HOUSE OF LORDS

Select Committee on Small and Medium Sized Enterprises

Report of Session 2012–13

# Roads to Success: SME Exports

## Report

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## *The Select Committee on Small and Medium Sized Enterprises*
The Select Committee on Small and Medium Sized Enterprises was appointed by the House of Lords on 29 May 2012 with the orders of reference "to consider the Government's assistance and promotion of the export of products and services by Small and Medium Sized Enterprises and to make recommendations."

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Witness names without a question reference refer to written evidence

## PREFACE

Over the last few months we have been exhilarated by visiting and meeting many small and medium sized enterprises (SMEs) across the country who export all over the world. They are run by astonishingly enterprising people who overcome every difficulty, for exporting is hard work. This report sets out the problems that can face exporters and how they are being solved and particularly the way the Government can and do help—and how they could do more.

The UK has a long tradition of trading worldwide and the inestimable advantages of the English language and a high proportion of our citizens with overseas links of every kind. Now in the digital age, as the world gets ever smaller, we have every opportunity to build on our strengths. Our great companies are already highly successful worldwide, but many are wholly or partly foreign owned and for a step increase in exports we must look to our SMEs. Many are exporting now but more could be done. Lord Green of Hurstpierpoint, Minister for Trade and Investment, in evidence to the Committee, put the point starkly: "The raw truth that we have to face up to is that we do not have enough SMEs that are exporting. We know ... that quite a lot of companies that are perfectly well positioned to export do not in fact".

There are nearly 5 million SMEs in the UK and their role in the economy is growing. If we can help and encourage more SMEs to export then this country's financial position can be transformed. SMEs' current exports of goods are estimated at around £100 billion a year, so an increase by a third would eliminate the UK visible trade deficit. The performance and potential in the service sector is also striking. The long-term future prosperity of our economy can be achieved through SMEs and their increased exporting.

We have set out what we see as the roads to successful exporting by SMEs which is itself an element of the road to success of the UK economy in the coming decades.

## SUMMARY

The UK has yet to recover from the deepest recession in decades. In an effort to boost the economy, the Government are pursuing an export-led recovery, key to which is stimulating small and medium sized enterprises (SMEs) which are already exporting to export more and those which are not exporting (but have the potential) to start exporting. This is the right policy for a sustained recovery as SMEs are a rich resource with a growing role in the UK economy. Our inquiry looked at what the Government are doing to assist and promote SME exports, and asked what more can be done.

Our principal message is positive, for two main reasons. First, the potential of British SMEs is huge. During the inquiry, we met (on our several visits), and heard about, a whole array of SMEs from different geographical areas, in different sectors and ranging from firms with less than 10 employees ("micro" businesses) to those approaching 250 employees ("medium" sized businesses). We were impressed by their innovation, enthusiasm, creativity and commitment. We refer to just a few of them in our report by way of example. There were many more.

Secondly, support for SMEs to help them export is extensive, with advice on how to begin exporting, exporting more effectively in known markets or entering new markets. The main public sector body is UK Trade and Investment (UKTI), along with the recently refocused UK Export Finance (UKEF). UKTI offers a range of products and services, such as the Passport to Export scheme, the Gateway to Growth programme, the Overseas Marketing Introduction Service and the Tradeshow Access Programme. These products and services are available throughout the UK, but devolution means that in Wales, Scotland and Northern Ireland they are delivered through regional bodies that can offer tailored support, both within the UK and overseas. In addition to UKTI and the equivalent bodies in the devolved administrations, there are many other sources of help. These include the newly created Local Enterprise Partnerships, local authorities, chambers of commerce, accountancy bodies, the Federation of Small Businesses, sectoral trade organisations and those based on common ethnicity or trading with one particular country.

The European Commission described SMEs as "the lifeblood of Europe's economy". The UK has 4.8 million SMEs and their role in the economy is growing. Not all have the potential to export. But many do and do so successfully; and many that do not, with help, could sell overseas. Given this, and the fact that help is at hand, we considered how non-exporters could become exporters. The answer is clear. More has to be done to disseminate information about exporting—about how to reap the benefits whilst minimising the risks, how to take the first step and where to go when difficulties arise. Therefore, our principal recommendations to Government (Recommendations 11 and 8) are that making sure SMEs know what is available from UKTI and UKEF, and how to access it, should be a key priority. Many of our recommendations to others, such as making better use of professional adviser networks (Recommendation 4), encouraging trade organisations to extend their reach (Recommendation 3) and the development of a comprehensive online advice portal (Recommendation 12), are intended to support those central recommendations.

In our Call for Evidence, we invited submissions about the issues inhibiting SME exports. Availability of finance featured significantly and we recommend Government gain a better understanding of how banks assess the credit risk of SME exporters and SMEs themselves look beyond the high street banks for funding (Recommendations 5 and 7). We also looked at the impact of domestic and overseas regulation, the fear of foreign languages and cultures, the need for a more pro-business culture and concerns about infringement, and enforcement, of intellectual property rights. Finally, we considered the effect of the Bribery Act 2010 and, in the light of the evidence we heard, call on Parliament to undertake post-legislative scrutiny of an Act which has caused anxiety in the business community to the extent that waiting for the development of case law is not good enough (Recommendation 23).

The issues raised in this report will have lasting importance. We look forward to the report being debated by the House at the earliest opportunity after the Government have made their formal response. But the matter should not rest there. The House should be informed of developments and, to ensure that it is, we recommend that the Government should make a commitment to report to the House by the end of the next session (2013–14) about the progress they have made (Recommendation 1).

