support for military industry would free up resources which might not only help the UK out of recession, but could build a more sustainable economy for the future.

46. The promotion of military exports has frequently undermined other policy objectives such as support for human rights or ending conflict, as well as leaving the UK open to accusations of hypocrisy over issues of corruption. Ending the support for military exports could lead to more consistent Government policies and increase security.

47. The UK, one of the major players, could take the lead in withdrawing from the destructive international arms trade. As a first step, UKTI DSO should be shut, without transferring its functions elsewhere, and export credit support withdrawn.

48. Resources should be transferred from supporting the arms companies to addressing what is widely acknowledged as the biggest threat to human security. Before the products are available to export, they must be developed. A rapid expansion of renewable energy R&D and production is necessary, and this requires public investment that will, in turn, draw in skilled engineers.

49. Tackling climate change rather than producing arms would win almost universal support and leave the UK and the world a more secure place for future generations. At the same time significant economic benefits will accrue from scaling down a stagnant industry dependent on Government support, and ramping up new sectors where demand is increasing rapidly.

24 September 2010

Written evidence from the City of Bradford Metropolitan District Council

1. The enquiry is designed to examine the effectiveness of government policy and actions on trade and investment. Topics the Committee will consider include; 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 and key sectors.

2. The delivery of trade and inward investment work has been carried out by Yorkshire Forward and UKTI. The City of Bradford Metropolitan District Council (CBMDC), in common with most local authorities has not had the resources required to undertake foreign direct investment work. CBMDC's investment team, Invest in Bradford's (IIB) involvement has been limited predominantly to responding to specific inward enquiries generated that match the locational requirements of the potential investor. UKTI and YF provided this fdi enquiry feed to local authorities. The number of enquiries provided to IIB has fallen sharply in recent years but were most welcome and IIB would like to understand how this will be maintained and how current enquiries will be progressed. Bradford Chamber, Yorkshire Forward and UKTI have undertaken work specifically designed to encourage exports with IIB not typically involved.

3. IIB's primary objectives are to encourage and assist with job creation within the district, particularly in the region's target sectors. This proactive work is carried out in competition with other locations across the world. The team access various data sources to constantly monitor for companies in the UK who may be looking to invest and then approach them. The team assist potential inward or indigenous investors with issues relating to delivering investment projects. Investment projects within the district could be triggered by a wide variety of factors including merger and acquisition and competitiveness issues, consolidation or expansion. Expansion could be driven by an increase in export business but IIB do not track this specifically as the promotion of trade is, as outlined above, been delivered by others.

4. IIB also account manages a number of businesses within the district. The Key Account Management programme, delivered jointly with YF, targets 58 major employers within the district (employing more than 200 employees). 28 of these are ultimately foreign owned. The data collected by the KAM activity was also fed back to UKTI, presumably for them to map the overall employment and investment trends in the UK's major overseas owned businesses.

5. Within the district there are at least 11 businesses owned by Asian business people or British people of Asian origin within the top 200 employers in the district and they employ almost 1,100 people between them.

Examples include P.E.C. Building & Shopfitting (set up by former President of Bradford Chamber, Balbir Panesar, in 1977 and now employing almost 100 people) and Dilbag Cloth House (set up in 1968 by Dilbag Singh, who had arrived from Punjab earlier in the decade, and now employing around 60 people in Bradford). There are of course many smaller BME businesses with fewer employees located across the whole district. They are involved in a variety of sectors including food manufacturing, retail and textiles.

6. The Bradford business community is well connected with South Asia and there is a significant level of trade between Bradford and Asian countries. Bradford Chamber has run trade missions to India and Pakistan in the last four years and in October 2009, The Asian Business Development Network (ABDN), assisted by the Council organised an Asian Business Roundtable Event. The event was attended by prominent Asian businesses and key business support partners e.g. Asian Trade Link (ATL-who are based within Bradford) and was designed to help companies access support and explore joint trading between Bradford and the sub-continent.

7. With the demise of Yorkshire Forward and the proposed "nationalisation" of inward investment work local authorities are keen to understand about the role of UKTI. Chiefly, how the enquiries which have been generated and passed to them by YF will now be facilitated and what role will local authority investment teams deliver in this process.

According to IIB's client management system, 11 international enquiries were fielded by IIB (most from YF) since September 2008. Two of them were significant enquiries from major Indian companies concerning call centre operations during the last 15 months. The enquiries could have seen 700 jobs created.

8. In terms of the number and size of FDI projects within the district, since the start of 2008–09, IIB is aware of at least 10 FDI projects in the district, including the creation of a new Jurys Inn hotel, which opened this year, and relocation projects of Italian- owned Transmec Group and German- owned Rhenus Logistics. Their total value was £100 million.

January 2011

Written evidence from the City of London Corporation

Introduction

1. This memorandum is submitted on behalf of the City Corporation in the context of its role in promoting and reinforcing the competitiveness of the UK-based international financial services sector. The City Corporation has extensive engagement with the Foreign and Commonwealth Office and UK Trade and Investment, as part of this promotional work, both to support UK based financial and professional services firms to develop business in overseas markets, and to attract enhanced levels of inward investment into the Square Mile, London and the UK as a whole. As a large economic generator for the UK economy, the City of London would wish to see continued emphasis placed on the promotion of the sector.

2. The City Corporation is not in a position to respond fully to all the questions posed in the Committee's Call for Evidence but the following paragraphs reflect the City Corporation's views on matters of particular interest to the City's activities.

The Role of BIS in Providing Support for Exports and Investment

3. BIS in conjunction with the Foreign and Commonwealth Office (FCO) provide a pivotal role in stimulating export development and inward investment; through UK Trade and Investment (UKTI). The City interacts extensively with UKTI with regard to the promotion of the UK based financial services industry and the attraction of financial and professional services firms to the UK.

4. Each visit programme is delivered in market by UKTI staff based in the Embassy and Consulate network, with the aim to increase the profile of the UK based financial services industry in overseas markets (predominately high growth markets), promoting business development opportunities for UK based firms and influence senior interlocutors to increase market access for UK based firms. The UK's Embassy and Consulate network provides a valuable and high profile point of contact for overseas firms looking to invest in the UK and posts form an essential tool in facilitating access to firms to discuss and encourage their inward investment plans. UKTI is well placed within central government to work with other departments on issues that affect inward investment into the UK and this can be extremely valuable.

5. In addition to the trade promotion work undertaken in tandem with UKTI, the City further supports the delivery of inward investment services to assist foreign firms from the financial and related business services sector set up or expand in London and the UK. This includes working with firms that have been identified as targets by UKTI staff based in the overseas Embassy and Consulate network which, in turn, are usually referred to the City from the UKTI inward investment team based in London. The City then provides prospective investors with a range of services including market intelligence (research reports) detailing the UK based financial and professional services industry and facilitates introductions to relevant contacts in the sector.

6. Effective and well-resourced UKTI teams are, therefore, essential to the successful delivery of the visits. To this end, the City of London runs an annual "Industry briefing course" for overseas based representatives from UKTI, who have a role in promoting the industry within their geographic remit. The week long course arms UKTI staff with a core understanding of the UK based financial and professional services industry and its role in support of the broader economy, with a view to increasing the effectiveness of its promotion.

The Role of UKTI in Both Established and Emerging Markets

7. UKTI overseas based staff play a pivotal role in the identification of export and investment opportunities in both emerging and established markets. The overseas post network provides valuable intelligence on changes in regulation, legislation and economic developments throughout the globe. The City Corporation on behalf of the financial and professional services community, and with a view to maximising efficiency of resources, would welcome the ability to tap more easily into this flow of relevant information. For example, there is considerable value added to business promotion by high quality economic reporting. It is desirable therefore that economic and trade intelligence amassed by Posts should have a wider distribution than it currently receives.

8. The City Corporation believes that overseas posts need to retain a strong focus on promoting British business in terms of both attracting enhanced levels of foreign direct investment and identifying and supporting trade development opportunities. Overseas posts need to continue to be staffed and resourced with a high calibre of staff, with the ability to break down market access issues and set them in the wider politico-economic context as the UK seeks to stimulate a trade driven recovery.

9. High level engagement at post on business issues by Political and Economic staff—including Heads of Mission—adds immense value to the UK's trade promotion. The City Corporation is greatly encouraged by signs of such engagement among many of those currently occupying Head of Mission and other senior roles, and hopes that the "new commercial diplomacy" will reinforce this focus.

THE ROLE OF THE BRITISH BUSINESS AMBASSADORS

10. Business Ambassadors have a valuable role to play in promoting the UK in terms of attracting enhanced levels of investment into the UK and promoting the export capabilities of UK firms. There role is of particular importance in markets, where long standing relationships need to be fostered.

11. The Lord Mayor acts as *de facto* ambassador for the UK based Financial and Professional Services industry and, during his year of office, will travel to around 25 overseas markets and 36 cities promoting the industry. On each visit the Lord Mayor is accompanied by a business delegation chosen to reflect issues relevant to the host country. The business group comprises senior practitioner level members.

MEASURING SUCCESS IN THE GOVERNMENT'S SUPPORT FOR TRADE AND INVESTMENT

12. It is often difficult to measure the immediate effect of trade development activities, especially in overseas markets where the development of relationships is key, prior to the delivery of business contracts.

13. Similarly, it is difficult to measure the immediate impact of the Lord Mayor's Overseas Visit programme in terms of business developed and contracts awarded. Their strategic benefit is, however, indicated by the continued interest from participating companies to be involved in the visits programme and by feedback from Posts.

January 2011

Written evidence from Clyde Blowers Ltd

We are a global engineering business with c.87 companies in 28 different countries. We have a history of buying Western European based businesses with engineering products which are "mission critical" as part of a larger process, e.g. Pumps for Nuclear Power Plants or Sea-Water Injection Pumps for offshore oil wells. Without these pumps the whole process comes to a halt. Pumps are only one example of the engineered products which we have in our portfolio. We employ circa 5,500 people worldwide.

Typically we acquire UK engineering companies with a proud heritage which have been shrinking in size over the past 20–30 years. Two examples of this would be the Weir Pumps business based in Cathcart Glasgow and David Brown Engineering based in Huddersfield. Both of these companies can trace their histories back to the 19th century and both were world leaders in their field in the early 20th century. We have transformed both of these companies by successfully implementing a plan to globalise them, with a particular emphasis on the emerging markets of China, India and Brazil.

This is a strategy which we have been employing successfully since 1992 when I personally purchased a major shareholding in Clyde Blowers.

Our strategy focuses on moving these companies from an exporting only model to establishing bases in the major markets of the emerging economies where we wish to grow our business. To use our pump business as an example:—we bought the Weir Pumps business in Glasgow in May 2007. This business had been operating from one large manufacturing facility in Glasgow and exporting its products all over the world. In order to remain profitable, the business, prior to our ownership, had been focusing on products which it could make profitably and cutting out those which it could not compete with on price. This strategy was leading to fewer and fewer products being manufactured and as a result of this strategy the company was unable to bid for projects where the customer wanted to go to one supplier for all the pumps required on the project. Post acquisition in 2007 our strategy was to establish a presence in China, India, Brazil and the USA.

In China, India and Brazil we focused on finding joint venture partners and in China and India we also set up wholly foreign owned enterprises. In the US our strategy was to acquire an established US business.

I am absolutely convinced that this is the best strategy for UK manufacturing. We have employed this strategy with great success for more than 20 years in a number of businesses. Since 2007 we have grown our pump business, based in Glasgow, from one manufacturing plant in the UK to eight manufacturing plants worldwide including China, India, Brazil and the US and 27 Service Centres worldwide.

We have grown the turnover of the business from £77 million pounds in 2007 to £369 million pounds this year. The number of employees in the UK in the pump business alone has grown from 550 in 2007 to 965 today.

The Business Innovation and Skills Committee should in my view find a way to support S.M.E's in developing an appropriate global growth strategy. For many S.M.E's, particularly manufacturing companies, exporting on its own is not the right model. I am sure that a lot of time, effort and money is wasted pursuing a strategy which is inappropriate. More effort should go into analysing the global market for each company and developing a tailored growth strategy. A simple exporting model no longer works in the way it did when we had the British Empire. Globalisation has changed the way we need to approach international trade. The measure of success should be growth in turnover and profitability of the UK based business and growth in number of employees.

UKTI can be a good source of market intelligence particularly in emerging markets, helping with the identification of local J.V. partners, arranging appointments and providing translators.

The role of British Ambassadors should not be that of visiting dignitaries. They should have a more hands-on role with individual companies as a mentor and guide, helping to establish the correct strategy for each company—a more "sleeves rolled up" approach.

The effective provision of trade credit is the one area where the government could have a huge impact on international trade. This is the single biggest constraint on our growth at the present and is impacting many companies like us throughout the UK. If this was the only thing the government did it would have a significant impact.

The Coalition Government clearly understand that the way to economic recovery is through growth in the private sector and that it also has to be focused on businesses other than Banking and The City. The recent trips to India and China by high level government and business delegations show a high degree of commitment to helping UK companies win a bigger share of the business generated by these very important emerging markets. To fully exploit the opportunities created by these visits, UK companies need to have access to a reliable source of trade credit. Unfortunately UK companies are at a significant disadvantage to their foreign counterparts when it comes to the availability and cost of trade credit. The UK banks are restricting the availability of trade credit and are charging a penal rate ranging from 60% to 150% higher than our European competitors.

The UK banks acting in a oligopolistic way treat trade credit (bonds) as core debt, which it is not, it is a contingent obligation with a low risk. The UK banks charge 3.75% plus an arrangement fee for each bank guarantee (bond) which takes the cost up to over 4%. We have a number of companies in our group which are based in other countries. We have recently re-banked a Swiss and German based company from our UK banks to UBS and Credit Suisse. Our trade credit (bank bonding) facility has dropped from a cost of 4% with the UK banks to a cost of 1% with the Swiss banks. With another company in our group based in Germany, we have been able to get a bonding facility from Commerce Bank backed by an insurance policy from Zurich Insurance which is costing us 1.5% compared to UK banks 4%. Zurich charge 0.9% for insuring the bond and Commerce Bank charge 0.6% for issuing the bond, i.e. a total cost of 1.5%.

Unfortunately our Clyde Union Pump business is based in the UK. Our major European competitors are based in Switzerland and Germany and as a result have a significant advantage in terms of trade credit availability and cost.

We have subsidiaries of our pump business in France and Canada where the governments provide assisted bonding schemes.

The French scheme is managed by COFACE—a world leading credit insurance and credit management provider. This scheme is only open to companies incorporated in France and the bonds must be issued by a bank in France. The French government counter-guarantee up to 85% of the value of the bond.

We can move work from our UK companies in Glasgow and Penistone to our factory in Annecy, France and benefit from the trade credit facilities provided by the French government assisted bonding scheme. HSBC in France have agreed to issue these bonds at a cost of 2.35% vs. 4% in the UK. Capacity is not an issue.

Similarly in Canada where the government assisted bonding scheme is being run by Export Development Canada. EDC under-write 100% of the bonds issued under the Canadian scheme. We have an arrangement with HSBC in Canada to issue these bonds at a cost of 2.35%. Again work would have to be moved to our factory in Toronto to qualify for the Canadian scheme.

If we are unable to access competitive trade credit facilities in the UK we will be forced to move more of our business from the UK factories to France and Canada. This is not something we wish to do but may be forced to in the absence of supportive trade credit facilities in the UK.

18 January 2011

Written evidence from The Corner House

Introduction

1. The Corner House is a not-for-profit research and advocacy group, focusing on human rights, environment and development.

2. Over the past 11 years, The Corner House has closely monitored the support given to UK industry by the UK Export Credits Guarantee Department.[1]

3. The Corner House welcomes the Committee's current inquiry into "Government Assistance to Industry" and is grateful for the opportunity to comment on the issues that the Committee has chosen to examine. This submission focuses on the role of the Export Credit Guarantee Department (ECGD) in promoting exports and the supply of credit to small- and medium-sized enterprises (SMEs).

4. The Corner House notes that:

- Claims by ECGD that it operates at no cost to the taxpayer are questionable. Two directorates of the European Commission—DG Competition and DG Trade—are currently investigating allegations that ECGD is hiding losses and placing operating costs "off balance sheet" through the use of a Special Purpose Vehicle known as GEFCO. Were ECGD to be required to consolidate GEFCO's accounts with its own, it is likely that estimates of ECGD's "value for money" would be substantially reduced.
- In sharp contrast to other EU-based export credit agencies, the ECGD has an extremely poor record of supporting small- and medium-sized exporters, backing just a handful of the 4.7 million plus SMEs registered in the UK. Instead, the bulk of support has gone to companies that are profitable enough and big enough to buy private political risk insurance and medium-term credit in the market.
- ECGD's recent decision to weaken its environmental, social, human rights and anti-corruption due diligence in order to assist exporters is short-sighted and damaging to the UK's future export prospects. It is also likely to result in adverse impacts on the ground. The ECGD's effective abandonment of its absolute ban on supporting projects involving child and forced labour is of particular concern.
- Consideration should be given to incorporating ECGD into a dedicated Green Investment Bank as part of a wider industrial strategy aimed at building a low-carbon economy in the UK.

ECGD'S Cost to the Taxpayer

5. The Export Credits Guarantee Department (ECGD) is the UK's export credit agency.[2] It derives its functions and powers from the Export and Investment Guarantees Act 1991.[3] Its primary function is to facilitate the export of goods and services by providing companies with guarantees, credits and insurance. In carrying out its functions, the ECGD uses a variety of financial instruments including different forms of credit and insurance.

6. The British Exporters Association argues that ECGD represents good value for money, stating:

> "ECGD's ability to generate wealth for the UK is clear: each £1 of ECGD operating costs helps to generate £85 (2010) of orders for UK companies and all at no cost to the UK taxpayer. This figure compares well with the UK Trade & Investment ("UKTI") statistics whose export support generates £16 for every £1 of taxpayer's money spent."[4]

7. In fact, the claim that ECGD operates at no cost to the taxpayer is questionable. Two directorates of the European Commission—DG Competition[5] and DG Trade[6]—are currently investigating allegations that ECGD is hiding losses and placing its operating costs "off balance sheet" through the use of a Special Purpose Vehicle known as GEFCO (Guaranteed Export Finance Corporation).[7]

8. The allegations arise from analysis by The Corner House and Campaign Against Arms Trade of ECGD's and GEFCO's accounts.[8] The analysis found that the UK Treasury had provided GEFCO, through ECGD, with some £3.7 billion in loans to purchase loans made under ECGD's Fixed Rate Export Financing (FREF) from ECGD. GEFCO then refinances the loans. FREF, which enables UK exporters to offer finance at a fixed interest rate to potential buyers of its goods and services, has made massive losses in the past.[9]

9. In The Corner House and CAAT's view, ECGD's use of GEFCO circumvents and subverts the UK's legally-binding obligations under the export subsidy provisions of the World Trade Organisation's Agreement on Subsidies and Countervailing Measures.

10. These obligations require ECGD to charge its corporate customers insurance premiums that are adequate to cover the Department's long-term operating costs and losses. The premiums must cover the costs of any refinancing of ECGD loans, whether undertaken directly by ECGD or by GEFCO with ECGD support.

11. The requirement's intention is undermined, however, if ECGD "hides" or effectively reduces its reported losses and operating costs. Because ECGD's and GEFCO's accounts are not consolidated, the operating costs of GEFCO's refinancing activities do not appear on ECGD's balance sheet, meaning that ECGD's accounts do not reflect its actual operating costs.

12. Moreover, the mechanism used to refinance GEFCO's loans may be obscuring the true extent of ECGD's losses. Any default on a refinanced loan is covered by yet another additional loan to GEFCO from ECGD; this is not accounted for separately by either GEFCO or ECGD but is simply lumped together in GEFCO's accounts with other borrowings received. As a result, it is difficult, if not impossible, to assess how much of the money given to ECGD by the Treasury for GEFCO is for refinancing ECGD's loans and how much for writing off bad debt. The full extent of ECGD's losses is thus hidden.

13. Were ECGD to consolidate GEFCO's accounts with its own, it is likely that its "wealth generating" ratio would be substantially reduced.

14. The Corner House believes that the extent of subsidy involved in ECGD's operations has been substantially underestimated and should be investigated. An informed view of the extent of ECGD's support

for UK exporters and its effectiveness requires that such subsidies are transparent and not hidden through off balance sheet vehicles such as GEFCO.

ECGD's Failure to Support SMEs

15. The Corner House supports the use of taxpayer-supported funds to assist exporters, particularly at a time of economic recession. But it is firmly of the view that such support should not be provided to companies that are able to finance their insurance and export finance needs through the commercial market.

16. According to ECGD's accounts, the Department has issued some £31.6 billion worth of guarantees and insurance policies, including renewals, since 1999, covering some 1,756 contracts. ECGD has not disclosed details of all the companies that received this support—its latest accounts, for example, record 198 policies being issued, of which only 47 were made public. From the publicly disclosed information, however, it is clear that only a handful of the 4.7 million small and medium-sized enterprises (SMEs) in Britain[10] received support. By contrast, SMEs account for some 68.7% of applications for support from Germany's export credit agency, Hermes.[11]

17. In the UK, the majority of ECGD support has gone–and continues to go–to major multinationals, notably Airbus. In 2009–10, Airbus accounted for over 90 per cent of the value of business underwritten and 83% of the policies issued.[12] Such near-monopoly support for Airbus came at a time when SMEs were in desperate need of ECGD-backed finance because of the credit crisis and when other European export credit agencies were taking measures to ensure such support, for example, by obtaining exemptions from the European Union's state aid rules by allowing support for exports within the European Union.

18. Whilst ECGD has recently tailored a new bond facility that would benefit Airbus and Rolls Royce,[13] it has yet to respond in any substantive way to calls by SMEs for special facilities that would meet their needs. Moreover, ECGD records just one deal under the sole substantive new measure taken by ECGD explicitly to support UK exporters during the credit crisis—its 2009 Letter of Credit Guarantee Scheme. The deal involves just one million Euros' worth of support[14] being approved. No other deal has been made public by ECGD in the ten months since the Scheme was introduced (the Scheme runs only to 31 March 2011).[15]

19. The Corner House agrees with the British Exporters' Association (BExA)[16] (and Vince Cable, the Secretary of State for Business Innovation and Skills, prior to his entry into government[17]) that many of the large multinationals that currently dominate ECGD's portfolio are in a position buy private political risk insurance and medium-term credit in the market.

20. The Corner House supports BExA's proposal that ECGD "move on from its concentration in servicing large business". In addition, it would propose that ECGD be required to disclose the difference in the premiums it charges on individual contracts against commercial rates available for the same contract.

Weakening Due Diligence Procedures

21. The Corner House believes that, as a taxpayer-backed and subsidised institution, ECGD should condition its support for companies on their adhering to strict anti-corruption, environmental, social and human rights standards.

22. The Corner House is therefore extremely concerned by ECGD's decision in May 2010 to weaken its environmental and social due diligence procedures on the grounds that these procedures had placed UK exporters at an international competitive disadvantage. In future, ECGD will restrict its anti-corruption, social and environmental screening and assessment procedures only to those standards agreed internationally by the Export Credit Group of the Organisation for Economic Co-operation and Development (OECD).

23. As a result, ECGD will no longer assess the environmental and social impacts of projects whose repayment term is under two years or in which the UK exporter's share of total project costs is less than SDR 10 million (equivalent to £10 million).