# Roads to Success: SME Exports

## CHAPTER 1: INTRODUCTION

### Background

1.1. Small and medium sized enterprises (SMEs) play a critically important role in the UK economy and provide a rich source of innovation and entrepreneurship. At the start of 2012, SMEs accounted for more than half of employment (59.1%) and almost half of turnover (48.8%) in the UK private sector. This contribution is increasing as we are witnessing a structural shift in the economy.[1] Whilst the number of larger private sector enterprises has decreased by 10.2% between the start of 2000 and 2012, falling from 7,200 to 6,500, the contribution of SMEs has grown by 1.3 million in the same period. The European Commission (EC) describes Europe's 23 million SMEs as "the lifeblood of Europe's economy", accounting for over 98% of businesses,[2] two-thirds of private employment and 80% of new jobs created over the last five years.[3]

1.2. The UK economy, along with other European countries and beyond, is experiencing one of the worst financial crises for decades.[4] The development of trade, in particular, promoting exports by SMEs, is central to the Government's strategy for economic recovery.[5] In 2011, the Government published a White Paper entitled *Trade and Investment for Growth* ("the White Paper"). Noting that the UK had a "slightly lower share of exporting SMEs than the EU average", "that the share of UK SMEs' revenues accounted by exports was also lower than the EU average", and that "smaller and innovative firms face disproportionate barriers to exporting",[6] the White Paper concluded:

> "There is a vital role for the Government in encouraging firms to export, in addition to the Government's market access work to reduce barriers to trade and the support services provide to firms to help them overcome obstacles and enter new markets."[7]

1.3. The House of Lords SME Exports Committee was appointed on 29 May 2012. Our orders of reference were "to consider the Government's assistance and promotion of the export of products and services by small and medium sized enterprises, and to make recommendations". Since publication of the White Paper, the Government have said and done a great deal about SMEs. They have introduced a raft of initiatives intended to promote exporting by

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1 The increase in the business population from 3.5 million to 4.8 million between 2000 and 2012 has been mainly driven by SMEs. BIS, *Business Population Estimates* for the UK and Regions 2012 (BPE 2012) (October 2012), p 5.

2 Of UK businesses, 99.9% are SMEs, *ibid.*

3 EC website.

4 HM Treasury, *Autumn Statement* (December 2012), Cm 8480, p 5, para 1.1.

5 See BIS, *Trade and Investment for Growth* White Paper (February 2011), Cm 8015.

6 *Ibid*, p 19, para 1.17. See also the written evidence submitted by the Government: "the UK is on a par with larger EU countries such as Germany and France, although under the EU average of 25%", para A.

7 *Ibid.*

SMEs, and many—such as those announced in the Autumn Statement in December 2012—remain in the pipeline. The UK Trade and Investment (UKTI) five-year strategy, published in May 2011, *Britain Open for Business*,[8] focuses on encouraging "significantly more SMEs to export" (particularly innovative and high-growth SMEs).[9] UKTI is committed to doubling its SME client base to 50,000 by 2015.[10] The principal issue is not a lack of Government initiatives. It is whether the Government are pursuing the right policies, and whether they are being communicated effectively to the firms which would stand to benefit from them.

1.4. Whilst the purpose of this inquiry was to consider whether enough is being done, our fundamental message is a positive one. During the course of the inquiry, we have met, or heard about, a whole variety of different SMEs, of different sizes, from different geographical areas and operating in different sectors; and we have been impressed by their innovation and enthusiasm, and their creativity and commitment. There are a number of factors which can deter companies from exporting (which we discuss in Chapters 4 to 10 of this report) but help is available. We believe none of the problems is insurmountable if a company, with the support of UKTI and others, has the commitment, the product or service, and entrepreneurial drive demonstrated by so many of the SMEs we have met. As Professor Lester Lloyd-Reason, Professor of International Enterprise Strategy at Anglia Ruskin University, told us: "Firms that are good and determined will always get there. The essence of entrepreneurialism is that barriers are just an interesting challenge".[11]

1.5. Another source of optimism is the development of communications technology. Not only does it hold enormous potential for disseminating information about exporting (an issue we take up in Chapter 5) but it has the potential to alter fundamentally the way in which trading itself takes place. Recent years have seen the development of companies which are sometimes described as "born globals", companies which reach a high percentage of international revenues very rapidly after inception.[12] One of the causes of this development is technological advance.[13]

1.6. In recent years the Internet, the world wide web and the social media sites have vastly increased and have fundamentally changed the way people and businesses communicate internationally. They have provided many businesses with new opportunities for international business. Any business with a website can readily seek customers from anywhere. We acknowledge that exporting is still more complicated than home trade, that despatch of goods overseas is more elaborate than to home customers and involves extra paperwork, and that exporters need to consider how they will be paid securely and promptly. That said, however, there is no doubt that online commerce will go on growing and that many SMEs can, and do, take advantage of it (albeit, subject to the need for broadband speeds to increase,

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8 UKTI, *Britain Open for Business: Growth through international trade and investment* (2011).

9 *Ibid*, p 4.

10 The Government.

11 Professor Lester Lloyd-Reason, Q 62.

12 A Kudina, G Yip and H Barkema, *Born global*, *Business Strategy Review*, Winter 2008, p 39.

13 *Ibid*.

particularly in some areas). We have no specific recommendations to make in this area but recognise the huge potential for growth.

## Definition of SME

1.7. There is no universally accepted definition of an SME. The simplest is that an SME is a business with fewer than 250 employees. This definition is used, for example, in the Department for Business, Innovation and Skills (BIS) Business Population Estimates for the UK and Regions 2012 (BPE 2012). This defines "micro" businesses as those with less than 10 employees, "small" businesses as those with between 10 and 49 employees and "medium" sized businesses as those between 50 and 249.[14] The Companies Act 2006 defines SMEs (for the purposes of accounting requirements) according to number of employees, balance sheet and turnover. For example, a "small" company is one that meets at least two of the following conditions: annual turnover of not more than £6.5 million, a balance sheet total of not more than £3.26 million, and not more than 50 employees.[15] The EU similarly applies a complex test. An SME is a company with fewer than 250 employees, with either a turnover of less than €50 million or a balance sheet of less than €43 million.[16]

1.8. The fact that there are different definitions of SMEs has not presented us with any difficulties with regard to our inquiry. Our conclusions and recommendations do not depend on a specific definition save that, in preparing this report, we have in mind businesses below 250 employees.

## Scope of the inquiry

### *Micro-small-medium*

1.9. SMEs cross a broad range of sizes, as paragraph 1.7 indicates; and the statistics demonstrating the structural shift we mention at the start of Chapter 1 also suggest that that shift has been predominantly a micro-business phenomenon.[17] Whilst, in this report, we have treated SMEs, by and large, as a single category, we recognise that the requirements of the different sized firms, and the challenges they face, will differ according to many factors including their size; and we think it likely that the assistance described in this report available to help SMEs to export will tend to be needed more by the micro and smaller enterprises than those at the high end of the medium-sized enterprises. These trends reinforce one of our main concerns and one of our main messages: namely, that a great deal of help is available but more effort needs to put into ensuring that all potential exporters, of all sizes, are aware that it is there.

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14 BPE 2012, *op cit*, p 2, and see 26 March 2012, HC Debs, col 997W.

15 Companies Act 2006, section 382.

16 EC website.

17 BPE 2012, *op cit*, and ONS GDP data. Using year 2000 as an index base (=100), the number of businesses with zero employees increased to 151.4 between 2000 and 2012; small businesses to 111.5 and medium to 110.9. In contrast, larger enterprises contracted in number to 89.8.

### *Direct and indirect exporting*

1.10. SME exports can either be direct or indirect. Direct exporting occurs when a company sells its products or services to a customer based abroad; indirect exporting takes place when, for example, a company contributes to the supply chain of another company which engages in direct exporting. Whilst we acknowledge the significance of indirect exporting by SMEs to the UK economy, in this inquiry we have focused on direct exporting. Direct exporting presents challenges which indirect exporting does not. Indeed, SMEs may not even know that they are participating in indirect exporting and the sales transaction is likely to look much the same as sales to other home-based, non-exporting companies.[18]

### *Import substitution*

1.11. Import substitution involves replacement of imports of products or services with domestic production and provision. SME activity which enables import substitution promotes economic recovery and generates employment. Despite the potential benefits of SME import substitution, we have not included this within our inquiry which we have kept tightly focused on encouraging SME exporting.

### *Big business versus SMEs*

1.12. We heard different views as to whether the policies of successive governments have tended to favour big business to the exclusion or detriment of SMEs. Brompton Bicycle Ltd, for example, said: "The lesson for government is to not be so in thrall to Big Business".[19] The Rt Hon Lord Heseltine, however, in his report *No Stone Unturned* ("the Heseltine review"), wrote: "Successive administrations concerned to boost productivity have had a tendency to concentrate on the issues faced by SMEs. ... A complex economy has something of the nature of a rainforest. Take away the canopy and the sun will destroy the myriad species beneath. So it is that our major corporations sustain the thousands of small and medium sized businesses in their supply chains".[20] This is an important debate but, given the scope of our remit, not one which we tackle in this report.

### *Taxation issues*

1.13. Several witnesses proposed changes in the taxation regime as a means of encouraging SME exports. For example, the British Security Industry Association Ltd (BSIA) suggested: "since export is such a key contributor to our balance of trade", the Government should adopt financial incentives similar to those adopted to encourage Research and Development, that is "tax credits for sales associated with export markets".[21] Brompton Bicycle Ltd also proposed tax breaks: the Government "would do well to offer tax breaks and NI [national insurance] holidays to manufacturers taking on new

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18 Data on proportion of inputs to UK exports purchased from other UK SMEs was, according to the Government, not available. The Government, slide 2.

19 Brompton Bicycle Ltd.

20 The Rt Hon Lord Heseltine of Thenford CH, *No Stone Unturned in pursuit of economic growth* (October 2012), p 6, para 19.

21 BSIA.

staff; many of these businesses will be growing through exports in a time of stagnant economic activity at home”.[22] Another SME, Dart Sensors Ltd, a company which develops and manufacturers chemical sensors, provided another example of favouring tax incentives.[23] Clive Davenport, Trade and Industry Spokesman for the Federation of Small Business (FSB), suggested “a reduction of corporation tax for the beginning of the first two or three [export] contracts” as an incentive and a means of recovering the operating costs of entering the export market.[24]

1.14. Taxation is a complex issue. Developing a system of taxation which achieves its purpose fully and fairly, and cost effectively, is no simple matter. For example, if SMEs were to be given tax breaks with respect to exports, how could a system be devised which captured both direct and indirect exporting? The subject of tax incentives for exporters is worthy of further consideration. But, given the time we had available to us, we took the view that it was not an area to which we could do justice and, for this reason, we have not included taxation issues in this report.

## Governmental context

### *Devolution*

1.15. The devolved administrations and the UK Government have concurrent arrangements to promote the international trade and inward investment. UKTI has lead UK responsibility for the provision of support and assistance to exporting companies and for promoting the UK and its constituent parts to foreign investors. Each devolved administration has, however, its own trade and investment organisation:

- Invest Northern Ireland (part of the Northern Ireland Department of Enterprise, Trade and Investment),
- Scottish Development International (a joint venture between the Scottish Government, Scottish Enterprise, and Highlands and Islands Enterprise), and
- Welsh Government’s Business, Enterprise, Technology and Science team.

1.16. These organisations are responsible for devising and implementing additional programmes which meet their particular needs. They are also responsible for promoting their respective countries to foreign investors; and their trade and investment organisations (rather than UKTI) deliver trade services and advice to companies within their jurisdiction. The Committee visited each of the trade and investment organisations of the devolved administrations (see paragraph 1.21 below).