24. The new rules mean that ECGD's absolute ban on supporting child and forced labour is now ineffective, since a range of projects will no longer be assessed for the potential involvement of such practices. As a result, there is a high risk that ECGD will support child and forced labour. Moreover, applicants will no longer even be informed that ECGD has such a ban, rendering it hard, if not impossible, for ECGD to seek recourse in the event that child or forced labour is discovered after a project has been approved.

25. ECGD's claim that UK exporters would be at a disadvantage if it maintained its previous procedures, under which all projects (other than aerospace and defence contracts) were screened for environmental and social impacts regardless of value or repayment terms, is highly misleading. As the OECD's own figures reveal, the majority of ECGD's main competitor ECAs have stricter procedures than those of ECGD. The OECD records, for example, that 20 out of 31 member state ECAs conduct some form of review of projects with repayment terms less than two years[18] and that 15 ECAs screen projects regardless of value.[19] The OECD's assessment also reveals that the majority of member ECAs apply a range of standards that are additional to those required under agreed OECD rules.[20]

26. The Corner House believes that the ECGD's current policy is short-sighted and damaging to the UK's future export prospects. Not only does it disadvantage those firms, including many SMEs, that have introduced procedures for ensuring compliance with international environmental, social and human rights standards, but, by permitting lower standards, it also will leave many companies ill-equipped to take advantage of the rapidly growing markets for "green" goods and services.

27. In addition, poor due diligence can lead to companies breaking the law, with potentially adverse consequences for jobs. Three companies supported in the past decade by ECGD have recently been convicted in the UK: Mabey and Johnson and M. W. Kellogg for corruption offences; and BAE Systems for false accounting. Such convictions have the potential to deny companies future contracts in the US and in the EU.

28. Despite such impacts, the ECGD's recently introduced Letter of Credit Guarantees Scheme was exempted from ECGD's standard anti-corruption procedures, in favour of "outsourced" due diligence by the participating banks. It is thus of grave concern that one Nigerian bank–Intercontinental Bank–named by ECGD as an "issuing bank"[21] in the Scheme[22] recently had to be bailed out by the Central Bank of Nigeria as a result of its allegedly corrupt practices.[23]

29. The Corner House believes that the ECGD's current policy of stripping back its due diligence in order to attract a wider exporter base is misplaced and recommends that ECGD should reinstate its previous screening and assessment procedures for all projects, regardless of value and repayment terms.

Incorporating ECGD into a Green Investment Bank

30. Despite a decade or more of government ministers directing ECGD to broaden its customer base and to support more SMEs, ECGD has failed to deliver.

31. The Corner House believes that consideration should be given to restructuring ECGD as part of a wider industrial strategy aimed at building a low-carbon economy in the UK. This would mean abandoning the ECGD's current business model of supporting all exporters regardless of their size or activity and focusing instead on support for exporters developing low-carbon technologies.

32. A recent report by Platform and the World Development Movement (WDM) warns that the UK's low carbon manufacturing sector is currently lagging far behind both its continental European counterparts and newly industrialising countries. According to the report, investment in this sector—including support for exporters—has the potential to generate some 50,000 jobs a year.[24]

33. Platform and WDM note that there is already wide political support for a Green Investment Bank to promote a low-carbon economy. The two groups recommend that the Royal Bank of Scotland (RBS), now owned by UK taxpayers, should be transformed into such a bank, providing investment to create a sustainable economy.

34. Incorporating ECGD into a new Green Investment Bank would give the ECGD direct access to the exporters it needs to support if it is to deliver the Coalition Government's stated aim of transforming the Department into a champion "for British companies that develop and export innovative green technologies around the world, instead of supporting investment in dirty fossil-fuel energy production."25

35. Such direct, daily contact with green exporters would also provide a strong stimulus for ECGD to develop the sort of bespoke export finance packages, such as guarantees on bonds, that would assist UK green exporters in winning business abroad. Such guarantees should be conditional on the companies issuing them being under a legally-binding contract to have management systems in place that ensure adherence to international environmental, social anti-corruption and human rights standards in their operations at home and abroad.

24 September 2010

References

[1] The Corner House has participated in nine field missions to assess the social and environmental impacts of several projects for which ECGD support has been sought. It has undertaken in-depth research into a number of ECGD-backed projects that have been tainted by allegations of bribery. *See*, for example:
—The Ilisu Dam, the World Commission on Dams and Export Credit Reform: *The Final Report of a Fact-Finding Mission to the Ilisu Dam Region*, October 2000
http://www.thecornerhouse.org.uk/resource/ilisu-dam-world-commission-dams-and-export-credit-reform.
—*Turning a Blind Eye: Corruption and the UK Export Credits Guarantee Department*, June 2003 http://www.thecornerhouse.org.uk/resource/turning-blind-eye.

[2] Export credit agencies (ECAs) are public, quasi-public or private agencies that provide loans, guarantees, credits and insurance to private corporations from their home country to assist them doing business overseas. Such support is particularly requested for projects in the developing world because of the perceived financial and political risks involved in such projects. The support requested would be more expensive if obtained through the private sector. Where the ECA is public or quasi-public, the loans are backed by the agency's national government.

[3] Under the Export and Investment Guarantees Act 1991, ECGD, acting on behalf of the Secretary of State for Business, Enterprise and Regulatory Reform, is required to " facilitat[e], directly or indirectly" the supply of British exports.

[4] British Exporters Association, "Export Credit Agencies: Export support available to British exporters, ECGD benchmarking", July 2010, http://www.bexa.co.uk/docs/Final%20-%202010–07–26%20bexa%20research%20-%20eca%20benchmarking%20report%20(final)1.pdf

[5] DG Competition, "CP 80/2010: Complaint against the UK export credit scheme", Letter to The Corner House and Campaign Against Arms Trade, 12 July 2010, http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/8152–545%20CP80–10%20UK.pdf.

[6] DG Trade, Letter to Campaign Against Arms Trade, 29 July 2010, http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Complaint%20CHAP%282010%2902320.pdf.

[7] "Complaint to EU concerning alleged unlawful state aid to UK's export credit agency: Refinancing through GEFCO raises questions about ECGD's financial losses", 23 March 2010 and subsequent, http://www.thecornerhouse.org.uk/resource/complaint-eu-concerning-alleged-unlawful-state-aid-uks-export-credit-agency.

[8] The Corner House and Campaign Against Arms Trade, "Complaint to EC concerning alleged unlawful state aid to UK's export credit agency", 22 March 2010, http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Complaint%20FormFINAL.pdf.

[9] The Treasury describes the losses under FREF as "massive" and estimated in 2004 that the scheme had cost the taxpayer more than £15 billion since 1972.
See:
"The Future of ECGD", Treasury briefing for Non-Governmental Organisation, 2004 (copy available on request).

[10] British Exporters Association, "Export Credit Agencies: Export support available to British exporters, ECGD benchmarking", July 2010, http://www.bexa.co.uk/docs/Final%20-%202010–07–26%20bexa%20research%20-%20eca%20benchmarking%20report%20(final)1.pdf.

[11] British Exporters Association, "Export Credit Agencies: Export support available to British exporters, ECGD benchmarking", July 2010, http://www.bexa.co.uk/docs/Final%20-%202010–07–26%20bexa%20research%20-%20eca%20benchmarking%20report%20(final)1.pdf.

[12] ECGD, *Annual Review and Resource Accounts 2009–10*, p.8, http://www.ecgd.gov.uk/assets/bispartners/ecgd/files/publications/ann-reps/ecgd-annual-review-and-resource-accounts-2009–10.pdf.

[13] "Deal Analysis: AerCap's ECA bond", *Airfinance Journal*, 8 September 2010, http://www.airfinancejournal.com/Article.aspx?ArticleID=2663612.

[14] ECGD, "ECGD helps Spooner Industries deliver Euro 5 million order", 20 August 2010, http://www.ecgd.gov.uk/news-and-events/news/ecgd-helps-spooner-industries-5mil-euro-order.

[15] ECGD, "New Letter of Credit Guarantee Scheme to provide short-term export finance", 20 October 2009, http://www.ecgd.gov.uk/news-and-events/news/new-let-cred-short-term.

[16] The British Exporters' Association states:

"the commercial reality is that a large company which already pays substantial annual premium for a well-spread portfolio of risk and is able to take a high level of risk share can generally secure cover on insurable risk, even for the more economically challenging contract structures, credit risks, horizons or destination customers and/or countries"
See:
British Exporters Association, "Export Credit Agencies: Export support available to British exporters, ECGD benchmarking", July 2010, p.7,
http://www.bexa.co.uk/docs/Final%20-%202010–07–26%20bexa%20research%20-%20eca%20benchmarking%20report%20(final)1.pdf

[17] In February 2004, the Rt Hon Vince Cable MP stated:
"When my former colleagues in the oil industry and others approach the Minister for help, why cannot they be told that it is possible to buy private political risk insurance and medium-term credit in the market? Why does the taxpayer have to underwrite it?"
See:
Hansard, 26 Feb 2004: Column 407, http://www.publications.parliament.uk/pa/cm200304/cmhansrd/vo040226/debtext/40226–04.htm.

[18] OECD Working Party on Export Credits and Credit Guarantees, "Export Credits and the Environment: 2009 Review of Members' Responses to the Survey on the environment and officially supported export credits", 29 April 2010, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT000098F2/$FILE/JT03282654.PDF
Para 88 of the OECD report, which was based on a survey conducted prior to ECGD stripping back its

procedures, states:
"Short-term business is reviewed for potential environmental impacts on a case-by-case basis: nine Members/ ECAs, *i.e.* Austria, Canada, Denmark, Finland, France, Hungary Eximbank and MEHIB, New Zealand and Sweden.
"Short-term business subject to separate environmental review procedure: three Members/ECAs, *ie* Germany, Mexico and Switzerland (if the value is over CHF 10 million)."
"Short-term business is treated in the same way as other business under the 2007 Recommendation: eight Members/ECAs, *ie* Australia, Belgium, Japan JBIC, Luxembourg, Netherlands, Norway, Slovak Republic and United Kingdom."

[19] OECD Working Party on Export Credits and Credit Guarantees, "Export Credits and the Environment: 2009 Review of Members' Responses to the Survey on the environment and officially supported export credits", 29 April 2010, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT000098F2/$FILE/JT03282654.PDF
Paragraph 21 of the OECD Report shows that 15 ECAs (out of 31 from 30 countries) classify all projects regardless of value, 15 impose a SDR 10 million limit and one sets a SDR 20 million limit

[20] OECD Working Party on Export Credits and Credit Guarantees, "Export Credits and the Environment: 2009 Review of Members' Responses to the Survey on the environment and officially supported export credits", 29 April 2010, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT000098F2/$FILE/JT03282654.PDF
Para 38 of the OECD assessment records, for example, that:
"20 ECAs use such international standards on a case-by-case basis when such standards "are more stringent than or not addressed by World Bank Group standards."
"18 ECAs gave examples of using European Community standards, but also, for example, those of the World Health Organisation"
Para 42 states:
"Eleven Members/ECAs reported that they might apply additional standards for issues not adequately addressed by the primary standards, such as unique effluent or discharge (Canada), animal production (Denmark), social issues (Korea Eximbank) and emissions (Sweden)."
Para 43 states:
"Twenty Members/ECAs reported that they may use other internationally recognised sector specific or issue specific standards where such standards are not addressed by the World Bank, such as,

- Exporting country standards for air quality (Germany) and animal production (Denmark)
- International Atomic Energy Agency (IAEA) standards for nuclear projects (Canada, Italy and United States)
- International Commission on Large Dams (ICOLD) (Hungary Eximbank and MEHIB)
- International Cyanide Management Code (Canada)
- IUCN Red list for endangered species (Italy and Japan NEXI)
- MARPOL Convention (Canada and Japan NEXI)
- Montreal Protocol (Spain)
- Multilateral Investment Guarantee Agency standards for investment insurance
- (Hungary MEHIB)
- World Commission on Dams and International Hydropower Association (Austria, France, Germany, Spain and Sweden)
- World Health Organisation for water quality (Canada)".

"Three Members/ECAs, *ie* Belgium, Netherlands and Turkey, reported that they may use other internationally recognised sector specific or issue specific standards on a case-by-case basis."

[21] The issuing bank issues a Letter of Credit, which is a long-established instrument in trade finance. When a UK company sells goods overseas, it will typically make it a condition of the contracts it draws up and signs with the buyer that the buyer arranges for its own bank to give an irrevocable undertaking—which takes the form of a "letter of credit"—to pay for the goods exported once documentary evidence is produced that the goods have been shipped from the exporter. This is known as an "unconfirmed" letter of credit. Where the UK exporter fears that the overseas bank may default on this undertaking, the exporter arranges (upon payment of a fee) for a UK bank to "confirm" the letter of credit. In this instance, the exporter is paid by the UK bank on production of the shipping documents—and it is then the responsibility of the UK bank to obtain repayment from the overseas bank.

[22] ECGD, "Letter of Credit Guarantee Scheme: List of Issuing Banks", http://webarchive.nationalarchives.gov.uk/tna/+/http://www.ecgd.gov.uk/ecgd_issuing_banks_pdf-2.pdf/.

[23] The Governor of the Central Bank of Nigeria, Lamido Sanusi, ascribed the collapse of Intercontinental Bank to "poor corporate governance practices, lax credit administration processes and the absence or non-adherence to the bank's credit risk management practices."
The CDC Group, a company wholly owned by the UK's Department for International Development, notes that the Nigerian banking collapse was provoked in large part by "favourable loans being offered to associates of many of the banks' executives". CDC Group was itself invested in Intercontinental.

See:
Address by the Governor of the Central Bank of Nigeria, Mallam Sanusi Lamido Sanusi, on Developments in the Banking System in Nigeria on 14 August 2009, http://www.imoisilis.com/2009/08/full-text-of-cbn-governors-speech-on.html
CDC Group Plc, *Development Review 2009*, p.48, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.
Connor, W., "Nigeria plans $2.6 billion bank bailout, ousts top executives", ***Wall Street Journal*****, 15 August 2009**
http://online.wsj.com/article/SB125029804018633595.html
Central Bank of Nigeria Advertorial, 18 August 2009, http://www.cenbank.org/Out/publications/pressRelease/GOV/2009/ADVERTORIAL2.pdf

[24] Leaton, J, and Reed, H, *A Bank for the Future: Maximising public investment in a low-carbon economy*, Platform and World Development Movement, 2010, p.12, http://www.wdm.org.uk/clean-banks/bank-future-maximising-public-investment-low-carbon-economy.

[25] Cabinet Office, *The Coalition: Our Programme for Government*, 2010, http://www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf.

January 2011

Written evidence from ExportAction Ltd

1. Introduction

1.1 This submission of evidence concerns itself exclusively with UKTI and is offered by ExportAction Ltd, a UK SME assisting other UK SMEs establish and develop exports to the world's largest single country market, the USA.

1.2 If the statistics used are inaccurate, that has as much to do with the UKTI's communications skills as ExportAction's inability to comprehend. ExportAction would welcome more transparency is the reporting of UKTI costs and accomplishments without need to resort to time-consuming freedom of information requests.

2. Executive Summary

2.1 UKTI needs to operate in a more business-like manner, be more innovative in the ways in which it assists UK SMEs and needs to focus more on enabling the skills of its staff.

2.2 The estimated cost of £250 million to operate an organisation dispensing £100 million in financial support would not be sustainable in the **business** world.

2.3 The services provided by UKTI are lacking in **innovation** and need review and revision to meet the current needs of UK SMEs to "help them help themselves."

2.4 The ability to make the skills of UKTI staff available to would-be exporters is hampered by lack of focus, bureaucracy and administration as well as, at the highest level, inconsistent leadership.

3. Business

3.1 UK Trade and Investment (UKTI) calculate it increased the return on investment it generates to 19:1 for every pound spent. This is an incredible achievement in a period when according to the Office for National Statistics, exports rose by 2.2 %. Why do we spend so little (£70 million per annum) in export trade support and at what point would additional investment cease to produce a positive return on investment?

3.2 How is the 19:1 return calculated? Does it include recent laudable orders by Rolls Royce (£1.9 billion from Chinese airlines) and Qinetiq (£1.2 billion from the US's NASA), which distort the performance of SMEs.

3.3 If UKTI costs £250 million a year to run and it invests £70 million in trade support the 25,000 UK companies assisted in the past twelve months benefited from an average of £2,800 per company. More funding is needed to "make a difference" to those companies.

3.4 Serving two masters (BIS and FCO) makes it difficult for UKTI staff to focus and confuses potential UK exporters and prospective inward investors. There should be more focus on overseas markets in which UKTI can "make a difference" for UK SMEs. Without existing relationships, a UK SME it is statistically unlikely to export to the 96 markets from Algeria to Yemen in which UKTI has trade presence. If UKTI has 2,400 staff and costs £250 million a year to run, the average cost per head is £104,167. This appears high especially as 1,100 are UK based and those overseas are not all based in high-cost of-living locations.

3.5 More stability and continuity in leadership is necessary. Under the previous administration, UK trade, or business, Ministers included Douglas Alexander, Margaret Beckett, Stephen Byers, Richard Caborn, Alistair Darling, Lord Clinton Davies, Lord Davies, Patrician Hewitt, John Hutton, Alan Johnson, Lord Jones, Ian

McCartney, Lord Mandelson (twice), Mike O'Brien, Ian Pearson, Baroness Symons, Gareth Thomas and Brian Wilson, not to mention Lord Sugar. What would you say of a corporation that had so many people at the helm?

4. Innovation

4.1 The portfolio of assistance UKTI offers to would-be exporters is "stale" and lacks relevance to today's SME business management. It fails to address current "real-life" conditions in UK SMEs. Currently UKTI offers Access to Major Buyers, Alerts, Fiscal Stimulus Initiative, Overseas Market Introduction Service (OMIS), Press Release Service, Sector-based Trade Missions and Seminars, and Tradeshow Access Programme (TAP). Most of theses activities are labour-intensive and do not represent a good return on invest from UKTI's perspective. Companies need more help to help themselves.

4.2 SMEs need help with translation, intellectual property issues, tax relief, and information. Assuming UK plc does not want to invest in companies unlikely to survive, thrive and pay tax, end "match funding" and explore ways to provide interest-free, unsecured loans (or tax credits), for translation, successful filing of international patents and designs, and overseas investment in sales operations.

4.3 Technology is not of itself innovative. Do not invest in Going Global, "a peer to peer self service community that will enable the sharing and tagging of information on internationalization services..." as described by Mr Mark Prisk, MP, Minister of State for Business and Enterprise. It might be this gobbledygook has been employed to get around the pledge of Mr Francis Maude, Minister for the Cabinet Office that "No new websites will be permitted except for those that pass through a stringent exceptions process for special cases..." Going Global was described in the Minutes of a UKTI Executive Board Meeting of 25 January 2010 as a service that could "exist on the web" and in an IBM paper of 14 April 2010 as "a proposed web service."

4.4 Assuming Going Global will not be a replacement for the UKTI web site, it might be reasonable to suppose it will require a promotional budget similar to the £837,000 spent by UKTI on print, outdoor and electronic advertising in the twelve months to 31 August 2010. Given the track record of information services delivered electronically by UKTI at Uniform Resource Locators to be viewed with browser application software (or web sites) this surely cannot be a special case. If only for the sake of the reputations of those involved, please bring a halt to this project, which, as at 31 August 2010 had already incurred £36,906 in development costs. Viewed from a commercial perspective, these costs are not business-like.

5. Skills

5.1 Many UKTI staff are over-loaded with administration and bureaucracy to the extent that no matter how experienced, well meaning and hard-working they may be, there is insufficient time and motivation to perform to their potential. In 2009, 2,400 UKTI staff assisted 23,700 companies and 600 inward investment projects: ten projects per person per annum.

5.2 UKTI has a "field sales force" of some 300 International Trade Advisors (ITAs) with a "trade services target" of £4.4 million. This equates to a "sales quota" of £14,667 per capita per annum. If UKTI is to compete with the private sector, it should surely be done on an economically viable basis and increase the sales skills of the ITAs, or free them from administrative processes that detract from their "assistance" (unpaid consulting and service selling) time. Further, 300 ITAs assisting 23,700 companies averages 79 per person per annum: one and a half companies per week. This would not be found acceptable in a commercial environment. UKTI should manage these ITA's rather than, as one example, South East Trade & Investment Limited, a wholly owned company of Great London Enterprise Ltd, which suggests unnecessary levels of administration and bureaucracy.

5.3 The dedication and talents of UKTI staff is beyond question. That so many errors are made in communications, both printed and electronic, hints at pressures due to requirements of activity rather than productivity. One example is, "More than 75% of British small and medium-size businesses are planning to export more goods and services in the coming year to more markets, according to recent research in the United Kingdom." Given the time to review and reflect, this statement on the UKTI web site would surely not have been made. Other examples are available upon request.

January 2011

Written evidence from The Institution of Engineering and Technology (IET)

Rebalancing the Economy: Trade and Investment

The Institution of Engineering and Technology is one the world's leading professional bodies for the engineering and technology community. The IEThas over 150,000 members in 127 countries and has offices in Europe, North America and Asia-Pacific. The Institution provides a global knowledge network to facilitate the exchange of knowledge and to promote the positive role of science, engineering and technology in the world.

This evidence has been prepared on behalf of the IET Trustees by the Manufacturing Policy Panel. The IET would be pleased to provide further technical assistance and evidence as part of this inquiry.

Summary

At the outset it is worth stressing the importance of exporting manufactured goods, an area where the UK still has a large deficit, if we are to rebalance the economy. Research has shown that if the UK increased manufactured exports by just 10% (current levels for manufactured exports stand at just over 50% of total UK exports) and reduce manufactured imports by 10% then the impact of a resulting £40 billion improvement in the balance of payments in 2008 would be the equivalent to the surplus produced by all financial services export activity in the same year[13].

This simple fact highlights the importance of manufacturing products for domestic consumption and export, in order to get the economy rebalanced We are pleased that the government has taken this on board as part of its Trade White Paper, in addition to focussing on Advanced Manufacturing as part of the Growth Review. The 20% devaluation of Sterling in the wake of the financial crisis has clearly helped manufacturing, but this advantage (as with earlier devaluations) could be short-lived, and in any case produces an added burden for those manufacturers with increased raw material, energy, and imported component costs. In short, the further up the value chain UK manufacturers are, the better the prospects are for UK exports in the current climate.

It is possible to deliver on an export-led recovery if measures are taken to move UK companies (particularly SME's) up the value chain, while taking advantage of economies of scale along the way. To that end the positive feedback from SME's on their outlook for exporting (75% of SME's expect to export more over the period Oct '10–11[14]) is good news for the UK economy, but we should be wary of simply allowing the UK's manufacturing sector to coast without strategic direction, assistance and advice from government on export opportunities.

A combination of SME's moving up the value chain, a low and stable exchange rate and an increase in technical skills can combine to produce a sustained export-led economy for the UK.

The role of BIS in providing support for exports and investment

BIS has an important role to play (in collaboration with other government departments) in supporting exports in many markets, since international and national regulations effectively govern the function of healthcare, aviation and transportation, energy and oil and gas sectors.

All of these sectors and many others are effectively driven by UK government requirements, incentives or regulations, to achieve national aims such as carbon footprint reduction, national health outcomes, safety setting etc. The way that the government provides incentives strongly influences the development of an indigenous manufacturing base in the supply chain.

The comparison between Germany and the UK on carbon foot-print incentives may be constructive in the renewable electricity generation sector. The German Feed-in-tariff (FIT) is credited with the development of a globally competitive solar electricity generation industry, particularly when compared to southern European countries, despite the handicap of limited solar resources in Germany. The aspects of success here are that the FIT supports a national market which is fed by a national supply chain and that this leads to a supply chain base advance in terms of technology and size. As a result, there does not exist outside Germany (until China very recently) a capability to supply the German domestic market competitively.

The example above illustrates how a market incentive to encourage a reduced carbon footprint is targeted in Germany, toward the development of a supply chain base as well as the actual reduction of Germany's carbon emissions. In contrast the UK subsidy for offshore wind seems decoupled from the development of a local supply base, and early projects indicate the use of only around 10% of UK content, despite the projections for the UK being the largest market for offshore wind.

In the IET's response to the House of Lords Science and Technology Select Committee's call for evidence on "Public procurement as a tool to stimulate innovation", the IET pointed out that incremental change to a relatively small proportion of total government spending is unlikely to bring about enough of a rebalancing of the UK economy. If the government is serious about rebalancing the economy, it must seek to harness the £220 billion[15] currently deployed in public procurement to foster companies which can then export their innovative products to international markets. Government procurement can be a major driver of innovation which then shows up in export activity (one only needs to look at the role of the Department of Defence in the US, and the French Government stimulus for a range of hi-tech sectors to see the importance of "smart" government procurement leading through in due course to export success).

BIS has a role to play, in collaboration with UK Trade and Investment, in providing a joined up long run view on procurement contracts (for example along the lines of an Impact Assessment). During a tender, UKTI could feed back to BIS on the opportunities for export of products under review, with the UK's comparative advantage and other export related factors being considered as part of the overall procurement contract. Such suggestions are usually automatically ruled out as being in breach ofEU directives, however contrary to the

[13] "Prospects for the UK Balance of Payments", K Coutts and R Rowthorn, Centre for Business Research, University of Cambridge. Working Paper 394, December 2009.

[14] From Surviving to Thriving: Doing Business Overseas, UK Trade and Investment, October 2010

[15] Figure from www.ogc.gov.uk (03/12/2010)

common view; European Union procurement directives are usually flexible to new approaches to public procurement.[16]

Rebalancing the economy also requires a regional and not just a sectoral change. The domestic economy is often forgotten when decisions about trade are made, internal comparative advantages between regions should also be assessed to ensure local strengths are exploited and appropriate capabilities developed This could be achieved through Local Enterprise Partnerships fully assessing strengths in their areas. Given the mobility of start up companies (prior to the deployment of startup/sunk costs used for capital machinery and raw materials), new manufacturing companies can be located in areas suitable to their goods (eg the right balance of skills from colleges/universities, raw materials etc).

The Government Trade White Paper

The Trade White Paper provides a good evidence base from which discussions on how to create an export lead recovery can take place. However, one important factor not mentioned in the White Paper, is access to a globally competitive talent pool in the industrial sector and the skills required to develop products for trade. This must not be overlooked by BIS.

Skills are a key issue; manufacturing relies heavily on the supply of engineering technicians from Further Education and graduates from universities. If we are to compete in a global economy and be leaders in emerging sectors, such as renewable energies and advanced materials, we will require a more highly skilled workforce, particularly at intermediate (technician) level The "Baker" technical colleges offer a good long-term goal, in the interim however a pragmatic approach to immigration will be needed to fill the skills gap, which could otherwise hinder an export-led recovery.

The problem is not just a case of not enough people possessing the right skills for the UK manufacturing industry, in addition to this there is a major problem with attracting young people into a career in engineering and manufacturing. We need to attract good graduates into manufacturing design and production; we should be seeking to encourage businesses to take on current students and new graduates on projects (for example through preferential selection as government suppliers, or other tax measures to incentivise and foster exporting firms).

At the moment the UK economy is growing as it returns to its post-recession steady state. Once this point is reached the limits of the UK's available manufacturing skills pool will become apparent. Some evidence of this is already becoming apparent, the IET 2010 Skills and Demand in Industry Survey shows that the number of organisations finding it difficult to recruit suitable senior engineers went from 49% in 2008, prior to the recession, during the recession this fell to 22% in 2009 and in 2010 this went back up to 37% with the expectation that the figure in 2011 will be higher than the 49% recorded in 2008.[17] We need to develop the appropriate skilled resource base now (this cannot be done overnight) otherwise we may be in a position of creating the market, but not be in a position to deliver on it in a sustainable way in the future.

There is a role for BIS to play in highlighting to the wider public the job opportunities and careers available in manufacturing. Priority issues for BIS should include:

(i) How workers can be quickly re-skilled in the short term; and

(ii) Working with industry, the technical and other associated skills that are required to sustain this sector in the long run.

The message needs to go out that engineering based manufacturing is a viable, rewarding long term career in the UK and a facts based positive campaign should be developed by BIS to make the wider public aware of this.

The manufacturing sector already has the highest GVA per employee than any other sector; this ratio should be monitored to ensure UK manufacturing remains competitive and innovative and not suffer from diseconomies of scale or peaks and troughs in export output.

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

UK Trade and Investment provides a suite of products for companies looking to export, from their online "Areyou ready to export" tool, to Trade Advisers, Passport to Export, the Export Marketing Research Scheme and Business Opportunities Alerts, to name just a few items.

The challenge for UKTI is how to communicate this information. UKTI already has sectors which it targets; a holistic approach could be developed whereby newly registered companies (sourcedfor example from Companies House) in those sectors where the UK has an export advantage, are targeted by UKTI and provided with information on export markets and ways that UKTI can help from the outset.

The German equivalent of UKTI spent 2010 conducting a high profile campaign, which travelled the country providing advice and giving opportunities for companies to raise questions on foreign trade and investment.

[16] L Georghiou, Demanding Innovation: lead markets, public procurement and innovation (Nesta, 2007)

[17] Engineering & Technology Skills and Demand in Industry Annual Survey 2010, The IET

As part of the campaign, an injection of resources saw the speeding up of decision making on export credit guarantees, with these guarantees being emphasised to SME's across Germany.[18]

UKTI has an impressive record on the (inward) "investment" side of their remit. They need to deliver comparable success on the export part of their "trade" remit.

The effectiveness of the Export Credit Guarantee Department and the flow of trade credit

With the prospect of consumer spending being negatively affected due to the reduction in government expenditure and limited consumer confidence, economic growth will be more dependent on exports. UKTI and the Export Credit Guarantee Department should be strengthened as it is difficult to see how an export-led recovery can be achieved without this resource.

The ECGD has dedicated Business Divisions for Aerospace and Civil and Defence projects, BIS needs to explain what they are doing to promote exports in other sectors such as Automotive, Pharmaceutical and Chemicals and important growth sectors such as low carbon technologies and goods. These sectors offer potential for export growth and should be supported.

How other countries, similar to the UK, export to emerging markets and what our Government could learn, if anything from them

Germany recorded a $211.6 billion merchandise trade balance over the period October 2009–10, over the same period Britain recorded a comparable figure of: $145.1 billion[19]. Germany's strength is its exposure to emerging markets. Although throughout this response we have highlighted the need for government action, what would be catastrophic for future growth is a retrenchment away from globalisation and free trade and we are pleased this fact is recognised in the Trade White Paper.

As the world economy begins to grow, with international trade slowly increasing, emerging markets will play a vital role in ensuring this growth continues. In 2009, despite a drop in total exports by 18%, the German economy saw an increase in exports to China of 7%[20], which demonstrates the importance of an established emerging markets presence to cushion future trade shocks in developed countries. As developing countries begin to move up the value chain to exploit their export advantages, access to capital machinery, among other things, will become vital. The UK needs to be ready to provide these capital goods to such countries.

The Government aims to develop a UK trade policy based on the principle of comparative trade advantage as outlined in the White Paper. However, comparative advantage is a static theory and the UK needs to ensure that where the comparative advantage is minor in a particular sector, resources are not over allocated to that sector as comparative advantages between countries can quickly change, with sometimes alarming consequences.

It would be more prudent for BIS to focus on helping the UK foster a distinct absolute or competitive advantage in goods where there is both sufficient domestic and European demand, coupled with a long term production requirement Such an example would be low carbon goods and technologies such as offshore wind products for the UK market, with the surplus from such an advantage being redirected toward export markets. The challenge for government is to ensure that it doesn't then stand in the way in the future. BIS should play midwife to new manufacturing sectors and not nursemaid and couple this with a consistent set of economic and trade policies.

Deutsche Bank have been quoted as having an optimistic estimate which shows that by investing in renewable energy, the level of job creation could reach between two and four times the current number of jobs. With a £10 billion investment the UK could re-skill 1.5 million people; bring 120,000 back into the workforce and increase earnings of those on lower incomes by £15 billion.[21]

The example of Germany and Feed in Tariffs is given above as an excellent example of what other countries are doing, an additional example includes Sweden where advantages have been realised and exploited in ball bearings (SKF a Swedish manufacturer is the world's largest producer) and trucks such as Scania and Volvo.[22] As emerging markets grow, these products will increase in demand.

The export-led recovery via British manufacturing has been assisted by the low exchange rate of sterling (with a similar low Euro rate relative to the currencies of their export markets, assisting German manufacturing exports). Where possible the Government and other actors should use their influence and measures to maintain a low and stable sterling during this recovery period.

---

[18] "Help Companies Take Full Advantage of Market Opportunities", Interview with the Federal Minister of Economics and Technology Rainer Bruderle about the Foreign Trade and Investment Campaign., Germany Investment Magazine, Volume 02/ 2010

[19] Trade, exchange rates, budget balances and interest rates, The Economist, October 2010

[20] Why Germany is different, The Economist, 25 October 2010

[21] Why manufacturing matters for the UK economy, Andrew Simms, Policy Director for New Economics Foundation writing in The Engineer, 29 November 2010

[22] Swedish export managers eye Asian upswing, Swedish Wire, 26 August 2010

The role of the British Business Ambassadors

The Business Ambassador Network has been in existence since 2008 and during that time has certainly assisted in increasing the amount of foreign direct investment to the UK, along with ambassadors conducting trade events in other countries with UKSME's.

The number of manufacturers who make up the list of ambassadors is a welcome sign given the need to increase the exports of this sector. Greater transparency would help more SME's understand what ambassadors can do, along with allowing informed scrutiny of whether or not ambassadors are put to the best possible use, ie are they doing activities which UKTI could have done themselves. UKTI needs to ensure that a greater focus is given to the export side of their remit if an export-led recovery is to succeed.

January 2011

Written evidence from Jubilee Debt Campaign

About Jubilee Debt Campaign

1. Jubilee Debt Campaign (JDC) is part of a global movement working for full cancellation of unpayable and unjust developing country debts, by fair and transparent means. As such it is also interested in advocating for financial reforms which would make for a more responsible and pro-development lending system. It is a company limited by guarantee (number 3201959) and a charity registered in England and Wales (number 1055675). See www.jubileedebtcampaign.org.uk for more details.

Introduction

2. We welcome the Committee's focus on the UK government's assistance to industry, though we would like to confine our evidence to one aspect of the inquiry—the performance and role of the Export Credits Guarantee Department (ECGD). We would particularly like to focus on the impact of the ECGD on the British economy, international development, environmental sustainability and human rights. We believe the ECGD must be radically overhauled in order that support to British industry does not come at the expense of development, human rights or environmental sustainability in recipient countries. We also believe these changes would allow ECGD to support a more balanced and sustainable economic base here in the UK.

3. The vast majority of the ECGD's support is extended to large corporations, usually working in the arms trade, aerospace or fossil fuel-related industries. Arms and carbon-intensive industries have typically made up over 75% of ECGD's custom. Even more surprising, in 2009–10, 89% of support went to a single company, Airbus.

4. ECGD projects have involved corruption, human rights abuses and environmental destruction. That's why, over many years, the ECGD and other export credit agencies (ECA) developed a set of standards to guide their work. In the UK, standards were known as the "Business Principles". Although the "Business Principles" were voluntary in their application and, we maintain, much too weak, the Government repealed even these basic standards earlier in 2010. These changes mean that the ECGD will not go further than the Organisation for Economic Co-operation and Development's minimum standards (known as the "Common Approaches") in terms of social or environmental standards. We believe this is a step back—indeed smaller projects will now receive no screening at all, in effect making a mockery of the ECGD's prohibitions on child and forced labour.

5. ECAs are currently developing new products to more easily offer support to industry. In 2009, the ECGD opened a new scheme—the Letter of Credit Guarantee Scheme—by which it can insure short-term sales and projects that it is not directly involved in. The ECGD provides a master guarantee to UK banks that insure letters of credit from overseas banks in favour of UK exporters. We are concerned that such products might mean that the ECGD is yet another step removed from the projects it is guaranteeing—making monitoring mechanisms even less effective in ensuring projects are responsible internationally and well targeted at UK business. Indeed the scheme effectively "contracts out" due diligence to the banks providing the primary insurance.

6. Listed as a potential beneficiary of the Letter of Credit Guarantee Scheme is Nigeria's Intercontinental Bank. This is concerning as the Economic and Financial Crimes Commission (EFCC) of Nigeria is currently charging former Managing Director Erastus Akingbola with corruption, along with other members of senior management, accused of transferring funds to companies connected to Mr Akinbola. Mr Akingbola was dismissed along with his management team after the Central Bank of Nigeria (CBN) had to bail the bank out owing to "poor corporate governance practices, lax credit administration processes and the absence or non-adherence to the bank's credit risk management practices".

ECGD's Role in Developing Country Debt

7. Of particular concern to JDC, ECGD projects have created large quantities of developing country debt. When export recipients default, the ECGD often uses sovereign guarantees to pass the costs of the default onto the recipient country government. In effect, it becomes public debt. This has made the ECGD the biggest public holder of developing country debt in the UK—currently amounting to around £2billion (£1.3 billion if

poor countries theoretically eligible for debt cancellation are removed). In addition, since 2000, ECGD has gained £3.4 billion in recoveries—£2.3 billion of which is from developing countries. We believe that some of these countries, such as Kenya, Ecuador, Indonesia and Vietnam, need debt cancellation if they are to reduce poverty and meet the Millennium Development goals.

8. Moreover, much of this debt is severely unjust. For instance, Indonesia owes £500 million to the ECGD, and has repaid £400 million since 2000. The majority of this can be attributed to arms sales made by the UK Government to the brutal military dictatorship of General Suharto. Weapons manufactured and supplied by the UK, including Hawk aircraft, Scorpion tanks and water cannons, were sighted in use against civilians, including when suppressing protest through Indonesia, during a violent assault on a university, and when attacking resistance in Aceh. Some of these deals were corrupt according to a Guardian report of 2004, and if they had taken place today would have been open to criminal prosecution. We do not believe it is just in any way for Indonesia's successor governments to be repaying this money.

9. Similar cases exist in several developing countries. Kenya is repaying money which is, we believe, related to the Turkwel Gorge Hydro-Electric Power Station. The Turkwel Gorge project was first conceived in the 1960s and concerns about the project's viability existed from the beginning because the power station was to be situated on a known earthquake fault and because the seasonal flow of the Turkwel river is unreliable. In August 1986, the ECGD issued a guarantee of £17.5 million to a British consulting company. In March 1986, an internal memorandum written by Achim Kratz, then European Commission delegate to Kenya, noted that that the contract price was "more than double the amount Kenya's government would have had to pay for the project based on an international competitive tender."

10. When the Turkwel Gorge Dam was eventually completed in October 1993, it had cost nearly twice the contract price. The Kenyan press described the dam as "the whitest of white elephants" and a "stinking scandal." Regional Red Cross chairman John Nakara has said the Turkwell project "has done more harm than good". The British government has recognised that Kenya should receive some degree of debt relief, even though it is not eligible for current IMF and World Bank schemes. However, the UK claims it cannot currently grant relief because of the unstable political situation.

11. Many other cases exist which underline the way the ECGD creates unjust debts through lax lending standards. We would be happy to share examples of irresponsible projects in India, Lesotho, Brazil and the Philippines. These cases not only lead to a detrimental outcome for developing countries—they also risk supporting irresponsible business behaviour on the part of British industry.

12. We firmly believe that ECGD needs to make its lending standards far more robust if we are to avert cases of irresponsible debt in the future. Moreover, the ECGD must audit past debts—including the ones mentioned here—to ensure countries are not repaying debts in cases where those debts are proving detrimental to development and poverty alleviation, or where those debts are patently unjust. Finally, the principal must be enshrined that future risks cannot only fall on countries in receipt of ECGD project guarantees. As with all financial decisions, risk must be shared between actors if rational decisions are to be made. The use of sovereign guarantees should be reconsidered. At the least, this means developing countries should not bear more than half of the financial risk for a project. There are alternative methods of off-setting risk —such as transferring defaults into equity shares of the concerned project.

13. The government of Norway has led the way in addressing some of these issues. In 1988–89 the Norwegian Parliament produced a white paper on the "Ship Export Campaign", conducted in the 1970s, which described the campaign as having "had limited importance as development aid". In 2006, the Government of Norway announced that it would unilaterally and unconditionally cancel the official debts of around US$ 80 million incurred under the Ship Export Campaign by five countries: Ecuador, Egypt, Jamaica, Peru and Sierra Leone—and that these cancelled debts would not be taken out of the development assistance budget. According to the Norwegian Ministry of Foreign Affairs, the Ship Export Campaign had "represented a development policy failure".

Lack of Transparency and Accountability

14. Our work on this issue is severely hampered by the serious lack of transparency which continues to characterise ECGD. For instance, the ECGD claims it does not hold records as to which projects its debt portfolio relates, even when that debt is being recovered. This is an extraordinary state of affairs—countries are repaying debts with no certainty as to what they are repaying those debts for. We would like to suggest the ECGD follows the lead of the Spanish ECA which, since 2006, has had the obligation, through the relevant ministry, to present an annual report to the Spanish parliament containing all data on debt owed to Spain.

15. Problems with transparency and accountability are not confined to debt. The ECGD, for instance, should allow proper consultation on projects, in order to make them as responsible as possible. This should include a complaints mechanism for civil society groups likely to be impacted by ECGD-supported projects, so that ECGD maintains responsibility for projects beyond its affirmation of support. We believe the ECGD requires a transparency and accountability revolution, and make suggestions to that end in our recommendations.

16. In addition, it is clear that significant amounts of ECGD support is given to large companies, which could potentially find insurance privately (albeit possibly more expensively) rather than supporting small and

medium industries that desperately require assistance. We have no doubt that ECGD could play a positive and socially responsible role in promoting responsible British industry. This would require re-orienting the department, however, positively encouraging applications from new and green industries for example. We don"t see how the ECGD's current mandate and structures would allow this, however, and suggested a major re-think is needed. This might tie in with plans for a Green Investment Bank, which could incorporate an export component. We have not undertaken enough work on this area to give concrete recommendations, but would welcome the opportunity to work with the Committee on developing such proposals.

17. Clearly a radical change in standards would be needed to effect the type of ECGD we believe is necessary. In February 2008, the European Network on Debt and Development, of which JDC is a member, launched their Charter on Responsible Financing. The Charter gives a comprehensive guide as to how governments and companies could lend responsibly to other governments—outlining the essential components of a responsible loan. These aim to ensure that terms and conditions are fair, that the loan contraction process is transparent, that human rights and the environments of recipient nations are respected and repayment difficulties or disputes are resolved fairly and efficiently. This agenda is being taken forward at an international level by institutions like the UN Conference on Trade and Development (UNCTAD), which is working on a three-year programme to improve lending standards.

18. We believe the EuroDad Charter gives a good basis for instituting the sort of standards which could produce a more useful, productive, sustainable ECGD. Of immense importance, all standards by which the ECGD currently abides are non-binding and explicitly allow waivers in "exceptional cases". This must be replaced by legally binding standards. The ECGD also fails to operate a categorical prohibitions list of activities that are not conducive to sustainable development. We believe, for instance, export of military equipment should be prohibited.

19. These standards must be tied to serious attempts to measure impact. Currently, the majority of ECGD projects are exempt from impact screenings, belonging as they do to the military or aerospace sectors. Of the remaining projects, very few fall into medium or high impact categories and even when they do, ECGD's assessment remains limited and the standards discretionary. In the case of the ECGD's decision, in 2004, to support the $20 billion Sakhalin II oil and gas development, the ECGD gave a legally-binding commitment to support the project in March 2004, before an adequate environmental impact assessment had been completed. The initial impact assessment, submitted by the Sakhalin Energy Investment Company (SEIC), after construction had already begun, was declared by potential lenders to be "unfit for purpose".

20. Once a project has been given the go-ahead, the ECGD does nothing further to meet its responsibility for impacts. In essence, it simply washes it hands. Despite many instances where the impact of ECGD's activities have been considerable, no formal mechanism for complaints or for performance to be routinely and independently assessed is available to those involved. No access to justice is available to those who might be effected.

The Increased use of Export Credits

21. In a recession, export credits come to be seen as more important than ever. They are presented as a key way that the British government can support struggling industry and re-stimulate the British economy. In April 2009, all G20 leaders agreed "to ensure $250 billion of support for trade finance", largely, we believe, export credit funds. The new schemes and revisions to ECGD standards should be seen in this light.

22. Longer-term, we are experiencing major resource and environmental limitations to our economic development. For example, it is estimated that in the next few decades there will be a five fold increase in resource extraction in Africa, a result of resource depletion in the developed world because of high expected returns on investments. This also means we could see increased use of export credits in order to protect "British interests" in the world.

23. So changes to the ECGD are urgent. The only way to stop ECGD support to business today becoming the unjust debts of tomorrow is through the creation of a very different ECGD. The ECGD's current path—of lowering standards until other countries raise their standards—is based on poor information about the operations of other ECAs, and will mean a race to the bottom in terms of international lending standards. We believe that the recommendations below provide a starting point for the sorts of changes necessary. Only through such fundamental changes will ECGD both have a positive impact globally and provide balanced and productive support to the UK economy.

Recommendations

24. The ECGD must publicly audit all outstanding ECGD debts and cancel those found to be unjust and stop converting paid guarantees into Third World debt. This includes cancelling all debts which are preventing countries meeting their human rights obligations; scrapping the use of developing country counter-guarantees; and adopting the principle that the creditor shares responsibility with debtor governments for lending decisions.

25. Adopt and enforce much stronger standards to promote a green economy, pro-poor development and human rights incorporating environmental, human rights and anti-poverty criteria. This includes operating a categorical prohibitions list for types of projects that are in no way conducive to sustainable development and

human rights such as arms and fossil fuel industries; making an impact analysis a pre-condition for all projects, and ensuring that no guarantee is issued prior to the conclusion of that analysis; dramatically improving the content of impact analysis to include conflict and political risk assessment; placing a limit on the aggregate annual GHG emissions associated with ECGD operations and the projects it supports; improving and lengthening consultation with local communities and other stakeholders, prior to and throughout the lifetime of the project; imposing new standards on bribery, including that companies previously convicted of corruption should be debarred from receiving ECGD support for a period of five years.

26. Open up to public scrutiny and evaluate projects to see if they were beneficial to people and environment. This includes establishing transparent procedures for monitoring the implementation of measures associated with impact assessments with an appropriate sanctions framework for client companies in breach of agreed standards; producing clear success and failure indicators for all projects to be monitored as part of the evaluation procedure; adopting a "duty of care" and complaints mechanism for local communities and other stakeholders; reporting quarterly on the details of projects under consideration by, or receiving support from ECGD; disclosing a summary of assessments made in ECGD's decision-making on categorisation for each project and publication of case-specific assessment procedures that will be undertaken in light of this categorisation; disclosing all impact assessments and off-take agreements e.g. power purchasing and host government agreements.