### *European Union*

1.17. The European Union (EU) has a significant part to play in creating an environment which encourages the growth of successful SME exporters. In

22 Brompton Bicycle Ltd.

23 Dart Sensors Ltd.

24 Q 98.

June 2008, the EC launched the Small Business Act (SBA) for Europe. This is not an Act in the UK sense but a statement of intentions, a central part of which is the "Think Small First" principle (see paragraph 3.31 below).[25] During our inquiry, we went to Brussels and met, amongst others, Daniel Calleja, Director General of DG Enterprise and Industry and Special Envoy for SMEs.

## Methodology

### *Written and oral evidence*

1.18. The Call for Evidence with which we launched the inquiry on 17 July 2012 is reprinted in Appendix 3, and those who made written submissions in response are listed in Appendix 2. We held 21 sessions of oral evidence, from 12 July 2012 until 14 January 2013. Those who gave oral evidence are also listed in Appendix 2.

### *Presentations and seminar*

1.19. At the start at the inquiry, on 21 June 2012, we attended the offices of UKTI, where we heard a presentation about the work of UKTI and UK Export Finance (UKEF), and the role of the Foreign and Commonwealth Office (FCO). On 28 June 2012 we held a seminar at the House of Lords to which we invited a variety of SMEs to discuss the current export market. On 4 September 2012, we visited the London offices of the Royal Bank of Scotland Group where we heard a presentation about the Group's assistance to UK businesses and views on the UK market place, and held a discussion with a number of SMEs. Those who contributed on each of these occasions are listed in Appendix 4.

### *Visits*

1.20. At an early stage, we decided to take evidence from those who could judge the effectiveness of Government policies from the standpoint of the SMEs themselves. To this end, we undertook a number of visits. We travelled to five regions within England: the South East, the South West, the North West, the East Midlands and Humberside and Yorkshire; and on each occasion, we were able to meet a variety of SMEs and also to visit the offices and factories of SMEs within the area. A list of those who contributed to each of the visits and also the companies the Committee saw firsthand is set out in Appendix 5.

1.21. The Committee was also keen to learn about the policies and practices of other governments. We therefore visited Wales, Scotland and Northern Ireland, to learn about the work being undertaken by the devolved administrations and the relationship between their trade and investment organisations and UKTI (see Appendix 6). We visited Bavaria in Germany to see what lessons we could learn from a country renowned for SME exports, as well as gaining an understanding of the role of a UKTI office abroad (see Appendix 7); and we went to Brussels to inquire about relevant policies at

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[25] EC, *Thinking Big for Small Businesses: what the EU does for SMEs* (2011 edition), p 3.

the EU level and to see how the local UKTI office performed its role (see Appendix 6).

### *Survey work*

1.22. The Committee was assisted by a number of surveys which had been carried out by those who submitted evidence to us. They included the British Chambers of Commerce (BCC) international trade survey of about 8,000 businesses conducted in the first quarter of 2012,[26] and the International Trade Survey which, commissioned by the Institute of Export (IOE), was undertaken by Trade and Export Finance Limited (TAEFL) in March to May 2012 and involved nearly 2,000 respondents.[27] A number of other surveys were also drawn to our attention and we make reference to many of them in this report.

## After the Committee has reported

1.23. In Chapter 11 of this report we set out a list of findings and actions. We have designated them into three categories: recommendations (of which there were 23), requests for information (7) and observations (17). Most, but not all, of the actions are directed at the Government. In the usual course of events, the Government will respond to our report (within two months of publication) and a debate will take place in the House. We look forward to this debate and would encourage members from all quarters to participate in discussing this important subject at the earliest opportunity.

1.24. We are anxious that the report should not gather dust once the usual debate has taken place, and we have considered what we, as a Parliamentary select committee, can do to ensure that it does not. The SME Exports Committee is an *ad hoc* committee, so, having reported, it no longer exists and will not be in a position to see that our recommendations are followed up. To remedy this, **we recommend that the Government should make a commitment to report back to the House before the end of Session 2013–14 with an update on what they have done in response to this report and what has been achieved, and that the Government should ensure that time is made available for their update report to be debated by the House.**

## Acknowledgments

1.25. We thank all those who assisted us in our work: those who submitted written evidence and attended oral evidence sessions, and those who participated in the presentations, seminar and visits. We are grateful to those in UKTI and in the trade and investment organisations of the devolved administrations for assisting us in arranging the visits. Finally, we would like to express our thanks to our Specialist Adviser, Professor Robert Blackburn, Director of the Small Business Research Centre at Kingston Business School, for his expertise and guidance throughout our inquiry. We stress, however, that the conclusions we draw and the recommendations we make are ours alone.

26 BCC Quarterly Economic Survey (April 2012).

27 International Trade Survey, commissioned by the IOE, sponsored by Bibby Financial Services and undertaken by Mark Runiewicz, Managing Director, TAEFL (June 2012).

## Committee interests

1.26. The membership and declared interests of the Committee, and the interests of our Specialist Adviser, are set out in Appendix 1.

## Abbreviations

1.27. A list of abbreviations (and, where appropriate, relevant website addresses) is set out in Appendix 9.

# CHAPTER 2: SME EXPORT PERFORMANCE

## Introduction

2.1. In this chapter we consider the current export performance of SMEs, their contribution to the UK economy and the characteristics of successful exporting SMEs. The evidence we received and the visits we made brought home to us the extraordinary diversity of SMEs. Not all will succeed but there are many which are driven by the creativity, innovative thinking and entrepreneurship which, with the right support, enables them to compete effectively in the international market.