24 September 2010

Written evidence from the London Stock Exchange Group

ROLE OF THE LONDON STOCK EXCHANGE IN UK TRADE AND INVESTMENT

1. Introduction

The London Stock Exchange Group welcomes the focus that the Business Innovation and Skills Select Committee is giving to the UK's policy and actions on international trade and investment.

Through its international business development activity, the London Stock Exchange Group has been extremely successful in attracting international companies to the UK to raise capital through our markets. We also provide UK businesses, both large and small, with a globally recognised platform—making them visible to investors all over the world. To continue to do this and maintain the global economic competitiveness of London's markets, it is essential that the UK both maintains and strengthens its focus on international trade and investment, especially as the balance of global economic power shifts away from traditional Western economic sand towards the emerging economies.

This briefing includes a short update on the Exchange's international trade activity—our primary markets and technology business development.

2. Key Exchange Messages on UK Trade and Investment

— **The Exchange is a world champion in international listings, with major positive knock on effects for UK financial services and London's status as a global financial centre.** We are the number one market globally for international listings—we want to maintain this and to work with the Government to attract more international companies to London. The Exchange now has 592 foreign firms from nearly 70 countries—more international firms than any other major Exchange (there are 501 on the NYSE (US) and 74 on Deutsche Borse). It is vital to London's sustainability as a financial centre that it remains open and welcoming to international companies and capital.

— **A listing on our markets enables UK business, both large and small to benefit from the most international pool of capital in the world.** In 2009, UK-incorporated companies listed on our growth market AIM supported the jobs of 570,000 jobs and directly contributed £12 billion in GDP to the UK economy. A listing on AIM gives companies an international platform, making them visible to investors all over the world. There are many case studies we can share of UK AIM companies who have directly benefited from international investment through AIM.

— **We are very active in promoting London as a capital raising venue in Russia, China, India and Latin America.** We would be happy to share examples of successful UK trade engagement with these countries and our experiences of engaging with companies in these countries. It is vital that UK Government departments are joined up in their approach to trade issues, as there have been occasions when a lack of such an approach has directly hindered vital trade relations.

— **The London Stock Exchange Group has a strong history in building strong partnerships with capital markets providers around the world** including the Johannesburg Stock Exchange, Tokyo Stock Exchange with Tokyo AIM and the Oslo Bourse. In the long term, our goal is mutual development of global capital markets.

3. Exchange Key International Business Information

3.1 *Primary markets*

Below is a summary of our priority countries for primary markets in 2011:

— **India**—we have seen significant issuance from this region and continue to promote the exchange there. We also cooperate with the local exchange through a MoU arrangement. *Recent listings include:* Essar Energy (India, May 2010) raised £1.3 billion though its premium listing, and was the largest ever Indian IPO in London and the second largest Indian IPO on a public market anywhere in the world. Five Indian companies have joined AIM in ten weeks, raising an estimated $344.4 million: Jubilant Energy raises $85 million in the third largest IPO on AIM this year, $2.3 billion raised by Indian firms in London in 2010, 28 Indian firms on AIM.

— **China**—We have established a close cooperation with the HMT and are further strengthening collaboration with the local regulators. In conjunction with the FSA we devised two new products to further facilitate capital raising in London by Chinese issuers.

— **Latin America and Africa—**We are seeing a strong potential from the region and will continue to re-enforce our presence there. *Recent listings include:* African Barrick Gold (Tanzania, March 2010). £581 million at admission.

— **Russia and CIS—**This is a region from which we already have more issuers than any other exchange in the world. We are closely cooperating with the local exchanges and monitoring any regulatory developments that may affect the issuers from that region. *Recent listings include:* Avangard (Ukraine, May 2010). $187.5 million at admission.

— **Mongolia—**We are participating on a tender to provide further help to the local exchange and the government privatisation plans.

3.2 *MillenniumIT—Capital Markets Technology partnerships*

The Exchange is working across the world to develop partnerships with capital markets operators in emerging economies. Technology advances are supporting greater global cooperation. Our acquisition of the Sri Lankan technology company MillenniumIT is an example of this. Through the Exchange, MillenniumIT is now providing trading platforms globally and their technology is used by markets in Croatia, Kenya, India, Sri Lanka as well as the London Metal Exchange and ICAP.

Our international partnerships work in a number of ways—trading, information, technology. For example:

(1) We have a market surveillance system and business partnership with Egypt.

(2) Johannesburg—trading system and business partnership.

(3) Norway—trading system and business partnership.

January 2011

Written evidence from Navitas

1. Executive Summary

1.1 Rebalancing the economy through trade and investment requires coordinated Government action across and between key Ministries eg BIS and the Home Office.

1.2 The Education Services Export Industry is second only to Finance in its positive economic impact to the UK.

1.3 It is very much in the interests of the sustainability of the UK's Education Services Export Industry that the UK remains a top priority destination for legitimate non-EU students; however it is imperative that policy be based on empirically sound data derived from comprehensive consultation and analysis.

1.4 The Education Services Export Industry in the UK is a complex and dynamic industry comprised of public and private providers. Regulation is welcomed by all bona fide providers; however any regulatory regime implemented should be encouraging of export revenue and equitable across both the public and private sectors.

1.5 Ireland and the USA have recently come out strongly in support of the economic and cultural importance of the Education Services Export Services industry. The Australian Government has also recently recognised the negative impact on GDP of recent visa tightening measures. (See http://www.abc.net.au/lateline/content/2010/s3068304.htm.)

1.6 The UK is sending mixed messages to the world. Government words are signalling that the UK is keen to enhance its global engagement, build trade links particularly in China and India and, welcomes international students; however, Government action is signalling to the world that the UK is not really open for business and does not want export value and trade links that international students bring to the UK.

1.7 International student mobility is a very successful activity for the UK and contributes to the success of HE sector. It should be considered as an export success and not as an immigration problem.

1.8 International students/graduates play a key role as diplomatic/trade/cultural assets for the UK—"soft power" as it is known.

2. Navitas Limited—An Introduction

2.1 Navitas Limited (http://www.navitas.com/corporate.html) is a diversified global education provider and has been active in the Education Services Export Industry since 1994. Navitas offers an extensive range of educational services for students and professionals including university programmes, language training, work-force education and student recruitment. Navitas Limited is a public listed company on the Australian Securities Exchange (ASX) and is known as a world leader in the development and provision of educational services and learning solutions. Navitas Limited had a market capitalisation of approximately AUD$1.4 billion as at June 2010. Navitas consists of five operating divisions: University Programmes (the largest Division with operations in Australia, the UK, the USA, Canada, Singapore, Sri Lanka and Indonesia); English; Work-force; Recruitment; SAE Group, all of which report to the corporate headquarters located in Perth, Western Australia.

2.2 Navitas is known for its focus on the provision of quality education and training and therefore all Navitas Group members comply with accreditation and licensing requirements imposed by government and government endorsed organisations including in the UK, the British Accreditation Council (BAC) and, the UK Border Agency (UKBA) to provide education and training services in their respective operating environments/countries.

2.3 Navitas established its University Programmes Division in the UK in 2000 and its Recruitment Division in 2007. Navitas' UK operation is self funding and is not a recipient of any form of Government funding.

2.4 Navitas' University Programmes Division UK's Colleges are located on university campuses in Aberdeen (Robert Gordon University opening in October 2011), Cambridge (Anglia Ruskin University), Edinburgh (Edinburgh Napier University opening in June 2011), Hertfordshire (University of Hertfordshire), Plymouth (University of Plymouth), Portsmouth (University of Portsmouth), Swansea (Swansea University) and West London (Brunel University), locations which enable students to experience the UK city, climate, culture and lifestyle of their choice. Navitas' partner universities are internationally renowned for their teaching and research.

3. Factual Information

3.1 Private Colleges like the Navitas Colleges in the UK, via their legally enforceable (UK Law) Recognition and Articulation Agreements, provide significant third stream revenue to their respective Host Universities via the direct royalty paid per head each semester (three semesters in one calendar year) as well as "pipeline" income as students move through the articulation process and pay the full cost recovery University fees directly to the Host University for the remainder (usually a minimum of two academic years) of their degree programme. In the period from September 2000 to December 2010 Navitas UK:

- has paid direct royalties to six Host Universities totalling GBP£13,241,295.00;
- facilitated access to university education for c16,400 international fee paying students who would otherwise have been denied access to a UK University degree; and
- facilitated Host Universities' access to cGBP£220 million in pipeline income i.e. that income derived from students progressing through the articulation agreement from a Navitas College to their respective Host University in order to complete their degree studies.

Indeed in the current financial year (2010–11) alone our Host Universities will receive over GBP£6 million in royalties and cGBP£27 million in pipeline revenue. Any reduction in international student numbers as a result of the current focus of Government on reducing net migration through restrictions on international students will not only have a severe financial impact on a HE sector already under threat from funding cuts but result in job losses that in the case of Navitas as an example, could result in a reduction in the size of the UK operation by at least half.

3.2 The Education Services Export Industry is a major contributor to the UK economy; current moves to reduce international student numbers threaten the ongoing viability of this major export industry.

3.3 International (non-EU) students from degree-preparation courses are a significantly critical source of students for UK universities. Universities UK has estimated that 46% of all non-EU full fee paying students admitted to UK universities come via preparatory programmes inclusive of those via formal articulation and recognition agreements.

3.4 Current HO/UKBA initiatives related to the restriction of international student numbers could, for Navitas as an example, turn our forecast pre-tax profit in the UK of £1.7 million into a loss of £2.1 million, thus jeopardising over 230 full time and sessional academic jobs and our future plans for growth and would impact (negatively) revenue streams to our Host Universities via a reduction in the direct royalty payments and pipeline income for our Host Universities.

3.5 Regulatory regimes should also be consistent and equitable across both public and private providers; prohibiting institutions from offering NQF Level 3 may well raise legal issues such as restraint of trade.

3.6 Non-EU students make a significant contribution to UK universities to the tune of between 10—30% of total income; the substantial contribution via full fees ie cost recovery, ensures that the enviable breadth of courses available in the UK is protected.

3.7 Non-EU (International Students) make an extremely important economic contribution to the UK, so Government's intention to restrict an invaluable export earning industry in this way does not match the need to rebuild the economy and engage private industry to a greater extent. The Government's own data (from the Home Office's publication September 2010: *The Migrant Journey*) illustrates that international students are not immigrants. Of the 186,500 students granted visas in 2004, only 5,568 later gained settlement rights—ie only 3%. They have a minimal effect on net migration as there are roughly the same numbers of students leaving the UK each year as there are entering it. It is also arguable that UK-educated, highly skilled workers are migrants who will make an above-average contribution to the UK's economic future and therefore should be encouraged.

3.8 A 2007 British Council Report () stated that in 2003–04, the Education and Training export sector was worth £27.7 billion. In 2010, we estimate this to be closer to £40billion and thus making it the UK's second biggest contributor to our net balance of payments, after financial services.

3.9 In addition to the full cost recovery course fees and living costs paid by non-EU students, staff employed in the Education Services Export Industry also bring significant income to their local and the national economy through their spend on accommodation, food, local taxis and buses, clothing, leisure and social activities and their use of national bus, rail and air transport systems. The spread of international students in locations across the UK means that the revenue generated via this export industry is not restricted to one geographic region of the UK.

3.10 On average, an international student can easily spend up to GBP£12,000 in each year of study. Given the diversity of locations across the UK this is an important regional economic impact. Students are also visited regularly by family and friends further adding to the economic value add element.

3.11 There will be major job losses running into the thousands, in the public and private sector as a result of a cap on international students. These job losses may well be concentrated in areas where there are large numbers of private educational establishments in university towns and cities which may have little access to the benefits of other major export industries. The Australian government has just acknowledged the negative material impact on GDP that its recent tightening of visa restrictions for international students has had. Job losses in the sector are expected to be in the thousands, including university staff.

For more details see http://www.abc.net.au/lateline/content/2010/s3068304.htm.

3.12 The negative material impact on GDP of unnecessarily tightened visa restrictions for non-EU students at a time when the UK needs thriving export industries and harbours an expectation that the private sector will pick up the shortfall in government spending will be considerable.

3.13 International students not only enrich the learning environment for domestic students and provide substantial economic support to universities, but also act as valuable ambassadors for future commercial, diplomatic and cultural ties that benefit the UK. Note the Prime Minister's recent trips to India and China in which he emphasised, "...how much we [the UK] want to welcome international students to Britain". Changes to the student visa regime give the lie to this statement.

3.14 In addition to the in-country economic value add of non-EU students to the UK, the UK also benefits from the global networks and links the education services export industry has established, particularly in key source countries such as India and China, which coincidentally happen to be foreign policy priorities. Given the particularly high levels of satisfaction experienced in the UK by non-EU students during their study programme, it makes sense that the UK should capitalise on this potential for life-long advocacy for the UK.

4.0 Recommendations for Action

It is suggested that the following recommendations be considered:

4.1 The Education Services Export Industry is recognised as a major contributor to the UK economy and compliance regimes should be facilitative to its growth and development.

4.2 Current measures to restrict the number of international students coming to the UK are reviewed and modified to enable bona fide participants in the Education Services Export Industry to conduct financially viable businesses.

4.3 A comprehensive economic impact study be undertaken to substantiate the value-add impact of the Education Services Export Industry to the UK's economy and thereby inform the decision making processes related to Government's dual commitments to reduce net-migration and "...boosting trade to rebalance the economy…". (Right Hon. Adrian Bailey MP, Chair of the Business Innovation and Skills Committee http://www.parliament.uk/business/committees/committees-a-z/commons-select/business-innovation-and-skills/inquiries/trade-and-investment/)

4.4 BIS and the Home Office better coordinate policy development in order to ensure that a major export industry is not damaged at a time when the UK economy needs success stories. The role of the BIS is central to supporting trade and investment in the UK by removing barriers to trade and in determining sensible approaches to this important export industry.

10 January 2011

Written evidence from Reaction Engines Limited

1. Executive Summary

1.1 The global space market, worth an estimated £160 billion in 2008, offers massive commercial potential for the UK. The UK space sector has grown at an average of 9% per annum in the last decade—three times faster than the rest of economy. The space sector as a whole has managed to grow even during the recent recession and is forecast to grow by an average of 5% a year until 2030 creating an industry potentially worth £400 billion. Experts have concluded that the UK has the potential to expand its share of that global market from its current level of 6% to 10% in the same period. [23]

1.2 Reaction Engines Limited (REL) is developing SKYLON, a ground-breaking reusable Un-manned Aerial Vehicle (UAV) powered by unique advanced British propulsion technology capable of delivering large payloads into space. If successful, this technology will have a transformative effect on the space industry by cutting the cost of putting satellites into orbit from around £15,000 per kg to around £650 per kg, enabling British scientists and workers to be at the vanguard of new and highly-profitable markets, and leveraging the UK's existing strength in the space sector.

1.3 With the proprietary lead in advanced space propulsion technology built up by REL the UK has the opportunity to become a world-leader in commercial space exploitation and exploration, with the creation of tens or hundreds of thousands of jobs and significant revenue streams coming to the UK. The development programme for SKYLON would attract several billion pounds in inward investment over the current decade. The eventual spaceplane is a unit of commerce similar to an aircraft and will ultimately be saleable on the global market. Sales of the SKYLON spaceplanes, manufacturing licenses and support services could generate a multi-billion pound return.

1.4 Following the recession, it is widely agreed that the UK economy must be rebalanced towards industry, exports and innovation. REL and its SKYLON project is an example of the kind of business that can help the UK economy rebalance through stimulating hi-tech job creation and the development and exploitation of the rapidly growing commercial space market. Government support and advice will help companies such as REL seek out new markets for their products, particularly on the international stage.

2. Technological Background

2.1 REL was established in August 1989 by the company's current Managing Director, Alan Bond, together with John Scott-Scott and Richard Varvill. All three were former senior engineers working on the BAe/Rolls Royce HOTOL spaceplane concept in the 1980s, with extensive experience in the development of space propulsion systems including the successful UK Government Blue Streak and Black Knight programmes, an ICBM and space access vehicle respectively developed in the 1960s and 70s.

2.2 REL is developing an un-manned, reusable, winged "spaceplane" in Abingdon, Oxfordshire. SKYLON would provide routine, low cost access to space and as such would transform commercial access to space. Its SABRE engines are unique in combining both jet propulsion and pure rocket technology, making the spacecraft capable of taking off and landing on conventional runways. SKYLON will be truly reusable, with no throwaway rocket boosters or other expendable hardware. The SKYLON spaceplane will therefore be the first vehicle of its kind and will bring to space transportation attributes that currently only benefit other modes of transport such as cost effectiveness, reliability and availability.

2.3 The core of the SABRE engine is an engine cooling system enabled by ultra lightweight heat exchangers, which have been developed by REL, and are key to giving the engine its significant performance advantage over other space launcher propulsion systems. The SABRE engine design is wholly reliant on this UK proprietary lead technology, and SABRE is currently considered by world experts to be the only viable, near-term propulsion solution for a vehicle with SKYLON's capabilities.

2.4 In February 2009, REL was awarded €2 million by the European Space Agency (ESA) through the British National Space Centre (BNSC) matched by £7 million private investment to demonstrate the core heat exchanger technologies for the SABRE engine. This large proportion of private funding is impressive at this early stage in aerospace research and development. Enabled by this investment, a crucial test on a key aspect of the SABRE engine is planned for June 2011.

[23] UK Space Innovation and Growth Strategy, 2010–2030, Executive Summary.

2.5 Following the tests successful completion the next phase of the project, Phase 3, will commence—a £220 million engine demonstrator which will establish the capability for a UK-based manufacturing of the SABRE engine. Phase 3 would also act catalytically to enhance existing skills and capabilities in the UK.

2.6 It is anticipated that during Phase 3 (2011–13) pre-orders for SKYLON vehicles will be received, and the vehicle manufacturing consortium formed. There has already been extensive interest on the part of National Space Agencies and major Aerospace companies in being involved in this development programme—interest which over the next nine months must be transformed into concrete agreements which will facilitate the flow of private capital into the project.

2.7 Government support for the project at this stage is important, particularly in playing the crucial role of taking the global initiative to reform the regulatory environment so that the nascent commercial space industry can flourish.

3. Commercial Opportunities for SKYLON

3.1 A BIS report last year stated that the global satellite industry, which accounts for the majority of commercial revenues, grew in real terms by between 7% and 8% per annum (10% and 11% per annum in cash terms) between 2000 and 2008.[24] The substantial reduction in cost per flight made possible by SKYLON will enable its operators and backers to exploit these opportunities. SKYLON's primary market is likely to be companies and government space agencies seeking a cheap, reusable method of launching large satellites, the demand for which is increasing due to the growing importance of satellites for services such as mobile communications; satnav and related navigational systems; satellite television, including HDTV; instant access to real-time global data such as weather information; monitoring of climate change; national security issues; and natural resources management.

3.2 SKYLON's technology would cut the cost of launching a satellite from around £15,000 per kg to around £650 per kg. This means that one vehicle, over its lifetime of 200 flights, could offer end users a saving of over £17 billion when compared to current costs for space access. Consequently there is also worldwide demand for ownership of the vehicles outright. Crucially, from a commercial perspective, this means that there is sufficient upfront interest in outright vehicle purchase such that the cost of vehicle development could be recovered with considerable margins through sales of the first generation of vehicles to existing institutional customers.

3.3 SKYLON is also extremely attractive for a number of commercial uses currently not feasible with current launchers on both cost and technical grounds. One such application, studied in depth by NASA, is the delivery to space of Solar Power Satellites (SPS) to form a Space Based Solar Power (SBSP) system. This concept is impractical using current launchers but SKYLON and its unique capabilities would overcome this obstacle. SBSP would turn sunlight into electrical energy and electromagnetically beam it to earth to be collected by a large array of receivers. It would be a 24-hour, renewable energy source capable of reducing reliance on fossil fuels; increasing energy security; reducing the threat of nuclear proliferation; alleviating security challenges around energy scarcity; and other benefits. Energy from an SBSP system could be used as base load power for existing national electrical grids or to manufacture synthetic carbon-neutral hydrocarbon fuels. SBSP is regarded as a viable near-term technology by the private sector and foreign governments. This is shown by an announcement that Japan's Mitsubishi Heavy Industries Ltd is leading a consortium of 16 companies committed to deploying an SBSP system capable of powering 300,000 homes by 2030. The reported budget for the Japanese SBSP programme is $21 billion.[25] There is substantial interest in SBSP systems amongst other foreign governments.

3.4 On top of this there is continued interest in space exploration and investment by foreign governments in a variety of space-based projects.

3.5 In time, SKYLON would play the enabling role of creating an existing, fully commercial orbital infrastructure from which governments would be able to purchase services on the open market at the lowest possible cost.

4. Rationale for Government Investment in UK Space Industry

4.1 Numerous reports by well-respected economics consultancies and by the Government itself have concluded that there are many attributes of the UK space industry that make it a compelling candidate for government investment. These features can be briefly summarised as the following:

4.2 **Fast growing sector:** The UK space industry, which had a turnover of over £7.5 billion in 2008–09, is expanding. It is one of the fastest growing sectors in the economy and continued growing throughout the recession—8% between 2007–08 and 2008–09 and 21% since 2006–07.[26] Oxford Economics forecast the

[24] BIS ECONOMICS PAPER NO. 3—The Space Economy in the UK: An economic analysis of the sector and the role of policy, February 2010, p.viii.

[25] Bloomberg, "*Mitsubishi, IHI to Join $21 Bln Space Solar Project*", 31 August 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aJ529lsdk9HI

[26] *The Size and Health of the UK Space Industry*, report for UK Space Agency by Oxford Economics, Executive Summary, p.3, November 2010.

industry to grow by 5% per year until 2020. However, this growth is dependent on investment in research and development.[27]

4.3 **Productivity**: A 2010 BIS study found that the evidence suggests the UK space industry has a "relatively high percentage of turnover (about 50%)...accounted for by value added", implying that a sector with a relatively small percentage of GDP (0.5%) represents a "higher average labour productivity than most other sectors".[28]

4.4 **Benefits to wider economy**: Oxford Economics found in 2009 that: "the employment multiplier for the UK space industry is estimated to be around 3.65. This means that for every 10 jobs directly supported by the UK space industry, another 26 in total are supported indirectly in the supply chain and from the induced spending of those directly or indirectly employed by the UK space industry". This equates to 68,000 jobs and a value added contribution to GDP of £5.6 billion.[29] Oxford Economics also found that while 75% of the direct turnover of the UK space industry is in the South East, when indirect and induced effects are factored-in, the South East only accounts for 39% of employees, meaning that "the contribution of the Space Industry to regional development is much greater than the regional breakdown of direct space turnover may suggest". [30]

4.5 **Research and Development:** The industry is about three times more R&D intensive than the economy as a whole. This has large "spillover" effects for the wider economy, estimated by Oxford Economics to be £900 million a year currently, and will by 2020 support £1.3 billion to £2.3 billion of GDP in the UK.[31]

5. The Role of Government

5.1 **In February 2009**, the then Minister for Science and Innovation, Lord Drayson said of SKYLON: "This is an example of a British company developing world-beating technology with exciting consequences for the future of space." The prospects for the UK economy of SKYLON going into full development and then, in due course, production, are immense. REL estimates that the development stage alone will benefit the UK through the creation of up to 70,000 jobs and investment of £7.5 billion.

5.2 **In the summer of 2010** as part of a UK Space Agency organised international assessment of the SKYLON concept, REL commissioned London Economics to undertake an independent assessment of the future benefits of investment in SKYLON, using government best-practice public sector project appraisal methodology. Their report, published in October 2010, used this methodology to identify any market failures (ie a situation where the market cannot deliver an efficient outcome for society). The report concluded that: "from an economic perspective, the markets in which SKYLON would operate have market failure attributes. Namely, SKYLON generates public goods and has the potential to generate positive externalities for investing economies. Based on this, there is a role for government in supporting SKYLON to enable investing economies to capture these future benefits".[32]

5.3 **Quantitative Green Book analysis** was also undertaken by London Economics which demonstrated the huge potential for a large net positive contribution to the UK economy from the SKYLON project. This benefit could be in the tens of billions of pounds even under prudent conditions. Widening this analysis to include sectors indirectly affected by SKYLON and also to include other countries, such as potential European or other partners in the project, has the potential to lead to much greater benefits. It is REL's belief that as well as inward investment and job creation in the short term, and the benefits to UK business identified by London Economics, that its technologies will herald a significant increase in commercial activities in space for the coming century and that the impact on the economy and society would draw parallels with the impact seen by the jet engine.

5.4 REL's experience of working in the space industry and contact with competing companies in the space field suggests that the UK Government can help exploit this growing sector in the following three ways.

5.5 *1. International Framework for SKYLON*

The first and most important way government can help is by assisting REL in implementing the necessary national and international frameworks that are required to support the development and use of the SKYLON spaceplane. Due to the scale of operations necessary for SKYLON's development programme and commercial operations, ad hoc certification rules are insufficient as these are unlikely to enable the flight rates required. A new framework needs to be created that will facilitate the kind of commercial operations in space which SKYLON will herald. Such a framework would also need to take into account the ongoing discussion on the "rules of the road" and deliver the confidence necessary for global financial and underwriting and insurance

[27] *The Case for Space: The Impact of Space Derived Services and Data*, Oxford Economics (commissioned by the South East England Development Agency), July 2009, p.5.

[28] BIS ECONOMICS PAPER NO. 3—The Space Economy in the UK: An economic analysis of the sector and the role of policy, February 2010, p.ix.

[29] *The Case for Space: The Impact of Space Derived Services and Data*, Oxford Economics (commissioned by the South East England Development Agency), July 2009, p. 19.

[30] Ibid., pp.20–21

[31] Ibid., pp.3–5.

[32] The SKYLON Project: Independent economic assessment of the future benefits of investment in the SKLYON reusable launcher, London Economics, October 2010, p.24.

institutions to invest with confidence. REL is at present formulating such a framework and would be happy to discuss this with the Committee.

5.6 *2. Cross-government approach needed*

Secondly, while successive Government Ministers (of all parties) have spoken of the need for government to champion the space industry internationally, their calls have not resulted in a coordinated cross-government approach. For example, given the growing demand in India, China and Brazil for space technology, championing the UK space industry should be part of the Treasury, Foreign and Commonwealth Office and UKTI's ongoing programme in fostering exports.

5.7 *3. Investment*

Thirdly, until now, REL's development of SKYLON and the SABRE engine has unusually relied upon private sector investment. Apart from a €2 million grant from the European Space Agency, REL has not needed direct funding from the UK Government. This is in part because REL have proven the commercial viability of the manufacturing processes required for industrial production of its technology in conjunction with demonstrating their technical viability. This has significantly reduced the risks associated with the overall commerciality of the project and encouraged unusually high levels of private investment at an early stage. REL is anticipating that private institutional and corporate investment will be sufficient to bring SKYLON to production after the next stage of the development programme, Phase 3, ends in 2013. Phase 3 will prove the full technical and commercial viability of the spacecraft and is likely to generate much larger expressions of interest, including potential vehicle pre-orders. Before Phase 3 can be initiated a key engine test planned for June must be successfully completed and subsequently £220 million of investment secured, an activity that would benefit greatly from Government support. On the subject of government assistance for Phase 3 David Willetts, Minister of State (Universities and Science), Business, Innovation and Skills has stated that:

> "The European Space Agency is funding proof of concept work for Skylon from UK contributions. This work is focusing on demonstrating the viability of the advanced British engine technology that would underpin the project. Initial work will be completed in mid 2011 and if the trial is successful, we will work with industry to consider next steps."

We believe that Government support could be vital to REL in raising this capital and ensure that phase 3 of the programme can be accomplished here in the UK.

6. Conclusion

6.1 Reaction Engines Limited has been able to develop world-beating technologies with the potential to transform a growing, strategically important industry with the result that the UK would reap immense economic benefits and become a hub for the future commercial exploitation of space. As the Government looks to rebalance the UK economy, projects like SKYLON provide a massive opportunity to boost the UK's hi-tech industry and exploit a growing market. The rationale for government support for the UK space industry is clear and compelling. Our industry is growing strongly and has the potential to tap an expanding global market; it is significantly more productive than other sectors of the economy; it has significant and positive "spillover" effects for the broader economy; and it supports hi-tech jobs. Furthermore, limited government intervention in SKYLON will counter market failures which might otherwise be an impediment to the UK economy realising the significant gains of this transformative technology.

January 2011

Written evidence from Royal Bank of Scotland

Executive Summary

- As a global leader in International Trade Finance, RBS has an important role to play in promoting exporting among UK companies. Our trade finance products help UK companies to better manage their risks and provide funding to support their overseas trade.
- RBS is working closely with ECGD and UKTI to promote international trade. Most recently we have partnered with the UKTI for their *Doing Business in Asia* events across the UK encouraging local businesses to consider exporting to emerging markets. We will also be hosting a seminar with the British Exporters Association on finding new markets focusing on Central and Eastern Europe later this year.
- We support the aims of the Government's consultation on the Trade White Paper. We too believe that there are a number of practical barriers to increasing international trade—not least the fact that firms are not aware of the potential opportunities and benefits of doing business internationally, or have the appropriate skills and knowledge to do so effectively.

- We have recently launched a campaign called *Finding New Markets* to encourage exporting among UK SMEs offering free online training to help them to better understand export finance and inform them of the products and services available to them. We have set up a new International Trade Hotline to advise and support potential exporters who are keen to export but lack the knowledge to do so with confidence. As part of our campaign we are also proactively contacting businesses we believe have export potential to discuss their needs.
- We believe that we are well placed to help increase UK business exports. We have the largest team of Institute of Export CITA qualified international trade advisers in the UK and have been voted the "Best Bank for Trade Finance" and the "UK's Best Global Trade Finance Provider" by our customers in 2010 by Global Finance and Euromoney respectively.

Introduction

1. Many UK based companies are looking to expand export activity in order to grow their businesses. However, selling into new international markets brings increased risks which can often act as a significant deterrent. Through our international trade products and services, coupled with our global network we are able to help businesses to better manage their risks. Recently, we have been promoting our capabilities to encourage more UK businesses to consider exporting.

2. RBS has an international network of branches covering 40 countries; the majority of the world's trading economies, and operations that handle over two million transactions annually. We can help deliver efficient working capital solutions for businesses trading across the globe. We have a dedicated international advisory team within our Global Transaction Services Department to ensure that UK companies can trade efficiently whilst managing their associated risks. RBS is a leading provider of global payments world-wide and has the largest team of CITA qualified International Trade Advisers of any UK bank

3. Over the past 12 months over 600,000 UK businesses have used RBS to make cross-border payments. Additionally, in the first ten months of 2010, we helped structure in excess of 54,000 international trade transactions by supplying Letters of Credit, Documentary Collections and Bonds and Guarantees. A large proportion of these were to new and emerging markets, with a value of c. £3.5 billion. The majority of these transactions, by volume, were supporting our SME customers. We have been voted the "Best Bank for Trade Finance" and the "UK's Best Global Trade Finance Provider" by our customers in 2010.

Promoting Exports

4. Recent research commissioned by RBS demonstrated that two thirds (69 %) of businesses surveyed believe that now is a good time to increase overseas trading. A very similar proportion of businesses (68%) also recognise that export activity will be key to the UK's economic recovery.

5. The survey highlighted a number of barriers preventing businesses from realising exporting potential. Understanding the financial tools to fund export trade was an issue, with 59% admitting the sector is ill-informed. For example, 45% of respondents agreed that Asia presents the biggest opportunity for UK businesses, however only 11% fully understood how to trade in that market. This is important as forecasts show that whilst UK GDP is expected to grow by 2% in 2011, China's growth is expected to be 9.6%; India's 8.4% and Indonesia's 6.2%. Over half of respondents (58%) stated that easy access to advice from experts in overseas trade would give them more confidence in exporting abroad.

6. In response, NatWest and RBS have taken a number of steps to make it easier for businesses to increase export activity. We are offering improved access to expert advice with the introduction of a new international trade hotline. We have also introduced free online training courses to help businesses manage risks when trading overseas in new markets. To encourage more businesses to begin exporting, we have been contacting export-ready customers to discuss their needs and to help them make the most of international trading opportunities.

7. We have a range of export products available to customers including Letters of Credit which offer protection against payment default. We have the ability to confirm letters of credit from over 1800 banks in over 80 countries. We also offer bad debt protection through our invoice finance products. We can offer pre and post shipment finance to aid cashflow. In addition we offer Documentary Collections, Bonds & Guarantees and standby Letters of Credit. We have promoted these services widely, including in direct mail to customers, advertising in key trade publications and in the media.

UKTI and ECGD

8. We believe that more can be done to make SMEs aware of how trade finance solutions can help their business. We are continuing to work with BIS and HMT through the BBA Taskforce to look at ways we can promote exporting and improve the products/support available to UK companies. Exports are not able to be supported by the current EFG programme due to state aid considerations and the Taskforce has been looking at ways exporting companies can be supported.

9. Since the early 1990s the support that the Government's Export Credit Guarantee Department (ECGD) provides to UK exporters has reduced. This has been due to a number of reasons, not least because of the

privatisation of its short term trade credit insurance operation which was responsible for supporting the bulk of exports covered by ECGD. Since that time, ECGD has been viewed as having limited relevance to the majority of exporters and the risk of exporting now falls largely onto the exporting company—or their bank. This has meant that for some smaller companies, exporting can be a difficult and time-consuming process.

10. The focus of ECGD has, since the changes of the early 1990s, shifted away from smaller businesses and towards more large scale project related contracts. As a result, ECGD has a more limited product range relative to other ECAs in advanced economies and smaller companies can have difficulties understanding the ECGD products and services which may be available to them.

11. In recent years however, ECGD has been changing and has been keen to engage with industry on supporting UK exports, including those from smaller companies. We have worked closely with ECGD on their Letter of Credit Guarantee Scheme and although the scheme has not yet been widely used we believe that with increased awareness of the scheme among companies and staff will mean that it does have potential to deliver benefits to UK companies in future. We have also been working with ECGD on the development of Bonds Support and Pre-shipment Finance cover which may provide another way for the Government to help underpin UK exports. We would encourage the continuation of the recent trend of more active engagement and product development for this market.

12. We have also been working in partnership with the UKTI Asia Task Force to host a series of regional events throughout 2010 and into 2011. These events promote to UK business the breadth of opportunities in key Asian markets through a programme of *Doing Business in Asia: Meet the Experts* events around the UK. These practical events bring together expertise from across the UK and Asia with the aim of galvanising more UK companies to do business in the region. These events include, speeches, market clinics and managing risk/ trade finance drop-in clinics.

13. RBS is involved in these because of our significant strengths in Asia. We are present in 11 countries in the region, employing over 13,500 staff and servicing over 75,000 accounts. We offer a full range of financial solutions in the currencies of Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Singapore and Thailand.

14. As part of these UKTI events, we have been delivering seminars focusing on how businesses can manage risk and cash flow when trading with Asia. This session helps businesses to better understand how trade finance and other international banking solutions can be used for effective risk management, to provide funding and to ensure better visibility and control over financial aspects of business seeking to expand internationally. The session aims to help businesses appreciate the full range of trade finance, international cash management and invoice finance solutions that can help protect and collect cash as trade business grows. It is aimed at companies of all sizes who currently or plan to trade in Asia.

15. RBS Group Senior Management have also taken part in UK trade delegations. Most recently our Group Chairman was part of the Chancellor's financial services delegation to China. We believe these trade delegations help to demonstrate Government support for UK business overseas and provide a valuable way to strengthen trade links between the UK and key overseas markets. The delegations are well organised and offer opportunities to meet key influencers and business people in markets that are important for the growth of the UK businesses.

White Paper Consultation

16. We support the aims of the Government's consultation on International Trade. We too believe that there are a number of practical barriers to increasing international trade —not least the fact that firms are not aware of the potential opportunities and benefits of doing business internationally, or have the appropriate skills and knowledge. Through our Finding New Markets campaign we hope to bridge this gap and welcome any future Government support for export promotion campaigns.

January 2011

Written evidence from the Study Group

Executive Summary

Study Group believes that the government's proposals to restrict immigration of international students will do enormous harm to the UK's second biggest export sector- Education and Training and as a result unbalance the economy. In the second largest global industry—education, second only to Healthcare and almost certainly faster growing, the UK has a pre-eminent position with numerous historical, quality, HE sector and language advantages which give it a competitive advantage that many competing countries will have difficulty to replicate quickly. Government policy should be to encourage export industries that sustain hundreds of thousands of high quality jobs and offer great opportunity for growth in the next decades. Study Group believes that the government should promote the knowledge export sector and treat international students as education tourists, as they have no recourse to public funds, make a substantial contribution to the UK economy and more specifically the funding of the HE sector, culturally enrich our HE learning environment and project "soft power" on their return to their home countries.

The export Education and Training sector is worth £40 Billion per annum to the UK and this makes it the second biggest contributor to the UK's net balance of payments, after Financial Services (and far less controversial). This value is based on British Council research published in 2007 and extrapolated to 2010.

Were the immigration proposals to be implemented unchanged, Study Group predicts significant damage to the UK's economy and the annualised loss of £300 Million and up to 30,000 jobs from our segment of the sector alone, within three years. A real life example of the impact of ill-conceived restrictions on international students in an increasingly competitive global education market can be seen in Australia.

As the single largest educator of international students in the UK, Study Group is well placed to advise the committee on the impact of the proposed restrictions and we would caution a careful impact assessment of the implication of these restrictions before irreparable damage is done to the UK's second largest export sector and thus to the trade profile of the UK economy.

1. Background

Study Group is an acknowledged leader in international education specialising in the provision of world-class university access and English language programmes. Each year over 55,000 students from more than 140 countries enter these programmes in 38 locations drawn by certainty of outcome and the sector-leading quality of our educational provision.

Our global network of education centres and nearly 200 university partnerships across the United States, Canada, the United Kingdom, Australia and New Zealand is on a scale unrivalled in modern international education. Further information: www.studygroup.com.

In the UK Study Group recruit and teach 22,000 international students every year. Our annual turnover approaches £100 million and we employ just over 1,000 FTE staff which increases to 1,700 during the summer period. We have exclusive contractual partnerships with 12 UK universities- Lancaster, Leicester, Sussex, Surrey, Keele, Lincoln, Kingston, Wales, Stirling, Heriot-Watt, Huddersfield and LJMU. We recruit and teach preparation programmes to international students on the campuses of our partner universities, the students then progress to degree studies at those universities. Our Bellerbys colleges teach GCSE, A level and Foundation programmes exclusively to international students and to give you a measure of the quality of those students 45% of all Bellerbys A levels students were accepted by top ten UK Universities, our A level maths results in 2010 at our Brighton Bellerbys College were the best in the country for girls and for boys the best of any independent school in the UK. 98% of our students progress to UK Universities for degree study, but self evidently almost all our courses are at sub-degree level (NQF 3,4,5). Our Bellerbys Colleges are inspected by OFSTED and we are on the register of Independent Schools. All operations are accredited by BAC and several in addition by the British Council. We are members of Study UK, English UK and AIHEP. In terms of Tier 4 licenses we hold 15 Tier 4 HTS licenses and a further 4, Tier 4 sponsor licenses. Our business is exclusively dependent on international students being able to enter the UK to study with us. Further information: www.bellerbys.com.

As the largest single educator of international students in the UK and as a business that also operates in US, Australia and New Zealand, we are uniquely placed to appreciate the damage that the Tier 4 proposals would do to our business and the perception of the UK in the global education sector.

2. Factual Background

A fact sheet that Study Group prepared and distributed to media, stakeholders and some MPs and which is in the public domain, is attached.

3. Value of the UK Export Education and Training Sector

The value of the UK export Education and Training sector being annually worth £40 Billion is derived from a government publication of the British Council of 2007 see: http://www.britishcouncil.org/global_value_-_the_value_of_uk_education_and_training_exports_-_an_update.pdf, which is attached. This assessed the value of the sector to be £28.8 billion, a figure that was quoted by both the Prime Minister and Minister for Education in the last government during 2010. However, the data set that was used related to the year 2003–04 and Study Group's estimate based on our knowledge of sector inflation and growth from 2003–04 to now, is that the true figure for 2010 is circa. £40 billion pounds.

4. Value of International Students to the UK Economy

The assessment of the direct value to the UK economy of international students, of £10 Billion per annum, is based on tuition fees and living costs (using the UKBA's own minimum financial resources figures eg £600 per month and £800 per month for London). The segments that are included within this are:

300,000 non-EU students in HE @ £25,000 a year fees plus living costs = **£7.5 billion**

25,000 non-EU students in FE @ £15,000 a year fees plus living costs = **£0.375 billion**

600,000 EFL students (EU and non EU) @£2.5,000 per course + living costs = **£1.5 billion**

25,000 non-EU students in independent (boarding) schools @£25,000 a year = **£0.625 billion**

100,000 non-EU students in private sector tertiary colleges @ £15,000 a year fees and living costs = **£1.5 billion**.

5. Are International Students Immigrants or Educational Tourists?

The crux of the issue is whether international students are immigrants and therefore a contributory component to perceived public concern over immigration or whether they are actually valuable education tourists, who should not be counted in the immigration figures and have no recourse to public funds of any kind. The Home Office's own figures (from the Home Offices publication-*The Migrant Journey*) show that only 3% of students actually achieve settlement rights and the public perception of tourists is that they visit and contribute to the economy of the UK and sustain jobs and then leave. This is what the vast majority of students do and when they are contributing on average £20,000 per year, then we should be happy that they stay as long as they do-in our students' cases up to seven or eight years. If the definition of a migrant has to be anyone in the country for 12 months, then why do we count international students who are clearly domiciled abroad and who return to their home country for summer holidays for c. eight weeks every year and also include student visitors who by definition stay for less than 12 months? In addition, the industry does not understand why net migration of students' ie total number of new student visas issued, less all those leaving the country is not the metric that should be of interest. That the net figure increasing is good news, because the UK is successfully attracting international students and we are competing effectively in the second largest and fastest growing industry sector in the world.

6. Impact of UKBA Proposals to Restrict International Students from Coming to Study in UK

The following points and impact assessment relate to the UKBA Consultation on The Student immigration System (December 2010)

Study Group's assessment is that £300 million and 30,000 jobs are at direct risk from the implementation of the proposed restrictions on international students, by our government.

(a) *Raising the level of courses students can study*

Study Group supports the concept that only Highly Trusted Status sponsors can sponsor students for NQF 3, 4, 5 level study. However the private sector will insist that the same criteria to gain and retain HTS sponsorship status are applied by the UKBA in the same way for both public and private sectors. It should also be noted that there are some 700 institutions that offer degree level study in the UK (vs some 130 Universities), many accredited to do so in a variety of ways by other degree awarding bodies. Study Group would propose that only institutions with their own degree awarding powers or HTS level licenses should be able to sponsor students for degree level study or above.

(b) *Introducing tougher entry criteria for students*

As a global organisation recruiting and teaching 55,000 international students every year, we can say with absolute certainty that English level on its own is **no** indicator of ability or intention to study or indeed risk of absconding. Tightening English level may be a surrogate control mechanism if focussed on high risk groups, but broadly applied, the proposal to lift the minimum English level to B2 will be disastrous to Study Group and the whole HE sector in the UK. The US, Australia, Canada and others accept students for sub degree study on much lower levels of English precisely because the preparatory courses that we and others offer cover study skills, academic subjects and English- specific for study at University. We estimate that 80% of our academic students who come to Study Group and study in the UK in order to prepare themselves for degree level programmes at UK universities currently arrive with English below B2– and yet 97% gain successful entry to UK universities, and among the best (11 of our students gained entry to Oxbridge last year). Self-evidently English level on its own is not an indicator of academic potential.

(c) *Ensuring students return overseas after their course*

The Home Office statistics (The Migrant Journey) prove that students do return home after their studies but of course they may have several visas issued by several sponsors during the course of those studies, over potentially a maximum of eight or nine years (eg GCSE, A level, Bachelors, Masters and possibly PhD). This proposal would make the UK significantly less competitive internationally, if students were forced to leave the UK each time they needed a new visa or extension—expensive and logistically inconvenient

Closing the Tier 1 Post Study Work Route is unwelcome as many international students see the opportunity to get a quality education and also gain valuable work experience in the UK (maximum two years) which is often not available in their own country, as very attractive. Our competitors are strongly promoting differentiation in this area. UUK believe that there is no evidence to suggest that these international students are taking jobs from UK graduates and Study Group would support the tightening of the Tier 1 Post Study Work Route so that it is restricted to skilled and highly skilled occupations. We do not consider that the alternative of Tier 2 migrants, as a practical alternative as this route is already ridiculously restricted, to a level that negatively impacts our own competitiveness. Why restrict the global competitiveness of the UK's businesses further?

(d) *Limiting the entitlements of students to work and sponsor dependents*

Study Group would generally support these proposals except that there have already been substantive curtailments of the right to work while studying and for some students this work experience is a key part of the educational experience. The opportunity to work to sustain an educational course is important for some international students from less advantaged backgrounds.

(e) *Simpler procedures for checking low-risk applications*

Study Group would welcome this implied focus of resources and attention on higher risk categories. Study Group has incurred substantial incremental cost to the business of complying with the Tier 4 system (£100,000 per year in new compliance roles and costs of accreditation, inspection and UKBA licenses). Whilst we have taken on more of the burden that hitherto was the responsibility of government via the UKBA, there is a limit to what we can sustain as a business whilst the government reduces the resources of the UKBA and cuts public sector jobs in this area. For more costs and responsibility there should be benefit to those complying and investing in that compliance with the increasingly onerous burdens placed on the sector by the UKBA.

Study Group though its long experience, 30 regional offices and 200 staff in markets from which we recruit students, is well aware of the differential risks from students from different countries and even regions (in the case of China). We support the focus of attention of limited resources on higher risk areas and this is the principle that is applied by Australia. We are best placed to assess that risk and in order to retain our HTS licenses we proactively manage those risks.

Differential treatment according to a sponsor's rating is sensible in principle but as long as the criteria for gaining and retaining those licenses are transparent and fairly applied across both the public and private sectors.

(f) *Stricter accreditation procedures for education providers in the private sector*

The implication of this proposal is that there is, or should be, a different standard of quality and accreditation applied to the private and public sectors. In the long term interests of the competitiveness of the UK's education sector and our quality image, we cannot support this. Study Group would support a tightening of the accreditation regime for Tier 4 across the board and believe that there are too many accrediting bodies with inevitably different standards. The quality, knowledge and experience of the inspectors that we have dealt with, particularly from the UKBA have been poor and we have little confidence that the UKBA has the resources to effectively manage the Tier 4 license sponsor system. There have been numerous examples of slow process (four to five months), subjective and opaque decision making—leading the sector to see the HTS mechanism as slow and risky and therefore a threat to commercial business, continuity and planning. See the Annual Report 2009–10 of the Independent Chief Inspector of the UKBA for further evidence of this (see http://icinspector.independent.gov.uk/wp-content/uploads/2010/03/Independent-Chief-Inspector_Annual-Report-2009_20102.pdf).