## Characteristics of successful exporting SMEs

2.2. Companies which are innovative and imbued with a competitive, "entrepreneurial spirit"[28] are more likely to be successful exporters. The Government, for example, said: "SMEs who were innovative, those who undertake [Research and Development] or have Intellectual Property, and those with higher productivity are all more likely to export, and to do so sustainably";[29] and BSIA suggested that the difference between SME exporters and non-exporters was "innovation and adaptability to different market requirements".[30] LMK Thermosafe Ltd, winner in 2012 of the Queen's Award for Enterprise in the International Trade category, described successful exporters as those SMEs with "sufficient desire managerially to commit to exports", with a focus on "higher margin goods that have genuine quality and unique features".[31] Professor Richard Kneller, Professor of Economics at the University of Nottingham, responding to questions about salesmanship as an important skill, identified a key characteristic of successful exporter firms as "managerial quality", including "the quality of the salesmen" working for those firms.[32] Emerson Roberts on behalf of Brompton Bicycle Ltd argued that SMEs in higher-cost economies needed to focus on niche markets—a market "too small ... for the large corporations to bother with and therefore one which is both relatively safe from competition and also high-margin";[33] and Edward Hopper, of Maccon GmbH, Managing Director of a German SME involved in the development and application of electronic motors for high-tech appliances, whom we met during our visit to Munich, made a similar point.[34] When we visited Wales, we toured the premises of Concrete Canvas Ltd, an SME which illustrates the innovativeness of some SMEs (see Box 1 below).

28 Norman Rose, Executive Chairman of UK Trade Facilitation, Q 363.

29 The Government, para A2.

30 BSIA.

31 LMK Thermosafe Ltd.

32 Q 70.

33 Brompton Bicycle Ltd.

34 See Appendix 7.

**BOX 1**

**Concrete Canvas Ltd, Pontypridd**

Concrete Canvas Ltd (www.concretecanvas.co.uk) sells a flexible cement impregnated fabric that hardens on hydration to form a thin, durable water proof and fire proof concrete layer. Essentially, it's concrete on a roll, all you have to do is add water. They told us: "Concrete Canvas's core technology was developed as a university project by the two company co-founders in 2004. We filed our first patent in 2005 with support from the university's incubation scheme".[35] By 2007 they had seed funding to develop the product from a group of business angels and the regional development agency, and a Capital Support Grant from the Welsh Government to establish a manufacturing plant in South Wales. The first sale came in 2009, with an order from the British Ministry of Defence for use on the frontline in Afghanistan. Since then turnover has doubled year-on-year and tripled in 2012. Concrete Canvas Ltd now employ 16 staff, sell to over 40 countries worldwide and 85% of sales are exports.

Talking about the support they received in establishing their business, accessing export support was seen as simpler than wider government grants: "Export support on the whole is at a lower level (under £10k) and the application process tends to be relatively simple". Nevertheless, while acknowledging that government grant funding has played a key role in developing the core technology and growing the business, they said that "the system could be markedly improved by reducing bureaucracy and simplifying the application process at all levels. We have experienced at least three major programme overhauls in the last five years. This adds enormous delay, uncertainty and means the applications process is constantly changing".[36]

2.3. UKTI's five-year strategy, *Britain Open for Business*, working on the basis that innovative and high growth SMEs "contribute disproportionately to the economy and benefit most from government help", is explicit in its focus on such companies.[37]

## Current contribution of SMEs to UK exports

### *Contribution to UK export activity*

2.4. The contribution of SMEs to UK exports is significant,[38] although the precise figures are elusive. In 2011, the Government reported that SMEs with 10 or more employees accounted for about a third of the value of UK exports, the contribution being much larger in the service sector.[39] But Professor Kneller, when asked about the contribution of SMEs in terms of value to UK exports, suggested that there was no clear answer.[40] We share

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35 Concrete Canvas Ltd.

36 *Ibid.*

37 *Britain Open for Business, op cit.*

38 CBI, referencing BIS International Trade and Investment: *the Economic Rationale for Government Support 2011*, BIS Economics Paper No 13 (May 2011).

39 *Ibid.*

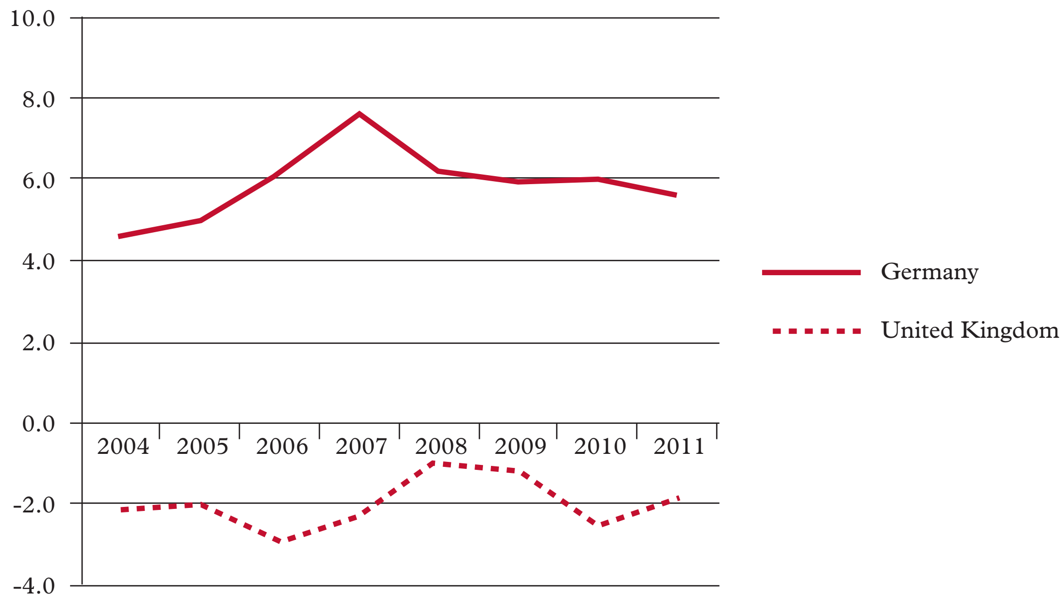
40 Professor Kneller, Q 58.

this view. Our impression is that the data is inconsistent, based on guesstimates and confused by definitional problems.