Despite the removal of some 2,000 educational institutions from the Tier 4 sponsor register (in comparison to pre- PBS), there seem to be on-going concerns as to whether so-called "bogus colleges" are still operating. It is not in the interests of quality education providers such as Study Group for this to continue and in order to sustain the globally recognised quality image of education in the UK, effective action must be taken, without causing collateral damage to quality providers in both the public and private sectors.

7. The Economic Impact of Increasing the Minimum English Level to B2 would be:

- Loss of 600 jobs at Study Group UK in Brighton, Oxford, Cambridge, London and all University campuses where we teach (see university list above).
- Loss to UK universities of 4,000 full fee paying international students per year (directly from Study Group courses).
- Loss to UK universities of £180 Million revenue per year after three years (typically international students spend three years with universities with a three year bachelor programme and then many continue to Masters programmes).
- Total loss to the UK economy of £300 million per annum by year three.
- Loss of 2,300 jobs in UK universities and 2,300 jobs in local regions.

(see research by UCU on the calculation of job losses per £1 million loss of revenue: Summary issues and regional revenue-employment/output multipliers

http://www.ucu.org.uk/media/pdf/t/a/ucu_universitiesatrisk_dec10.pdf) attached—see pp27–32).

If we assume that Study Group represents 10% of the sub degree university preparation market in the UK, we believe that we can estimate the economic impact of this proposal to be the loss cumulatively of c. 30,000 jobs (this includes regionally dependent jobs).

If the committee wishes to see a real life example of the impact of ill-considered visa restrictions, we would point them to Australia where the student visa restrictions (among other factors) is now recognised to be having a material negative impact on Australia's GDP and has already led to the loss to 300 university sector jobs with many more to come and Study Group has also been forced to retrench over 100 positions so far.

The proposals to restrict international students is ill-considered, not based on any rational fact or evidence and has the potential to be extremely damaging to the whole HE sector and UK economy if implemented.

January 2011

Written evidence from the UK Fashion & Textile Association (UKFT)

Introduction to UKFT

The UK Fashion & Textile Association (UKFT) is a trade association set up by the industry for the industry to represent the fashion and textile industry. Its membership covers designer and mainstream fashion and accessories, textiles and freelance designers but it also extends to fashion and textile related bodies at regional and national level including the British Fashion Council, organisers of London Fashion Week.

Industry Overview

The key strength of the UK fashion and textile industry lies with its innovative designers. This design talent is the product of our world-leading fashion and design colleges. They act as a magnet for international talent. Students are attracted to the UK, and especially to London, and after graduation many of them stay here to launch their own designer businesses. With the demise of much of UK manufacturing and the dominance of value players in the UK high street, most designers choose to set up on their own, with all the incumbent problems with implies.

A key challenge for these designers, but also for most fashion and textile companies is that the key route to market is trade shows. Most buyers do not travel to the UK to buy but travel to key international events. More than 85% of all trade fair activity in these sectors is in France, Italy and Germany. These countries attract buyers worldwide from all countries including all of the BRICs. Attendance can vary from 40% international attendance outside the host country to as much as 80%, with the average being around 60%. These shows, supported by direct contact and a good agent or distributor are the main route to market for most companies in these sectors. The high cost of travelling to and within the UK as well as the limited number of companies which can be seen at some key shows in the UK mean that buyers rarely come to the UK to buy, preferring to visit Paris, Milan, Florence and New York for easy access and a wider choice of product. The BRICs companies prefer to visit these shows also.

Government Support

According to the Sponsors Alliance and some Government departments, the ratio of return on TAP (Trade Show Access Programme) is approximately £37 pounds of revenue to the UK for every £1 of investment. TAP is one of the most highly regulated and constantly amended programmes. As usual, it is subject to review and constant cuts. The Fashion and Textile budget is one of the largest, probably in excess of 15% but it is consistently oversubscribed. By contrast, our EU neighbour's equivalents of TAP have remained largely unchanged for much of the past 20 or 30 years, are handled by industry associations who enjoy a greater degree of discretion in the way they invest the money. Whether centralised or regionalised, funded by industry levies (France for example) or discretionary budgets handled through national trade fairs and their related associations (Italy for example) most of them aim to provide between 50% and 75% support on the direct and indirect costs of space, construction, travel, accommodation. The UK currently offers six participations of £1,000, £1,200, £1,400 or £1,800 which probably cover less than 25% of the stand costs. The UK programme in 2010 across industry was estimated at around £8 million. The German scheme is estimated to cost around £22 million.

An additional problem is the virtual withdrawal of sectoral trade missions. These missions play an important role in helping companies which have made an initial start in a market or series of markets at a trade fair to target and develop their business in markets further from home. Until some years ago, these missions were run very successfully by Trade Associations but they have since been put into the hands of the regions (UKTI ITAs) who limit the number of companies which can take part. Initially, these were low cost events organised by Trade Associations working directly with Embassies and Consulates with a small contribution towards costs from the companies themselves and a mode travel grant of up to £700 per company. More recently they were put out to tender in such a way that increased the costs associated with them with Embassies charging several thousand pounds for groups to visit. This year, using the rationale of cost cutting, these missions have been taken into public hands and their numbers have been cut. We used to run up to three missions a year, now there is only one to Japan and this is run by GLE. We need to be able to encourage companies to look at new markets and missions would enable us to do this.

Exports are key to the survival of fashion and textile companies. The main reasons for this is the a lack of a supportive domestic market in the UK (compared with countries like Italy and Germany which have a greater percentage of smaller boutiques which consume higher priced merchandise and can help a designer business to grow). This can also be expressed as an extremely open and price conscious UK market which looks to cheap foreign imports for a large percentage of its product contrasted with limited appetite for quality product in some of the emerging markets, especially China. Made in the UK business is being lost to overseas competitors whose regulatory framework is not as robust or exacting as the UK's or where their government provides substantial support to the industry (Italy is the most often cited example for fashion and textiles but China through its currency situation has been allowed to undercut almost every other manufacturing market and has pursued an aggressive policy of fashion and textile domination).

Key Issues

— Trade associations and other not for profit industry support organisations are excluded from a number of Government schemes and relationships and would like to work more closely with government to help it to deliver "more with less".

— UK manufacturers are faced with unfair completion for procurement (eg MOD and possibly the Olympics) where price is the only factor quoted. HJ Hall in Leicestershire recently lost its MOD sock contract to a Northern Irish-based company employing a handful of administration staff in the UK but manufacturing everything in China. Job losses are imminent. It would be unthinkable that a Chinese company would lose out on a similar contract in China.

— Government has spent much of the past 13 years deregulating and encouraging banks and insurance companies and has not given consumer goods the attention and support they need. To pay for schools and hospitals, we need exports of product and design. However, in too many cases, the export of design has purely been in the form of knowledge transfer (as well as jobs, social problems and environment issues) to China.

Proposals

— Trade Associations like UKFT are potentially a great area of support and strategy for industry and new designers, especially as they start out. Over the past 13 years these private not-for-profit organisations have been marginalised and excluded during the expansion of UKTI and many are struggling to survive as government (regionally and nationally) has sought to take an increasingly dominant role on export marketing and promotion, often in direct competition to them. In these times of limited funding, a better working relationship between government and Trade Associations could lead to a better Trade Association network which would, in turn, support the industry better, work with emerging talents and help Government to ensure that key outputs are achieved with less investment required from Government.

— Build on the success of the existing TAP scheme to encourage more companies designer companies to sell to new and existing export markets.

— Encourage larger companies to be part of TAP (this used to be known as "Godfathering" and it was hugely successful. The larger companies received a small grant or a free flight to attend an event in return for which they helped the emerging talents with contacts and support and the benefit of their experience.

— Realign the mission budget on a national level to ensure that limited resources are more effectively used.

— Enable ATOs (Accredited Trade Organisations) to work directly with Embassies and Posts to organise independent missions even if additional grant funding is not available. If Posts could work on missions without charging for their OMIS time, this would be a better inducement for the private sector and companies.

— Incentivise ATOs/Trade Associations to promote other UKTI activities (missions, Passport, Gateway etc). Recreate a strong relationship between the industry associations and the Embassies and Consulates.

— Rebuild the Commercial Officer network in every key market and use local trade teams to connect with local buyers and contacts to feed export leads back to companies in the UK. In recent years, Posts have had less time to do this and when they have done so, the information has been communicated poorly on the UKTI site. UKFT would also be happy to circulate information to the industry and would be able to send feedback on the status and quality of the leads to Posts who frequently do not get any feedback under the current system.

22 February 2011

Written evidence from the Worldwide Wildlife Fund

Unfortunately, capacity issues have meant that we have been unable to prepare a complete submission for this hearing, although we fully support the submissions of the Jubilee Debt Campaign, Amnesty International, Campaign Against the Arms Trade and Corner House.

Our concerns about the functioning of the ECGD have been for some time that the environmental impact assessments were often inadequate, or projects exempted from them; but that even this weak barrier has now been weakened further.

Over the last five years the ECGD has been responsible for around 2 billion of support to British Industry per annum[33] with the last financial year seeing an increase to 2.2 billion. It is not WWF's contention that such a facility should be abolished, as most economically developed countires have ECAs of a similar nature, and clearly it is a facility in demand. However it feels that it is not unreasonable to expect that the ECGD should operate in a way consistent with the wider government's policies while it is making use of taxpayers money.

However the record of the ECGD is not strong in this respect. In 2002, two years after the adoption of the business principles, which stated:

> "We will promote a responsible approach to business and will ensure our activities take into account the Government's international policies, including those on sustainable development, environment, human rights, good governance and trade"

the ECGD undertook to guarantee the BTC pipeline and the Bonny Island gas extraction plant; two projects which, once their full potential was exploited would be directly responsible for more carbon emissions than the UK produces in a year. Alongside this both projects had direct or potentially grave impacts on the local environment, with the BTC pipeline going through three earthquake zones, and yet by several estimates being not adequately earthquake proofed.

Historical failings of the Business Principles:

> The Business Principles were never adequate for their purpose; since the majority of its business in arms and aerospace were **exempt** from the impacts assessments, assessments when published were **heavily redacted**, or **withheld completely**; projects were given **conditional** green lights before the work was done. This was all heavily criticised by the Environmental Audit Committee in 2008 who said:
>
> > "We do not believe that the ECGD has struck the appropriate balance between protecting commercial confidentiality and ensuring due transparency. ……In 2003, our predecessor Committee recommended that "requests for confidentiality should be tested against rigorous criteria to ensure that only such information as might genuinely compromise clients' commercial activities is withheld. A high degree of disclosure should become a condition of ECGD support. We re-iterate this recommendation" (Rec 35).

However, since the abolition of the business principles in March 2010, these weak and partial safeguards have been weakened further, since smaller projects now also become exempt. The ECGD argues that accepting, instead, the OECD Common Approaches as the safeguards is an equivalent standard:

> "The stage has now been reached where the CIAP is not stricter than the Common Approaches as regards the criteria for assessment of the ESHR impacts" (Consultation on Revision to Business Principles)

But at the same time levels the playing the field:

> "It remains HMG's policy that the Common Approaches should be (revised to include smaller projects); and HMG will continue to propose to the OECD for that to occur. Until HMG has been able to fulfil its policy objective of a revision to the Common Approaches, it is HMG's view that it is not right to impose a burden on UK exporters which is not imposed by the Common Approaches upon exporters of other OECD countries." (Ibid)

It is difficult to see how both could be the case. It is also the case that many OECD countries apply their own screening over and above the Common Approaches; as is shown by the OECD's own research attached. All countries able to answer "yes" to the question must be applying higher standards than the Common Approaches.

In our view the ECGD is a missed opportunity to truly invest in and support a nascent renewables industry, or at least be transparent in the carbon emissions of our existing ones. Even the hard won commitment in 2008 to report on the carbon emissions of the high and medium impact projects (this, again excluding all projects which have no impact analysis, as we have seen, the majority) since the abolition of the BPs. Correspondence from the ECGD to WWF of the 22 September 2010 states:

> it remains ECGD's current policy to report greenhouse gas emissions in the manner described in 2008. The reporting of such emissions is an issue being considered as part of the current review of the OECD Common Approaches on the Environment and ECGD will review its voluntary commitment in the light of the outcome of the review at the OECD.

[33] Average overall value of Guarantees Issued 2005–10; £1,904.8 million (Source: ECGD Annual Report)

Thus making clear that they may well be dropped in the review. Again it is our contention that other ECAs do such reporting, but not as part of the Common Approaches. Sticking rigidly to the Common Approaches is a race to the bottom, and not one that sits comfortably with UK claims to an ethical foreign policy.

January 2011

Written evidence from Linda Kaucher

Introduction

Part 1 of this submission deals with trade issues, particularly "Mode 4". Mode 4 concessions allow transnational corporations to move temporary migrant workers across borders, as "trade".

Not only is Mode 4 the aspect of the trade agenda likely to have the greatest impact on people in the UK, but effects of the EU's Mode 4 commitments will also be felt disproportionately in the UK in comparison with other EU Member States.

Mode 4 concessions are included in all EU trade deals, including Doha, but the EU/India Free Trade Agreement, currently being negotiated, is a particular focus here. Evidence shows that, in this Agreement, India will not sign up without Mode 4, that Mode 4 labour access is the single demand from India, indicating its commercial significance, and that the UK is the main and willing target for Mode 4 access.

Cheaper labour brought from outside of the EU by transnational corporations displaces workers here and undermines economic recovery. Yet information on Mode 4 is kept from the UK public.

Trade commitments are the means by which the UK is tied into enforceable international trade law. The right of Member State parliaments to veto trade agreements negotiated and signed up in Brussels was lost when the Lisbon Treaty came into force, so proposed commitments should be considered in a precautionary, timely way and in a context of full information.

I have provided links to further information that I have produced on Mode 4 including a presentation to the EU Trade Commission's civil society dialogue session on Services.[1]

If Mode 4 has not, to date, been brought to the attention of the Committee, it is a major omission for which some rescheduling should perhaps be considered.

Part 2 of this submission relates to the Select Committee's oversight of BIS administration and policy. In relation to BIS administration, issues are raised about the process followed for the Call for Evidence for the Trade and Investment White Paper, which have prevented information reaching the Committee. The BIS policy issues relate to policy on the conduct of submissions, trade policy, and policy on dealing with alternative views.

Part 1: Trade Issues, with an Emphasis on Mode 4

Sections

(a) Mode 4 (IV)

A very important aspect of the trade commitments being made at the EU level on our behalf is Mode 4. (Mode IV).

It is called Mode 4 because four "modes" of delivering services across borders have been defined by the WTO[2]: Mode 1 by internet or post, Mode 2 by the customer crossing the border as in tourism or foreign student services, Mode 3 by cross border establishment, and Mode 4 by moving workers across borders. So EU trade concessions on Mode 4 allow transnational companies to bring in temporary labour from outside the EU.

Information from the EU Trade Commission, documentary evidence obtained via other Member States and the structural arrangements now in place in the UK, combined, indicate that the UK is the main and willing target for this, though the UK public are not told.

But Mode 4 actually allows transnational corporations to capitalise on the differential between wages in poorer countries outside of the EU and those in EU Member States, particularly the UK. Thus while Mode 4 allows transnational firms to increase profits, the consequences are likely to be extremely negative both for displaced UK resident workers and for the national economy.

Despite a lingering idea that "trade" is mainly about goods, both agricultural and manufactured, "services" is now a main part of the trade agenda. Unlike the border measures that are the substance of trade-in-goods liberalisation, liberalising services means increasing the rights of transnational corporations while reducing the rights of national parliaments and of the European Parliament to regulate them.

"Services" includes banking and financial services, and underpins all other trade. It also includes moving workers across borders.

The EU's Mode 4 commitments are not general across the EU. They depend on Member States labour migration regulations. The UK government has created structures within the Points Base System to allow this labour movement now, without numerical limits, in preparation for Mode 4 commitments.

With the stalling of the WTO Doha Development Round, the EU has embarked on a program of bilateral and regional trade agreements.[3] The EU's WTO Doha offer,[4] and its bilateral and regional trade agreements, including Economic Partnership Agreements (EPAs) with poorer regions, all include Mode 4 concessions.

Transnational corporations of both partner countries in a trade deal can utilise Mode 4. In the Doha deal, the Most Favoured Nation rule that means the transnational corporations of all 152 WTO Member States.

India is the main country, globally, seeking Mode 4 access to the EU, and an EU/India Free Trade Agreement attention is currently being negotiated. Attention is particularly drawn to this Agreement, because of the central importance to India of Mode 4 concessions and because of the central role of the UK in these Mode 4 concessions. Information from the Commission is that this is "85% a UK deal".[5]

Although the text and negotiations on bilateral trade deals are secret until negotiations are effectively completed,[6] the Commission's chief negotiator has stated definitively that the Indian government will not sign up without Mode 4 concessions[7] and a senior member of the Trade Commission staff has confirmed[8] that Mode 4 is the single request from the Indian government. The priority given to this request indicates the expected commercial significance of Mode 4 concessions to Indian transnational corporations.

In addition, leaked documents from within the EU[9] show that the UK is prepared to take 40% of the EU's commitment on a main Mode 4 labour migration category. But, further, while other Member States have consulted with their labour organisations and are taking very much smaller shares of the EU commitment as ceiling percentage/figures, the UK has failed to consult with UK labour organisations, is taking the lion's share of the EU labour migration commitment, and, importantly, has removed any numerical limits from the relevant categories of the Points Based System, indicating its intention for the Mode 4 commitment to be a "floor", rather than a ceiling. Thus even the disproportionate allocation of commitment is not a ceiling for numbers of Mode 4 workers that the UK will accept. *That is effectively limitless.*

It is difficult to anticipate the effects of Mode 4 trade commitments in advance, but after trade deals are signed up it is too late to affect changes. Under these circumstances, current mechanisms are useful indicators, such as the effects of free movement of labour and services within the EU, and current UK Points Based System labour migration provision and how it is being used.

With A8 enlargement, in contrast to most other EU Member States, the UK opened straightaway to free movement of workers, with a prediction that was completely inadequate, that 13,000 workers would come. The reality has been estimated to be closer to 1 ½ million.

At one point the Trade Commission produced an estimate for Mode 4 entry for the whole of the EU[10] that was below the figure for workers currently coming into the UK under similar national labour migration provision. This equally unrealistic figure has not re-emerged.

There are four worker categories included in Mode 4.[11] Of significance for high numbers are "intracorporate transferees" (ICTs), that is workers brought from outside of the EU to work in the same company established within the EU, and Contractual Service Suppliers (CSS), workers brought in by a transnational corporation utilising Mode 4, to be supplied into other companies, including those who do not have access to using Mode 4.

The current situation for labour entry from outside of the EU into the UK, as it relates to the Mode 4 categories is discussed here.

Currently, national UK labour migration regulations allow for companies to bring in Intracorporate Transferees (ICTs). The ICT category, in Tier 2 of the UK Points Based System, has been excluded from any numerical limits.

In addition, the huge potential of Contractual Service Suppliers is accommodated in "international agreements" under Tier 5 of the Points Based System, also without numerical limits, in preparation for Mode 4 commitments. Although the term CSS is not used in the Points Based System, the UKBA has confirmed that this is the case.[12]

The Contractual Service Supplier category was the subject of the leaked document showing the UK prepared to a hugely disproportionate share of the EU commitment, discussed earlier.

Currently the UK government is allowing ICT workers brought in for less than a year to be paid the Minimum Wage, in fact even less until Parliamentary Questions were asked about it,[13] with the wage made up only to the low end of the scale of normal rates for the work by means of "tax-free expenses". These workers are also exempt from employee and employer National Insurance contributions. Overall, they are therefore cheaper than UK resident workers.

Most ICT workers are being brought in for less than a year. And in fact, most workers brought in as ICTs, to work in the same company in which they work overseas and on which their employment visa relies, and with the financial advantage that the government is granting, are, even now, actually being supplied into other firms as Contractual Service Suppliers.[14]

Set irrevocably into trade agreements, Mode 4 entry, with no numerical limits on the two categories of most importance, is perfectly structured for Indian transnational corporations to offer a supply of workers, and also onshore outsourcing, on a broad scale, as UK managers seek to cut expenditure.

This combination of evidence shows that we are very close to being committed to accepting numerically limitless numbers of workers brought in from India by transnational corporations, disproportionately to the rest of the EU, and effectively irreversibly.

But in this process, UK workers are displaced, with implications for the national economy.

The EU stipulates that workers brought in under Mode 4 are "skilled" or "highly skilled" workers. "Highly skilled" generally means graduate level. Low skilled worker migration into the UK is already happening, without numerical limits, with EU free movement of workers and of services. NB the high rate of graduate unemployment in the UK.

The Trade Commission has referred to the Minimum Wage as the "safeguard" for maintaining labour standards. However, if it is skilled work that is in question, the safeguard mechanism of the "Minimum Wage" of Member States, (if this holds—it has been undermined by decisions of the European Court of Justice), is either inappropriate, or is ominous.

Mode 4 has not come to public attention because of secrecy and spin. If this very significant part of the trade agenda is mentioned, the tendency if for it to be immediately labelled, as "sensitive", a signal to avoid reference to it.

The spin term "brightest and best", used, including in the White Paper,[15] in attempts to maintain counterintuitive public approval for the entry of cheap labour and the structures set up to facilitate it, hides the reality. Interestingly, at the EU level the term "best and brightest" is used for the same purpose.

It is in fact now admitted that the ICT labour migration pathway is not being used for the "brightest and best" and the managers for whom it was supposedly intended—evidenced by the low wages and. the IT worker categories that predominate.

Mode 4 commitments effectively hand control of national labour migration policy to transnational corporations. Any perceived failure to keep to trade commitments, including on Mode 4, is liable to state-to-state trade dispute challenge, enforceable in international trade law. Because of this threat, trade commitments, including on Mode 4, are effectively permanent, thus affecting future generations.

Now the Trade Commission is seeking a mandate to introduce investor protection[16] into its trade agreements, which will allow investor-state trade dispute challenges. This will allow transnational corporations to instigate legal action, and seek financial compensation, not only in regard to any perceived failure to keep to commitments, but also for the effects on all future profits of any proposed national or EU legislation that has the potential to affect those profits, called "expropriation".

In this way, EU Mode 4 commitments effectively hand control of UK labour migration to transnational corporations, with the accompanying loss of national policy space to regulate, and loss of democracy.

With EU Mode 4 commitments, the return of workers at the end of the work period, visas etc, are all the responsibility of the Member State. With the UK taking by far the majority of Mode 4 work entry, this burden will be significant and the current enforcement situation creates doubt about whether measures and procedures will be adequate.

Because only transnational corporations can utilise Mode 4[17] to bring in cheaper temporary workers from outside of the EU, it discriminates against SMEs and national firms, giving a further advantage to transnational corporations, in addition to their ability to utilise cheap labour overseas, wider access to credit etc.

Mode 4 commodifies labour, with a very narrow conception of "efficiency" that is only for individual firms. While it provides transnational corporations with the cheapest labour and a lucrative business in labour supply and allows other firms to offload all employer responsibility, this does not take account of the effects on UK workers or on the UK national economy.

While cheap labour benefits the individual firm, the negative effects for the overall UK economy include:

- The loss of the earn/spend cycle, so important to economic recovery, as workers are displaced.
- The loss of NI and tax to the Treasury.
- Wages repatriated overseas.[18]
- Increased welfare bill as UK workers are displaced.
- Loss of skills.
- Loss of the means for skills transfer.