2.5. Whilst clearer figures would be helpful, their absence does not negate the fundamental premise of this report (and of Government policy towards SMEs and export-led recovery) which is that it would be to the significant advantage of the UK economy and the export-led recovery if SMEs were to export more. The UK has a persistent current account deficit, exporting fewer goods and services than it imports. This compares unfavourably with Germany which has long run a large current account surplus, as shown below. Boosting exports would help close the UK's persistent deficit. SMEs have an important role and the potential to increase their overseas sales. Moreover, the longer-term structural shift to SMEs (see paragraph 1.1) means that they will have to increase their export levels if the UK is to maintain, let alone improve, its export performance.

**FIGURE 1**

**Current Account Balance (% of GDP)**




*Source: OECD*

2.6. The figures that we have been given about the recent performance of SMEs present a mixed picture. In 2009, SMEs accounted for 53% of the value of goods exported from the UK which, in monetary terms, amounted to about €135 billion. In 2010 (figures published in September 2012), the total value of the goods exported (within and outside of the EU) by SMEs had fallen from the 2009 figure to about €115 billion and the percentage value (as a percentage of all UK goods exported) fell to 40%.[41] The number of SME exporters to the EU increased between 2008 and 2010, but those exporting outside of the EU had decreased. In 2010, over 60% (by value) of SME goods exported were to EU countries, a rise from the previous year. This contrasts with large companies (over 250 employees) which, in 2010,

41 The Government (supplementary evidence), citing Eurostat as the source.

exported less than 50% of their exports (by value) to the EU, and the proportion has been declining in recent years.

### *Comparison with other EU countries*

2.7. Compared with SMEs in other European countries, fewer UK SMEs export although the percentage figure is similar to that for larger countries such as Germany and France. This is no doubt partly because local sales in smaller countries are more likely to be across borders, particularly land borders.[42] One in five UK SMEs export (and, in 2010, one in 20 outside the EU).[43] The EU average is one in four.

2.8. Lord Green told us that "we do not have enough SMEs that are exporting".[44] Lord Heseltine, in his recent review, commenting more generally on the UK export performance, also suggested that more should be done:

> "Exports are a useful benchmark of international competitiveness in the traded sectors. Here, the UK's share of global export markets has declined over the last 30 years. We are not alone in this. It is part of a trend shared by many other advanced economies. Yet there are signs that our businesses could do better."[45]

## Challenges to exporting

2.9. UK SMEs are, in some respects, particularly well placed to export. They have the advantage of the British brand (see Chapter 5) and, whilst the Committee is far from complacent about the importance of language skills (see Chapter 6), the universality of the English language cannot but help, to some extent, facilitate international trading relationships. Historically, the UK has a wide range of important international connections across the globe and the current ethnic diversity of the population in the UK has enabled individuals to maintain close ties between the UK and their familial countries of origin. Uday Dholakia, Chairman of the National Asian Business Association (NABA), for example, described to us the influence of British Asian businesses and "the leverage they bring, in terms of connectivity to the Indian subcontinent, East Africa, United States, Middle East".[46]

2.10. From this position of strength, UK SMEs are well placed to do a good deal more. We have sought to understand how this might be achieved; we have looked at what developmental and promotional assistance is offered by the Government and others, and the extent to which the availability of help is known amongst SMEs; and, on the basis of our findings, we have made suggestions about what could be done differently or better. In our Call for Evidence (see Appendix 3), we asked for submissions about the "barriers" to exporting and, as a result, the language of "barriers" features largely in the evidence we received. On reflection, in many cases, we do not think that this is the appropriate word (although we do use it on occasions in this report). It tends to imply the notion that the "barrier" acts as a complete block. That is not what we have seen during our inquiry. There are undoubtedly issues

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42 Professor Kneller, Q 64.

43 *Ibid.*

44 Q 471.

45 Heseltine review, p 122, para 5.4.

46 Q 393 and Q 400.

which make exporting a challenge; some are real and some are, in part, a matter of perception. Whatever the character of the problem, rarely is there no solution to overcoming it—if the SME has the right product or service for the right market and a commitment to succeed. There is always help at hand and advice available.

2.11. In the remainder of this report we consider these problems in more detail. Following an overview of assistance to SMEs in Chapter 3, in Chapter 4 we deal with financial issues such as access to finance and the risk of non-payment. In Chapter 5 we consider market access and information, and in Chapters 6 and 7 we look at skills including language, cultural awareness and other exporting skills. Chapter 8 deals with regulation, and Chapters 9 and 10 cover other challenges, namely, the protection of intellectual property rights and uncertainty about the implications of the Bribery Act 2010.

# CHAPTER 3: HELP AT HAND

## Introduction

3.1. Not all SMEs need or want help to export. For some, it is because they are already fully effective exporters, requiring no further assistance because they know what to do and, if necessary, whom to ask. Some SMEs will never be exporters because they make products or provide services which are not suitable for, or capable of, export.[47] A corner shop or building firm, for example, working purely to serve their local community, do not provide an exportable service. In between these opposites are three broad groups: first, those who are exporting but not to their full potential; secondly, those who are not exporting but are aware of the potential; and, finally, those which are not exporting and are not aware of the potential.[48]

3.2. Of these three groups, the first and second need assistance either to improve their export performance or to give them the capacity, confidence and skills to begin exporting. The last group needs additional support; and poses the greatest challenge to the Government's commitment to increase exports by SMEs. This is because the SMEs within this group are unaware of their potential and, as a consequence, are unlikely to have made themselves known to UKTI or any other organisations which could assist them. The additional efforts needed, therefore, are about awareness-raising, both of the potential benefits of exporting and also of the support available to assist SMEs to achieve that potential. We take up this issue in Chapter 5. It is a particularly important issue because the evidence suggests that this group is considerable.

3.3. There are broadly three areas of provision which are needed to encourage SMEs to export or to export more. They may overlap. First, those which are exporting but have the potential to do more may need assistance in learning how to break into new markets[49] or to improve their performance in markets in which they are already trading; secondly, those who are aware of their exporting potential but have not exported need help to take that next step; and, finally, efforts need to be made to raise awareness of the potential of exporting amongst those SMEs which have not considered the possibility.

## Government provision to assist SMEs

### *Key Government departments*

3.4. Whilst several Government departments are involved in the drive to increase SME exports, BIS and the FCO have the central role. It is highly

47 According to Adam Jackson, Director of Enterprise and SME Envoy, BIS, 39% of the 74% of SMEs with no plans to export said that it was because they did not have a suitable product. Q446.

48 Professor Lloyd-Reason distinguished SMEs as follows: "the curious" (those who wished to export but do not know how to start); "the frustrated" (those who had tried but it had gone wrong); "the tentative" (those who were doing some exporting but found it full of problems); and "the enthusiastic" (those who were exporting and had no problems doing it). Q 61.

49 Professor Lloyd-Reason referred to the extreme differences between different markets: "one of the barriers that many firms do not anticipate is that there is almost no learning curve. What works in Rio Janeiro will not work in Beijing and what works in Beijing will not work in Lagos". Q 61.

collaborative.[50] The British Exporters Association (BExA) described the two departments as providing “a vital interface role to enable trade between SME and micro exporters and potential export buyers”.[51]

3.5. BIS and the FCO are the parent departments for UKTI, the Government trade promotion body. This is overseen by Lord Green of Hurstpierpoint who is a Minister in both those departments. UKTI provides a range of services to companies, including SMEs. These are outlined below.

### *Collaborative working and partnerships*

3.6. The Government see their role as working collaboratively with other organisations and individuals who have a part to play in boosting SME exports. They include those in the private sector such as banks, accountants and lawyers; and organisations such as the BCC, the Institute of Directors (IoD) and the IOE. They also include other public sector organisations such the Intellectual Property Office and British embassies.

## Policy context

3.7. We have already acknowledged (in paragraph 1.3) that the Government have undoubtedly been active in the last two years in developing policy aimed at encouraging SMEs to export, as part of the broader goal of export-led recovery.

3.8. The Government’s trade strategy was set out in a White Paper (see paragraph 1.2 above) published in February 2011. It included a Trade and Investment Framework for Action, to be implemented by departments collaboratively under the oversight of a new Cabinet sub-committee, chaired by Lord Green.[52] The Framework included specific provision to “establish a clearer picture of barriers to the overseas expansion of fast-growing SME exporters”, and to include in the UKTI Strategy plans, amongst other things, provision of “a more supportive environment for SMEs that are innovative and high-growth and ready to export” and to introduce a new prize for a successful first time exporter to encourage SMEs to export.[53]

3.9. In May 2011, UKTI published its five-year strategy.[54] It claimed two main ambitions: to “encourage significantly more SMEs to export”, targeting innovative and high-growth SMEs; and to “help bring high value opportunities home”, not only through a programme of intensive support for larger companies, but also promoting “major supply chain opportunities for SMEs”.[55] In an annual review of the White Paper, the Government reported that during the course of the year (since February 2011), UKTI had helped over 20,000 SMEs to export and break into new high-growth markets, and that the UKTI had made efforts to achieve its target to double its client base

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50 Edward Barker, Head of Commercial and Economic Diplomacy, FCO, told us: “We try not to distinguish the Foreign Office’s contribution from that of UKTI. It should look like one single offer to SMEs”. Q 2.

51 BExA.

52 The White Paper, *op cit*, p 71, para 4.3.

53 *Ibid*. See also p 55, para 3.40(2). The new prize is intended to complement the Queen’s Award for Enterprise (International Trade) and rewards the “most promising new export idea from a British SME ready to trade internationally for the first time”.

54 *Britain Open for Business*, *op cit*.

55 *Ibid*, p 4.

to 50,000 companies (of all sizes) by 2015.[56] We asked Lord Green for an update. He said that the Government was "well on track" and that the 50,000 would be reached "well before" the end of 2015. When pressed further, Lord Green said that the total now stood at about 32,000.[57] This figure accords precisely with the UKTI service delivery estimates, based on a 25% a year growth.[58] The Government should be congratulated for meeting their target; and, given our findings about awareness amongst SMEs of UKTI services (see Chapter 5), any extension of the reach of UKTI must be welcomed. However, we have some reservations about the value of targets if they prioritise quantity over quality—if they are met, in this case, by, say, a single telephone call to an SME. **We invite the Government, therefore, in their response to this report, to explain in detail:**

- **what level of service is provided to an SME for it to be counted as being within the UKTI client base;**
- **whether there is a point (and, if so, how is it described) when an SME is said no longer to be part of the UKTI client base and is therefore deducted from the total for the purposes of assessing progress towards the target figure of 50,000; and**
- **given that there are estimated to be 4.8 million SMEs in the UK, on what basis they decided to set 50,000 as a target client base.**

3.10. At the same time that UKTI launched its five-year strategy, the FCO launched its *Charter for Business*. It contained seven commitments (aimed at all businesses) intended to complement the UKTI strategy. For example, the first was to give "the UK's commercial and economic interests strong support" within UK foreign policy and the UK's bilateral relationships. Activities included the creation of a new Commercial and Economic Diplomacy Department and raising the profile of commercial diplomacy within the FCO. The initiative involved an increase in resources "dedicated to the prosperity agenda in high-growth markets overseas",[59] and reflected the Government's "Whole of Government" approach to pursuing their growth and prosperity agenda.[60] Another commitment was to use FCO "knowledge of foreign culture, languages and the local political and economic situation to help UK businesses identify and pursue new opportunities"; and another was to ensure that when UK businesses requested assistance, either the UKTI staff in an overseas post or the FCO staff would support local contact-making and access issues.[61]

3.11. In November 2011, the Government launched a National Export Challenge. In making the announcement, Lord Green referred to SMEs as "crucial" to the National Challenge, "crucial in the supply chain of the major exporters" and "crucial as innovators in every sector".[62] The challenge included a

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56 BIS, *The Trade and Investment White Paper: progress and achievements in year one* (February 2012). See also the written evidence submitted by the Government.