While the Indian government's emphasis on Mode 4 access shows the degree of commercial expectations from it, there can be no pretence that, in the current economic conditions in the UK that Mode 4 is about "extra" jobs. It means job losses among UK resident workers, a situation likely to be exacerbated with cost-cutting programs.

On skills, even the "Call for Evidence" document makes reference to the loss of skills in the engineering construction industry, mostly due to current EU "service liberalisations". This has wider implications for the UK's energy security.

In University computing degree courses, numbers have slumped by almost half in a decade as IT workers have been brought in from India.[19]

With cheap overseas skilled labour available, investment in training by firms becomes unnecessary, and the individual's investment in their own skills becomes pointless.

Yet few people in the UK would know that this is what the UK is signing up to, and perhaps only a few people in the UK Government know too.

In difficult economic times, with high unemployment, all political parties claim policies that "create jobs". But no Keynesian-style initiatives are possible under the current labour migration structure. ONS data repeatedly indicates that that almost all jobs created over the last few years have gone to workers born overseas. Therefore government spending to create jobs for UK workers goes, metaphorically, into a bucket with holes in it. And there can be no realistic jobs policy while Mode 4 offers are being made in the trade agenda because the Mode 4 concessions will intensify this, with no escape clause.

This key aspect of the trade agenda must be brought into the open and discussed.

(b) "Investor Protection"[20] and EU Trade Policy

The Commission is currently seeking a mandate to introduce investor protection, with the intention of applying it initially into several of its Free Trade Agreements including the EU/India FTA.

Investor protection in the NAFTA has already caused Canada to abandon proposed environmental legislation on petroleum additives because of the threat of being sued by US corporations.

Australia has recently refused to include investor protection in any of its trade deals, because of the effects on Australia and on developing countries. In contrast with the emphasis in the UK and EU on the need to be "competitive" with all other countries, the Australian government has inherently lined up the interests of people in Australia with those of people in developing countries, and acted to protect them against assaults by transnational capital on public monies.

If the introduction of Investor Protection at EU level has not been considered in the Select Committee's deliberations, this is a serious omission.

(c) Trade liberalisation and climate change

The international trade agenda is driven by transnational corporations. Although states (or in our case the EU) negotiate trade agreements, it is actually on behalf of corporations and it is transnational corporate giants that have the most influence.

The domination of the trade agenda in Brussels is documented[21] and the influence of IFSL on UK input to EU trade policy, in its Liberalisation of Trade in Services (LOTIS) committee meetings with UK Trade and Industry personnel, has been witnessed.[22]

A commercial agenda dominated by transnational corporations, acting in the interests of their shareholders and corporate profits, is inimical to addressing climate change.

Within the current "trade" agenda, disastrous climate change effects are corporate "trade opportunities". Thus the trade agenda as it is developing will not lead to measures that prioritise action on climate change.

Trade-in-Services commitments in trade agreements limit control that developing and developed countries (and the EU) have over the power of transnational companies operating within their borders, with a loss of the policy space, especially where investor protection is introduced.

It is nation state policy space to control corporations which must be maintained to allow for climate change measures to be taken.

The Call for Evidence for the Trade and Investment White Paper allows only for a "larger role" for trade in climate change action but not the diminution of that role.

Rather than the inclusion of climate change considerations in the international trade agenda, a reduction in the prevalence and power of the corporate trade regime is imperative for climate change action.

If the limiting of national (and EU) policy space in the process of trade-in-service liberalisations in relation to climate change action have not been considered by the Select Committee, it appears to be a serious omission.

(d) Trade agenda secrecy

It may seem strange that such a huge issue as Mode 4 could have remained so hidden, but the processes of the UK's involvement in international trade negotiations and the EU trade processes lack transparency throughout.

In the UK, International Financial Services London has a secretive[23] Liberalisation of Trade in Services committee (LOTIS), wherein the demands of transnational Financial Services firms in relation to UK trade policy are imposed on government officials.

In this Committee representatives of major transnational financial services corporations based in London give instructions to the Government bureaucrats who will attend Brussels trade meetings. There are no minutes available despite the importance to the UK.

UK civil society has no such access to UK trade policy making.

EU trade policy is then formulated in the fortnightly meetings of the EU Trade Policy Committee (formerly the "133 Committee") that Member States' trade officials attend.

The UK officials who attend have no public profile, and the nature of the input they take to Brussels and the nature of the influence on that input are not public.

Minutes of the Trade Policy Committee are not public. This means that, apart from information via other Member State officials, it is not possible to identify the nature of UK national input to the Committee.

The Trade Commission's competency to negotiate on trade on behalf of the Member States increased when the Lisbon Treaty came into force, and Member state governments lost their right to veto trade agreements, though this was not made public when the Treaty was being pushed through.

There is evidence that the Trade Commission is captive to the interests of transnational corporations, which are global rather than "EU".[24] There is currently a legal challenge in regard to the degree of privileged access granted to transnational firms in relation to the EU/India FTA.[25] The evidence includes letters written by Peter Mandelson in his role as Trade Commissioner.

Because of the amount of business dealt with by the European Parliament, the committee stage is very important in the Parliament's "assent" to trade agreements, the role it now has in the trade agenda.

The International Trade Committee (INTA) of the European Parliament can be manipulated by information being hidden from it, including by MEPs.[26]

The Trade Commission's position is given academic backing by the Brussels think-tank "ECIPE".[27] This is run by Dr Razeen Sally of the LSE, and Mr Stephen Woolcock, also from LSE. Although Mr Woolcock lacks any other title, he has been introduced to INTA MEPs as "professor". Alongside the transnational service investors' actual lobbying mechanism, the European Services Forum, ECIPE has a regular role in supporting the passage of the heavily corporate-influenced agenda of the Trade Commission.

The negotiations and texts of bilateral trade agreements are not public, except in the barest form.[28] The standard reasoning is that confidentiality is necessary for the negotiating process. But clearly opposite numbers in negotiations know what is on the table, and if business lobbyists have access to information and indeed make it clear what they want, as appears to be the case, then it is only the public, in whose interests negotiations are nominally taking place, that is being denied information.

At the end of negotiations and before the formal EP "assent" process, the text of trade agreements are public, yet the Trade Commission deliberately does not inform the public of the content or the implications[29] until EP "assent" has been achieved. This appears to undermine the democratic function of the Parliament.

Now, agreements are being "provisionally implemented" after EP assent, before they have gone to Member State parliaments, taking full advantage of the fact that agreements can no longer be vetoed by MS parliaments.

The current crop of free trade agreements was given the official go-ahead in a Council of Ministers meeting, attended by Margaret Beckett, in her capacity at that time as Minister for Foreign Affairs. Peter Mandelson in his role as Trade Commissioner launched the negotiations on these agreements, but in the high profile UK government position he subsequently held, he, like Margaret Becket, failed to provide any information to the UK public on what they were being signed up to e.g. Mode 4.

It appears that Mode 4 and the rest of the trade agenda is deliberately kept from the UK public. When Prime Minister Cameron and Secretary of State for BIS, Vince Cable, led a trade visit to India in July 2010, the EU/India FTA and Mode 4 did not appear in the extensive reporting by the UK press that followed the delegation, indicating that it was not mentioned.

Similarly, the connection between the formal exemption of Intra-Corporate Transferees (ICTs), in UK national labour migration regulation in the supposed "immigration cap", and Mode 4 trade commitments, is not made public.

In relation to the BIS Call for Evidence processes for the Trade and Investment White Paper, alternative views to its full support for the "free trade agenda" were not invited, while the document failed to give information either on current trade negotiations or on Mode 4.

The White Paper similarly precludes alternative views while still failing to give key information.

PART 2: BIS ADMINISTRATION AND POLICY ISSUES

Sections

(a) Administration: BIS process in relation to the Call for Evidence process

Against a backdrop of lack of public information on the trade agenda in the UK including how commitments made in Brussels affect the UK and of transparency on trade policy making, the BIS Department put out a Call for Evidence towards a Trade and Investment White Paper in November 2010. An earlier closure date was later extended, beyond the Christmas closedown period, to 14 January 2011.

If the aims of public consultation processes are defined, it is reasonable to assume that they would include obtaining a diversity of informed views, and also to assume that there would be an accountability process for whether a consultation had been conducted in such a way as to maximise the opportunity for those aims to be met.

However, the framing of questions in the Call for Evidence document left no room for any views other than support for an unquestioned free trade agenda, while failing to explain that agenda.

My experience in making a submission to the BIS Call for Evidence suggests that there are no such aims defined for BIS consultations or Calls for Evidence, or, if there are, that there is no accountability process, of if there is, it needs to be activated.

I made a submission, evidenced and referenced, expressing alternative views to the polemic Call for Evidence (CforE) document issued by BIS.

My submission was acknowledged by email as I had requested.

But my name was not listed in the BIS Response to Submissions document and nothing from my substantial, informed submission was included in the document. Needless to say, nothing of my alternative viewpoint, providing information and questioning the assertions in the CforE, was included in the White Paper.

BIS has informed me that all this was "wholly consistent with BIS regulatory requirements".[30] However, I assume that this process of serial omission resulted in the Select Committee neither having any access to the alternative information that I had submitted nor being informed that alternative evidence and views exist.

I only found out very recently and by chance that the Committee conducts its own public consultation, when the (belated) response to my complaint to BIS led me to phone your Committee Clerk. BIS, having failed to acknowledge my input, did not inform me of the Committee's consultation.

Without the chance phone call, you would not have had information on the issues to which I have drawn your attention in Part 1, notably the issue of Mode 4, which is very significant trade information in the UK context.

In Brussels I have had the opportunity to see some of the underhand practices employed to keep key information from MEPs, and the influence of transnational corporations on policy-making. It seems possible that similar practices may be employed here, even if "wholly consistent with BIS regulatory requirements".

The Trade and Investment White Paper was publicised on the same day as Project Merlin, with reference to the hot topic of bankers' bonuses. It would not have been difficult to predict which the media would focus on. The minimal media attention to the White Paper was to the reference in the White Paper to support for SMEs. In fact not only is the reference to support for SMEs in the document both minimal and tentative, but any such support is in fact cancelled out by the overall thrust of the White Paper, which advantages transnational corporations.

BIS policy appears to be at fault in following a procedure that has resulted in a failure to provide information that has been submitted to the Committee.

There may be a case to review the processes by which the Committee can be excluded from receiving information by the Department it is charged with overseeing.

(b) BIS trade policy

Three aspects of BIS trade policy are identified as problematic:

(i) *The policy on conducting consultations or "Calls to Evidence"*

The framing of the CforE document left no room to question what has been accepted "trade theory" or its claimed benefits, or for debate on the benefits and costs of the trade agenda, when there is evidence now to question many aspects of all of these. Thus the plurality of views that the CforE should have elicited were excluded by the nature of the document.

In addition, while this consultation document calls for "evidence" from those engaging with it, there is a distinct lack of evidence for the claims made throughout the document. Rather than a document to stimulate input and discussion, it is, undeniably, a propagandist document.

Policy in relation to the production of such a document, on such a key topic, should be reviewed.

(ii) *The nature of BIS trade policy that is evident in both the Call for Evidence document and the Trade and Investment White Paper*

Many aspects of the unmitigated "free trade" policy throughout both these documents are now subject to question, including the Mode 4 aspects that are omitted from the document but are central to BIS trade policy.

It is my experience that vested interests, particularly of transnational financial corporations, dominate UK trade policy and UK input to EU policy. The nature of BIS trade policy and of the process for producing the White Paper is in accordance with this.

Below (a–k) are some of the assumptions that are taken as given in BIS trade policy but which should be public debated, with public information, while such debate has been excluded in the BIS CforE process.

(a) *Liberalisation (the basis of the trade agenda, and which the UK follows unilaterally) is always a desirable direction.* The nature of trade-in-services liberalisation is not well understood, that it means opening investment opportunities to transnational investors, and then committing these openings permanently to trade agreements. The effects eg the extent of transnational takeovers of UK firms, on jobs (Mode 4) and on public services (liberalised privatisations becoming irreversible) are not generally known or debated.

(b) *"Trade liberalisation produces development".* In conventional trade theory there are no claims for redistribution and it is admitted that in trade liberalisation there are winners and losers. While "adjustment" is the conventional trade solution for "losers", the funding driver is undefined. While corporations benefit, whose responsibility is it to fund "adjustment"?

Trade liberalisation, favouring transnational corporate investors, is producing inequality across developed and developing countries and this is well evidenced.

(c) *"The theory of 'comparative advantage' is robust".* It actually entrenches advantages and inequalities, and is undermined anyway when capital, and workforce, can be moved across borders.

(d) *Inward investment is the main goal.* Inward investment into the UK is almost entirely "brownfield", that is acquisitions of existing companies, or taking advantage of public service privatisations.

When foreign firms acquire UK businesses in sectors similar to their home country operations, they gain control over production that is in effect in competition with their home country production. Home country production is likely to be cheaper production. So while UK activity may continue so long as UK government subsidies are available, the possibility is there to diminish industry or economic activity here to boost cheaper home country production, reducing supply and reducing competition.

Foreign ownership via FDI is unlikely to have the commitment of national firms to the UK. Thus the question is raised of where national UK national interest lies in relation to liberalised FDI. Other countries make alternative choices.

(e) *"Movement of labour boosts the UK economy".* With Mode 4, there is the potential for foreign firms to bring in their own labour, taking advantage of the relatively stable UK environment, the UK social environment with public services, and the profit potential, but to the detriment of workers in the UK.

There are also obvious negative effects for the UK economy.

If movement of labour is good for people in the UK it raises the question of why Mode 4 commitments are being kept secret and why such a ridiculously low estimate was produced in regard to A8, to hide the reality.

(f) *Reducing tariffs and non-tariff barriers produces "savings".* The "savings" referred to in the BIS documentation in relation to tariff and non-tariff barriers reductions are, in fact, direct losses to government revenue, the means by which governments make social provision. With trade liberalisation, this revenue is redirected to transnational corporation shareholders.

For some small developing countries with a low tax base, tariffs are a major component of their means to provide any public services.

(g) *"Protectionism" is always bad, and "competition" is always good.* Concepts of "protectionism" and "competition" need to be re-examined and discussed, with consideration of context and broader values, and on a case by case basis. Whether there should, for instance, be protection for jobs for UK resident workers, or for the energy sector for energy security, or for the environment, are valid considerations that are eliminated when trade deals are signed up.

The promotion of "competition", including with developing countries, has led to an economically-based overseas aid policy that prioritises transnational corporation's investment opportunities in developing countries over real development.

Prioritising a "competitive" environment for firms also means deregulating working conditions here and allowing the entry of cheap labour.

"Competition" between UK workers and workers elsewhere means a lowering of labour standards and wages towards equalising with the majority of the world's workers who are underpaid and lack labour organisation.

While "competition" supposedly benefits consumers, the "competitive" liberalised environment is actually increasing the power and resources of transnational corporations, and tending towards anti-competitive cartel and monopoly situations.

Thus the assumptions associated with these terms must be interrogated.

(h) *"Trade liberalisation benefits SMEs"*. Although this rhetoric is frequently used to sell liberalisation policy, trade liberalisation actually increases transnational corporations' advantages over SMEs.

Only transnational corporations can utilise the access to cheap labour inherent in Mode 4 concessions, giving them an advantage over SMEs both in bidding and operating. It thus discriminates against SMEs and national firms.

Because SMEs are the biggest employment area in the UK, this disadvantaging of SMEs also affects workers.

(i) *"Trade liberalisation benefits consumers"*. While trade liberalisation might produce some goods and services cheaper, it often also means that jobs are lost. The emphasis on people only as consumers is false one; they are also workers, needing to earn to consume, as well as tax payers at least if they are working, and also public service users.

(j) *"Trade liberalisation is worth the sacrifice of eg job losses for overseas investment opportunities"*. The overseas investment opportunities for which Mode 4 concessions are being "traded", as in the EU/India FTA, will benefit transnational investment corporations based in London. Although eg pension funds may be invested in these corporations, these investment opportunities will not provide any economic stimulus or jobs in the UK and they will be paid for with Mode job displacements.

This in turn will limit who can actually be part of private pension funds, increasing inequality.

In addition the liberalisations forced on other countries are often detrimental to the people there [31] .

(k) *UK trade policy is for the benefit of the UK.* UK trade policy is dominated by the transnational financial services corporations based in London [32] , and the main emphasis is on liberalisation which produces outward investment opportunities for those corporations, for which UK domestic policy is the willing model.

The evidence for this is what I have observed in the context of the LOTIS committee.

The exclusion of other views by BIS maintains this singular agenda.

The benefit of the UK as a whole is not the priority for UK trade policy.

There is increasing concern about corporate policy capture and influence, with some action to address this, at the EU level, and in the US. The policy position of BIS on trade suggests similar capture at the UK domestic level. However, there is not yet adequate pressure exerted for correction mechanisms to be introduced, in terms of regulations on disclosure, transparency or other means.

At the same time, the implications of trade agreements are not currently being made public, or publicly discussed at any stage of the process. The Lisbon Treaty exclusion of Member States' parliamentary veto on trade agreements potentially exacerbates this situation, because it reduces the possibility that there will be parliamentary discussion.

Instead, the documents produced by BIS on trade that maintain "trade theory" assumptions are polemic and propagandist and preclude any such debate.

This raises the question of why a supposed consultation is of such a propagandist nature.

Clearly there are debates to be had as to the economic effects of liberalisation and of trade liberalisation, especially of services. Such public debate is needed, underpinned a priori with public information on what the trade agenda now includes and the implications for people in the UK.

There is an urgent need for information, discussion and transparency rather than an automatic acceptance of narrow trade theory assumptions, and on UK and EU trade policy that is non-transparently dominated by vested interests.

The Select Committee is the vehicle to instigate these urgent changes.

(iii) *BIS policy for dealing with alternative views*

It is clear that despite the BIS Call for Evidence process for the Trade and Investment White Paper, alternative views were not actually being sought and would not be acknowledged in the White Paper.

This is a policy issue to address.

Conclusion

Issues have been raised here about the Mode 4 commitments being made on our behalf, as well as issues of investor protection, the trade agenda and climate change, and the overall secrecy around the trade agenda.

Issues have also been raised in relation to how BIS conducted its Call for Evidence, with implications for the Select Committee's access to information, and BIS policy on how it conducts consultations, on trade, and on how it deals with alternative views.

Suggestions for change in relation to the role of the Select Committee have also been presented.

2 May 2011

References

[1] Presentation to Trade Commission civil society dialogue Jan 2010 http://trade.ec.europa.eu/doclib/docs/2010/february/tradoc_145756.pdf

[1] Guardian http://www.guardian.co.uk/commentisfree/2008/dec/13/dohatradetalks-wto

[1] Corporate Watch http://www.corporatewatch.org/?lid=3928

[2] http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm6_e.htm#oblig

[3] The Global Europe Strategy http://trade.ec.europa.eu/doclib/docs/2007/april/tradoc_134591.pdf

[4] The EU's Revised GATS offer, tabled at the WTO 2.6.2005 available in the Parliamentary Library

[5] Interview with Commission Member of Staff. Can be identified in confidence.

[6] See Part 1 Section (d) on Secrecy

[7] In a Trade Commission Civil Society Dialogue session

[8] In an email to myself. Can be identified in confidence

[9] The leaked documents can be shown in confidence

[10] Presented to me in a personal interview by Trade Commission Mode 4 specialist, Balaks Gargya

[11] Business Visitors(BV), Independent Professionals(IP), Intracorporate Transferees(ICT), Contractual Service Suppliers(CSS)

[12] Personal email communication from senior member of staff UKBA

[13] PQ by Lord Laird http://www.theyworkforyou.com/wrans/?id=2011–03–14a.26.0&s=laird#g26.1

[14] http://www.whatdotheyknow.com/request/60461/response/153597attach/5/2011%2002%2009%20FOI%2017156%201341%20Q2%20T2%20ICT%20CoS%20Used%20by%20Client%20Contract%20ICT%20Sub%20Tiers%20and%20Top%2025%20Sponsors%20010110%20161210.xls

[15] http://www.bis.gov.uk/assets/biscore/international-trade-investment-and-development/docs/t/11–717-trade-investment-for-growth.pdf

[16] See Part 1, section (b)

[17] See point 8 in http://docsonline.wto.org/GEN_highLightParent.asp?qu=%28%40meta%5FSymbol+S%FCC%FCW%FC%2A%29+and+%28%40meta%5FTitle+Presence+of+Natural+Persons+and+Background+Note%29&doc=D%3A%2FDDFDOCUMENTS%2FT%2FS%2FC%2FW301%2EDOC%2EHTM&curdoc=3&popTitle=S%2FC%2FW%2F301

[18] http://www.migrationinformation.org/Profiles/display.cfm?ID=800 According to this Polish academic research, in 2008, one third of all remittances into Poland from tiny Ireland

[19] http://e-skills.com/Documents/Research/Tech-Insights-2011/eskills_2011_TechInsights_UK.pdf
Computing course applicants declined 44% since 2001, total applicants for HE courses increased 41%

[20] http://www.corporateeurope.org/global-europe/content/2011/03/investment-rights-stifle-democracy

[21] Bursting the Brussels Bubble Alter-EU 2010

[21] Europe Inc Corporate Europe Observatory 2000

[22] By the author

[23] The existence of IFSL's LOTIS committee was secret until it was investigated and revealed by NGO World Development Movement

[24] The membership of BusinessEurope, a major employers lobbying mechanism in Brussels includes eg Exxon

[25] http://www.eureporter.co/downloadmagazinepdf/1406/

[26] In January 2010, Sajjad Karim MEP NW UK Conservative, gave a presentation to the INTA on the EU/India Free Trade Agreement, without mentioning Mode 4, despite its central importance to the Agreement.

[27] The European Centre for International Political Economy

[28] EU Trade Commission report to EU/India Summit, Dec 2010

[29] At a Trade Commission civil society dialogue 26.10.2010 Mr Rupert Schegelmilch, Head of Unit, Trade Relations with South Asia, Korea and ASEAN indicated the need to avoid making public the fact of, and the implications of, the EU/South Korea Free Trade Agreement, for which negotiations have been completed, before the EP had given its "assent" to the agreement. Parliamentary assent to this agreement has now been achieved (Feb 2011).

[30] BIS response to my letter of complaint.

[31] Indian resistance across many sectors of Indian society is very active: among unions, unorganised workers, dairy workers, retail workers, and concerning banking and financial services liberalisation, and most strongly, the limiting of the production of generic medicines.

[32] Organised as International Financial Services London (IFSL), now part of TheCityUK

Written evidence from Stephen Perry

Introduction

Stephen Perry is Chairman of London Export Corporation, Chairman of the 48 Group Club and Vice Chair of CBBC. Stephen was the first Chair of the 48 Group sub-committee that opened up their offices in China, now within CBBC and considered to be the pearls in CBBC's crown. Stephen has been involved with Trade Promotion for 40 years, and has probably made more trips to China than most business people. He has concluded countless deals as principal and broker. And concluded many technology transfers and investments. This is by way of evidence of relevant experience.

The Problem

It is indeed unfortunate that the tens of CBBC executives in China and the tens of UKTI executives in China, working hard, cannot make a bigger dent in British export figures to China. It is not for want of effort. Perhaps UKTI's prioritisation, in China, of all its 15 international priority industry sectors, gives some guide to the problem of over working the China market. Too many priorities in UKTI and another whole number of priorities in CBBC. The problem is sometimes suggested to be lack of compatibility but this then prevents any other reasons being identified. In reality we are dysfunctional and fragmented, and, thereby, unable to master the relevant business leadership and skill sets required for this complicated market.

We engage in back slapping but the reality is that our structure is not suited to the purpose.

Working hard at all these sectors does not conform to what we know about Chinese markets. They are complex and require top down, and bottom up marketing, as well deep China experience. There is no way the UK can work in this mass way at a market like China. In this respect the China market is like all markets, where the UK seeks to break into new sectors, or market shares. It requires rare skills. Large numbers of people will not be a solution.

The problems we face in China will be the same in all developing markets where rare skills and business leadership are prerequisites to getting the right job done.

We can offer services to all, but we try to develop sectors in China, regions in China, and regions in the UK. All through a complex matrix of UKTI and CBBC, and Trade Associations and Chambers. Instead a smaller focused approach that left would produce more success.

Exiting from many downstream activities would ensure time is spent on how to open markets, with the private sector being encouraged to provide detailed implementing activities such as research, interpreting, mission organising.

But 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 CBBC, working largely from government funds. Then there is the CBI, the IOD 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.

We need to have a target of one trade promotion organisation for the country.

What follows is a proposal to simplify and streamline this work and put it where it needs to be, dependant largely on providing and selling to the market what it needs, under proven private sector trade services and promotion leadership. Government funding denies the test that the service is needed—sales of the services—the basic feature of Commerce, absent in UKTI.

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.

Healthcare is a priority in China in the new five year plan. It is a priority of CBBC, UKTI, the Department of Health and countless trade organisations. Yet I cannot see any in-depth understanding of the core Chinese policies for privatisation of healthcare in China, nor can I see a national multi level UK plan for attacking the Chinese healthcare market. this is the way of most sectors.

Only by uniting these groups under one umbrella led by sophisticated business leaders will we value serious market research as the basis for action. From this we can develop focused and targeted actions from Ministers down to the implementing arms. The private sector Trade Promotion organisation would be responsible for developing the sector plan, which would then be passed to Government for playing its part. But the core work would be done by the private sector led UKTI.

The Proposal

Our successful British exporters and overseas investors, our companies who market services to business, ought to lead the private sector based UKTI, freeing its hard working staff from the tedium, of government processes. As they increase the market sourced revenues they will also lighten Government from the need to fund this area so extensively. The fusing of Companies House into this new structure would provide an added positive feature by making it the nerve centre of Companies as it does in Germany.

The challenge facing British Trade Promotion is to work in an ever more professional globalising world, and focus its resources on realistic and achievable goals. Getting Trade Promotion right is the sine qua non of the British core strategy—exporting to stay alive. It requires skills of business and not those of Government. Let business run it. It is their natural skill.

The problem internally is the fragmented British infrastructure for dealing with British trade promotion left over from history, which inhibits a streamlined and efficient delivery, which should be reflected by payment for services.

Ie the service is not market driven. We presume that Trade Promotion cannot change what the UK produces and can export, but it can make a huge difference to our volume of exports and our overseas investment success or failure.

The challenge is to match need with availability of globally competitive products in a way that efficiently uses resources. This is addressed by comparing product with demand, and trying to match them or harmonise them in markets determined as containing substantial upside for the UK.

Investment overseas is a consequence, usually, of development of export markets, although there are examples of direct entry through investment.

This note concentrates on identifying a new way of developing UKTI as a private or semi private sector organisation, led by business, and required to reach 50–66% revenue from the market by sales of services within five years. This would involve a process of uniting and streamlining the, hitherto, dislocated delivery mechanisms.

UKTI would have a mission to develop alliances with the Chambers and Trade Associations, so that each group delivered services and did not compete. So, for example, Trade Associations might be the sole vehicle for missions overseas, but the leadership of them might be through UKTI, and its overseas offices. The Chambers might be the sole delivery agents for local services, although some of them may come from UKTI or Trade Associations.

UKTI would have to restructure to give full representation to the Trade Associations and Chambers.

As the groups develop so a more integrated organisation would develop, ultimately being totally integrated.

UKTI could merge with Companies House to give it the kind of data base, and central business role that the German Chamber movement depends on for its integrated service delivery.

The funding of UKTI would go through a transitional phase of, say, five years during which it would increase income from service delivery, and sales there from.

Ultimately Government funding would largely be for specific targeted purposes of specific durations with targets.

This paper does seek to be prescriptive about who might be the business leadership of this, or what and how it does its work.

That would lead to red herring discussions. The main purpose is to seek support for the transfer of UKTI into a Private Sector led group who would increasingly earn its way, and would have a mission to end the fragmentation of Trade Promotion and Business Services.

The issues raised here draw mainly on China, but the other key developing markets—Brazil, Russia, India and South Africa all require the same commitment to research and leadership from those in the business world.

Government is at its best when it develops policy, government to government relations, regulates and funds new developments to get them off the ground. Implementation of Trade promotion is best done by the business world, regulated and funded selectively by Government. Government can do an excellent job of supporting industry in its work with key targets in Government. those parts of UKTI dealing with Government Trade policy could then be free to return into BUIS.

These twin functions need careful harmonising as they are in countries like Germany.

This paper is entirely my personal opinion, and is not the opinion of any organisation I represent.

4 April 2011

Further written evidence from Linda Kaucher

TRADE ISSUES AND ESPECIALLY MODE 4

This was prepared after a meeting with the Chair and the Clerk of the BIS Select Committee. It focuses on the issues that arose in the meeting.

MAIN POINTS

1. Why UK trade policy cannot be considered without reference to EU trade policy.
2. The Secretary of State's failure to provide key information to the Committee.
3. The absence of numerical limits on the relevant categories of the UK Points Based System.
4. Evidence of the UK government's disproportionate commitment intentions on Mode 4 temporary labour migration.
5. The trading of UK jobs for overseas investment opportunities that benefit transnational financial services but do not create jobs for people in the UK, and the Secretary of State's failure to inform the UK public of this trade-off.
6. The implications of BIS "trade policy" for SMEs.
7. FOI shows the unreliability of jobs information from UKTI re inward investment.
8. The cost and effectiveness of policing "temporary" labour entry.
9. Whether the Parliamentary Committee system is equipped to deal with cross-cutting issues that are essentially covert but that will nonetheless dominate the future of Britain?
10. How will these issues be addressed?

1. *Why UK trade policy cannot be considered without reference to EU trade policy*

While the enquiry was focussed on UK trade policy, it is impractical to consider this without reference to the following realities:

- that UK trade policy is overridden by EU trade policy and that UK trade policy has to fit with this;
- the implications of EU trade policy for the UK, in which Mode 4 is the aspect most likely to affect UK people, is likely to have a greater effect on them than other aspects of "trade", and is likely to affect them more than people in other Member States of the EU;
- the influence of the UK-based transnational financial service lobby on UK input to EU trade policy; and
- the influence of this transnational financial services lobby on UK "trade" and other UK domestic policy.

Evidence of this influence, including at the EU level, plus a full explanation of Mode 4 and how the UK is committing disproportionately in relation to other Member States to Mode 4 temporary labour migration are detailed in my submission to the Committee's enquiry.[34]

2. *The Secretary of State's failure to provide key information to the Committee*

In the written submissions and oral evidence for the Committee's enquiry entitled "Rebalancing trade and investment", which included oral evidence from the Secretary of State for BIS, Dr Vince Cable, attention was not drawn to the very significant aspect of the trade agenda that is about temporary labour migration, called Mode 4 in international trade terms, even despite the trade focus of the enquiry.

[34] http://www.publications.parliament.uk/pa/cm201012/cmselect/cmbis/writev/735/kaucher.htm

In a letter to two MPs (Appendix 1) Vince Cable indicates[35] the central importance of Mode 4 in the EU/ India Free Trade Agreement. He also states that he expects that the negotiations on this Agreement would be completed last month, May 2011. Yet despite his presumption of an imminent conclusion, he has failed not only to provide information to the UK public on this even on the occasion of the high level "trade" delegation to India[36], but also to the House of Commons Select Committee to which he is answerable.

It should be noted that in the later sections of the letter[37], in the statements intended to provide reassurances, the language is so indeterminate as to be devoid of any reassurance.

Similarly, assurances of "safeguards",[38] when this only means Minimum Wage in a context of skilled work, is far from reassuring.

Without background knowledge of Mode 4, these points would be missed. The secrecy that has been maintained throughout on Mode 4, not least by BIS and its preceding incarnations (DTI, BERR), as well as by Vince Cable, has ensured that knowledge about Mode 4 has been difficult to acquire, and, consequently, is rare.

In keeping information from the Committee, Vince Cable appears to have assumed that this information would not emerge from other contributors and that the Committee would thus remain in ignorance of it.

There is also evidence of information being kept from the UK parliament in recent responses to Parliamentary Questions on Mode 4.[39]

3. *The absence of numerical limits on the relevant categories of the UK Points Based System*

There are no numerical limits on the PBS categories relevant to "trade". It is likely that Committee members are unaware of this very salient information because it appears not to have been revealed in the course of the enquiry even by Vince Cable who has been a particular proponent of it. This is despite the extensive enquiry that has been conducted.

The Government removed any numerical cap from the "Intracorporate Transferee" (ICT) Tier 2 category. Under this category, transnational corporations can bring in their own workers, temporarily. In fact most are currently then being supplied into other firms.[40]

Most ICTs are being brought in for less than a year for which a much lower "wage" is required (£24,000) (See previous submission) and no National Insurance is paid. However, Vince Cable tends to emphasise the higher wage (£40,000) for longer stay, including in his letter (Appendix 1).

Very low wages are currently being paid to some workers in fact there was basic payment below the Minimum Wage until Parliamentary Questions on this reveal that the low basic wage is then made up to low industry levels with "tax-free expenses".[41] The Public Accounts Committee has questioned this allowances situation.[42]

In addition there is a PBS category of "international agreements" (Tier 5) also without numerical limits.

The lack of any numerical limits on these categories fits with intended trade commitments on Mode 4.

Vince Cable has been the main proponent in the UK Coalition government for ICT opening. This has been supplemented with additional lobbying by, and even Parliamentary consultations with, Indian transnational corporations such as Tata, Infosys, Wipro, as well as NASSCOM, the Indian industry body.[43]

Yet in his evidence to the Committee Vince Cable failed to reveal his achievement of no numerical limits on key categories of the PBS, the Mode 4 aspect of trade deals, or how they are connected.

Some EU/UK Mode 4 commitments on the entry of ICTs were made in Uruguay Round of trade talks, which concluded in 1995, under the WTO Services Agreement (the GATS),[44] when both the GATS and the WTO itself came into being.

It would be useful to know the extent of the UK's existing commitments, how those very limited commitments have been expanded unilaterally in UK national labour migration policy, for instance by extending the length of stay, as well as what upcoming commitments are being considered on ICTs and on other Mode 4 categories which will permanently override UK national policy.

---

35 P1 last para.

36 Vince Cable was on the Prime Ministerial delegation to India in July 2010.

37 P2.

38 P1 para 4.

39 PQ Clappison 23.5.2011 http://www.theyworkforyou.com/wrans/?id=2011–05–23b.57176.h

40 http://www.whatdotheyknow.com/request/60461/response/153597attach/5/2011%2002%2009%20FOI%2017156%201341%20Q2%20T2%20ICT%20CoS%20Used%20by%20Client%20Contract%20ICT%20Sub%20Tiers%20and%20Top%2025%20Sponsors%20010110%20161210

41 http://www.theyworkforyou.com/wrans/?id=2011–03–30a.288.0
http://www.theyworkforyou.com/wrans/?id=2011–03–14a.26.0&s=laird#g26.1

42 http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/uc913-i/uc91301.htm

43 http://www.thehindubusinessline.in/2011/01/19/stories/2011011951181800.htm

44 GATS—World Trade Organisation's General Agreement on Trade in Services.

It seems that no information was offered by the Secretary of State on any of this, and the Committee, denied information, was not in a position to ask questions.

4. *Evidence of the UK government's disproportionate commitment intentions on Mode 4 temporary labour migration*

A leaked document from an EU Member State government shows the UK prepared to take 40% of the EU's commitment on the Mode 4 category of "Contractual Service Suppliers" (CSS).[45] This is workers brought into the country by transnational firms utilising the Mode 4 concession, then supplied into other firms by the transnational company. While this is happening now, informally, under the cover of "ICTs", this is the formal trade category for it.

The figures in this document received some publicity in the UK, although the press understanding was inadequate, automatically assuming that these figures would be a "ceiling" commitment. While further documentation from within the EU indicates other Member States' will use their very small commitment figures as a "ceiling", there have been no such assurances from the UK government, which in contrast to other Member State governments has failed to consult with labour organisations or to engage in public discussion. The lack of numerical limits in the national regulations suggests that the UK will use its percentage and numerical commitment as a "floor" rather than a "ceiling".

The proposed figures in the leaked document have subsequently been denied by the Trade Commission.[46] While the source is confidential, the table from the document is attached.[47] (Appendix 2).

5. *The trading of UK jobs for overseas investment opportunities for transnational financial services which do not create jobs for people in the UK, and the Secretary of State's failure to inform the UK public of this*

While this document shows a proposed 40% figure for the UK's share of EU commitment on the CSS category, alongside the Trade Commission denial, senior Trade Commission staff have in fact admitted that the EU/India Free Trade Agreement is actually "85%" a UK deal.[48]

Eighty five per cent of the "benefits" in the form of overseas investment opportunities are expected to accrue to "the UK", though this is in fact to the transnational financial services corporations based in London. These investment opportunities will not create UK jobs. Any jobs will go to workers in the country in question eg in India, or be brought into that country from cheaper labour areas.[49] UK workers will not be involved.

According to the same source, in return for overseas investment opportunities, the UK can expect to take "85% of the pain", that is the Mode 4 effect on the labour market.

This inevitably means displacement of workers here, with downward pressure on working conditions, and on an unlimited scale. There can be no pretence in the current economic conditions that this will be otherwise, for instance "extra jobs".

In a context of public spending cuts to which "outsourcing", at least at the government level, is becoming the accepted response, the PBS/Mode 4 continuum is set to facilitate cheap onshore outsourcing, offered by TNCs bringing in cheaper labour from outside of the EU.

While Vince Cable could have provided this overview to the Select Committee, of what the EU/India trade deal involves, including the extent to which this is a UK deal, he failed to do so.

In fact, in a trade deal such as this, TNCs tend to benefit both sides of the table, from cheap labour and from investment opportunities.

The emphasis on outward investment, which does not create jobs and for which UK jobs are being sacrificed, can be contrasted with the potential for investment here to directly create jobs. Surely this should be a higher priority for BIS and for the Committee.

6. *The implications of BIS "trade policy" for SMEs, and of inward investment for UK jobs*

Trade opportunities for SMEs are important to the UK economy and employment.

But "benefits for SME's" has become standard spin to push forward a trade agenda that is promoted by, and for the benefit of, transnational corporations. The overriding thrust of the trade agenda is to advantage TNCs to the detriment of SMEs.

Advantages of scale of production, but also global production chains utilising cheap labour areas of the world, and concessions allowing transnational corporations to move labour across borders, as well as access to

[45] A document of another Member State government. Table from the document in Appendix 2.
[46] Personal interview.
[47] Not printed—refer to author.
[48] Personal interview.
[49] India has limits on the number of foreign workers eg Chinese workers as a ratio, in Indian companies. The UK has no such quotas.

credit, bargaining muscle and political influence, mean that TNCs are wholly advantaged over SMEs and national firms, an advantage that tends towards takeovers of smaller firms.[50]

The Trade and Investment White Paper has minimal and only tentative references to support for SME's though this is the aspect that BIS public relations emphasised to the press when the White Paper was launched. This underscores the point made at the start of this section, about spin.

7. *Freedom of Information on the sources of UKTI jobs information re inward investment*

Another main focus for the Committee is a UK business environment that encourages inward investment, for the jobs it supposedly creates and protects.

However in response to a 2010 Freedom of Information request, UKTI has revealed that UKTI information on both new jobs created and those "safeguarded" from being lost through inward investment, is based on unverified estimates from the investing employers and from company press releases.[51] And there is no differentiation between jobs filled by UK workers and jobs filled by migrants.

The Office of National Statistics repeatedly produces date indicating that most created jobs go to overseas workers.

The press and the public would tend to expect more accountability and rigour with figures supplied by a government department than those supplied by corporate Public Relations figures as these actually are.

As such jobs information is used by UKTI is used to defend the flow of ICTs to promote investment, the lack of differentiation between jobs for UK resident workers and ICTs or other overseas workers is especially significant.

Again, UKTI is part of the Department overseen by the Secretary of State, Vince Cable.

8. *The cost and effectiveness of policing "temporary" labour entry*

With EU Mode 4 commitments it is the responsibility of the Member State to police the return of "temporary workers". There is no bond system that puts the responsibility onto the transnational corporation. Current UKBA performance is judged to be inadequate, or "not fit for purpose" by both the Public Accounts Committee[52] and the Home Affairs Committee. Even at earlier stages ie before return is due, the UKBA is managing very little checking of sponsors or employment situations.

While benefits of bringing in workers accrue to the transnational firm, this additional hefty cost of policing, fall on the state, and the consequences of the out-of-control situation if this is not effective fall on the state and on workers. Yet no account of this appears to have been taken, and in fact the general secrecy around Mode 4 does not allow for this to be considered in advance.

Thus Mode 4 is set to exacerbate an already very serious situation of out-of-control illegal overstaying.

9. *Whether the Parliamentary Committee system is equipped to deal with cross-cutting issues that are essentially covert but that will nonetheless dominate the future of Britain?*

The UK Parliament lost the right to veto EU trade agreements when the Lisbon Treaty came into force[53] which makes it all the more urgent that public information is provided, in a timely way, on the implications of trade deals, before the negotiations and then the European Parliamentary "assent" process are finalised.

This is particularly the case when the main drivers for EU Agreements are transnational financial corporations based in London, with the benefits accruing to the same, while the negative effects will be primarily on UK workers.

But where in the Committee system will such pre-emptive and timely action be taken?

The *Parliamentary Accounts Committee* in its report on the PBS expressed concerns about unlimited ICT entry into the UK while there is high unemployment, including in the IT area for which the ICT pathway is primarily being used. But the Committee's recommendations failed to deal with this, though perhaps it was outside of its mandate to do so.

The *EU Scrutiny Committee* can only decide what to debate, but cannot vote, and thus cannot make any difference, even though trade deals are conducted at the EU level.

Culture, Media and Sport Committee has oversight of the Olympics. While foreign labour issues have apparently arisen in the business of the Committee in relation to Olympic construction, it is clear from the

[50] Denny, B & Kaucher, L @Private Enterprise and Europe. "Liberalisation": Who wins, who loses? in Institute of Employment Rights Federation News Vol 11 Number 1 2011 Spring edition.

[51] See response doc in FOI request http://www.whatdotheyknow.com/request/inward_investment_20092010_repor#incoming-108388

[52] http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/913/913.pdf

[53] Information on the trade effects of the Lisbon Treaty from Trade Commission lawyers in Trade Commission civil society dialogue session, Brussels.

record that all input to the Committee's ongoing Olympics oversight has been from business, contractors and those directly involved with the Olympics, but not labour representatives.

UK workers have not been able to get onto the site. Public relations about "local" labour is used to cover this fact, but "local" includes anyone who has an NI number or is registered as self- employed from an address in a borough near the Olympics.

I have been informed that the *Foreign Affairs Committee* also deals with business. While I am sure this is the case, that Committee is unlikely to consider trade agreements, or to consider the implications of these for jobs in the UK, especially in the face of deliberate secrecy on these matters.

It appears that the *BIS Select Committee* has had no labour input into its enquiry on "Rebalancing Trade and Investment", despite the central importance of labour issues that have been revealed here.

The "Business" part of the "BIS" area of responsibility is taken into account and the business voice is very loud in the work of the Department and of the Committee.

However, in relation to coverage of "Innovation" and "Skills", it is accepted in economic theory that an effectively endless cheap labour supply is a disincentive to technological innovation and also a deterrent to skills development and skills transfer.

How jobs information is collected and then used to support the opening of ICT entry is an issue.

In relation to the seemingly "unbiased" academic input to the Select Committee's enquiry, at least one of the academics providing oral evidence has a vested-interest perspective. Dr Razeen Sally gave oral evidence to the Committee's enquiry, stating that he is an academic at the London School of Economics and also the Director of the European Centre for International Political Economy (ECIPE), which is funded by business, though glossing over this fact in terms of vested interest.

In fact ECIPE plays a very key role in Brussels alongside representatives of the main services lobbying mechanism in Brussels, the European Services Forum, and representatives of International Financial Services London, in pushing through trade agreements by providing similarly "unbiased academic" input to MEPs on the European Parliament's International Trade Committee.

This bias is reflected in the evidence he provided to the Select Committee in the oral evidence session.

10. *How will these issues be addressed?*

The issues raised here of information being kept from the UK Parliament and a Parliamentary Committee, as well as from the public , and the particular role of the Secretary of State in this, are very serious. I would expect the Select Committee to use its power to the maximum to pursue them.

There is an urgent need for attention to the Mode 4 element in the EU/India Free Trade Agreement, and for parliamentary discussion on this.

In addition, it is suggested here that:

- there is a need for increased formal liaison between Committees to ensure that there is comprehensive and cross-cutting oversight of Departments;
- there should be additional measures taken to encourage wider input to consultations, including proactive measures to obtain input from those likely to be affected, with preliminary distribution of information on possible scenarios as necessary; and
- that the aims of consultation processes be defined and documented, with mechanisms in place to monitor and evaluate how those aims are being met, towards accountability.

Linda Kaucher, MA Journalism, MSc Human Geography Research

4 June 2011

Annex

Letter to Frank Field MP from the Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills

Thank you for your joint letter with Nicholas Soames concerning the written answer given to a Parliamentary Question about the EU-India Free Trade Agreement (FTA).

You have asked for a more substantive answer and I am happy to go into more detail here.

Free Trade Agreements such as the EU-India FTA would normally be expected to contain a series of commitments on the temporary movement of key personnel and service suppliers. These are intended both to support other commitments in the agreement—for example, allowing senior staff to be transferred to oversee investments abroad—and to provide commercial opportunities for service suppliers.

Past FTAs have included commitments in five main categories—Intra-Corporate Transferees, Graduate Trainees, Business Visitors, Contractual Service Suppliers and Independent Professionals—among others. All five of these main categories are drawn from and set out in the EU's Doha Round offer, together with detailed definitions, safeguards and lengths of stay.

The EU-India FTA is still under negotiation and you will be aware that India is pushing hard for a very substantive Mode 4 component, given that this is India's main offensive interest in the negotiation. In particular, India has asked the EU (and, through the EU, Member States) to look at where the categories could be re-defined to be more useful to Indian service suppliers.

We are strong supporters of an ambitious FTA with India and we are looking at the proposals which India has made. However, no decisions on the scope of a UK contribution on Mode 4 have been taken yet. In particular, in those categories where we might set a limit on the number of people who might make use of our commitments (a "numerical ceiling" in trade language), no decisions on numbers have been taken.

Turning to the issue of minimum salary, the Parliamentary Answer set out that we expect the agreement to be consistent with the Government's intention to apply a £40,000 minimum salary requirement to intra-company transferees coming to the UK for more than 12 months.

To expand on that answer, we are also clear that there will be scope in the agreement to apply the £24,000 minimum salary requirement for intra-company transferees coming to the UK for less than 12 months and that we expect there to be provisions in the agreement to allow for the operation of wage parity testing by UKBA in other categories of service supplier.

2 May 2011

Printed in the United Kingdom by The Stationery Office Limited
07/2011 009062 19585