57 Q 475.

58 The Committee was told by UKTI during a presentation that the figures were estimated to be: 32,000 in 2012–13; 40,000 in 2013–14 and 50,000 in 2014–15.

59 FCO, *Charter for Business* (May 2011), p 3.

60 The White Paper, *op cit*, p 48, para 3.13.

61 FCO *op cit*.

62 Lord Green's speech. UKTI website.

commitment to increase the number of SMEs exporting by 100,000 and to increase UK exports from the current level of £450 billion to £1 trillion.[63]

3.12. Earlier in 2011, in March, the Treasury and BIS published, alongside the Budget 2011, a document entitled *The Plan for Growth*. It set out how the Government would achieve their economic policy objective of "strong, sustainable and balanced growth", and included an ambition "to encourage investment and exports as a route to a more balanced economy".[64] With regard to SME exports, in particular, *The Plan for Growth* announced that the Government would "work with banks to ensure a successful implementation of three new trade finance products by the Export Credits Guarantee Department" (ECGD, now trading as UK Export Finance (UKEF)) and they delivered a new package of support for SMEs to break into new markets abroad.[65] An update of *The Plan for Growth* was published in December 2012 in which the Government reported the completion of a number of activities including, for example, the introduction of a range of services and tools to support SMEs and the delivery of over 100 events aimed at SMEs across the UK during National Export Week which took place in November 2012.[66] Referring to the extension of the eligibility of short-term credit insurance policy, the update reported that, since March 2011, UKEF had issued 33 insurance policies (worth £48 million) for 25 exporters, 17 of which were SMEs.[67] In July 2012, Patrick Crawford, (then) CEO of UKEF, said that UKEF had helped 28 exporters, 18 of which were SMEs.[68] This figure was subsequently updated, as of August 2012, to 31 and 21 respectively.[69] UKEF is considered in further detail in Chapter 4 of this report.

### *SMEs helping themselves*

3.13. In Chapter 5, we make proposals for increasing awareness of the products and services offered by UKTI. The relationship between UKTI (and other service providers) and SMEs should, however, be regarded as reciprocal. To some extent, SMEs have to help themselves. The Heseltine review observed, with disappointment, that there appeared to be a tendency amongst SMEs "to have an accidental approach to exporting, rather than a strategic plan".[70] The comment was prompted by a BCC survey which found that 58% of those surveyed said that their reason for exporting was that they had been approached by a customer, rather than pro-actively choosing to export.[71] The Institute of Chartered Accountants England and Wales (ICAEW) made a similar point;[72] and Mike Spicer, Senior Policy Adviser at the BCC, commented that many members who were looking to export only began

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63 See BExA.

64 HM Treasury and BIS, *The Plan for Growth* (March 2011), p 5.

65 *Ibid*, p 26.

66 *Plan for Growth: implementation update* (December 2012), p 25, entry 120.

67 *Ibid*, p 26, entry 124.

68 Q 9.

69 The Government, Annex A1. The Annex indicated that, at that time, there were also 20 applications for short-term credit insurance in the pipeline, of which 16 were SMEs.

70 Heseltine review, para 5.5.

71 BCC, *Manufacturing for export: make or break for the British economy* (2011).

72 ICAEW.

doing so "more seriously" when their UK sales began falling.[73] Whilst serendipitous opportunities are to be celebrated, we share with Lord Heseltine his concern that a critical mass of SME exporting should not be dependent on chance.

3.14. **It important to distinguish between what firms can and should do for themselves and what the Government can do to help. SME exporters**[74] **can be helped by Government (and their agencies) in several ways. They can:**

- **help firms understand and deal with local tariffs, regulations, licensing and political barriers;**
- **help firms choose the most likely markets for specific products and services;**
- **help with specific local knowledge of markets, cultural differences and business practices, language, labelling and competition;**
- **develop mechanisms, through the embassies, which exploit the potential borne of Britain's historical connections with other countries and of Britain's current ethnic diversity;**
- **open doors to key people, both potential customers and reliable agents and advisers;**
- **help, though UKEF, to minimise payment risks particularly those arising from political factors; and**
- **help market the British brand both generally and at trade fairs.**

**Furthermore**

- **Government purchasing policies at home can both provide a sound base for exports and demonstrate confidence in the products and enhance their reputation;**
- **Government support for innovation can help ensure that the UK remains in the forefront of technical competition; and**
- **Government can, more generally, foster a culture within the UK, beginning at the early stages of the education process, which pays appropriate regard to the importance and value of business and careers in business.**

**However, there are a number of aspects of successful exporting for which the Government cannot be held responsible. Responsibility for these must rest with the SMEs themselves and the individuals behind them. The Government cannot help ensure the quality of products and services required for overseas markets. Nor can they select the products and services which have the necessary distinctive advantages to sell at a profit. That is the job of the entrepreneur. It is our good fortune that the UK has long had a flair for innovation and entrepreneurship.**

[73] Q 93.

[74] As well as larger companies.

### Summary of products and services provided by UKTI

3.15. UKTI offers a variety of products and trade services. It supports businesses of all sizes. Most are SMEs (89%). Overall, 43% of supported firms have fewer than 10 employees.[75] Crispin Simon, Managing Director, Trade Development, UKTI, described UKTI as having two distinct functions, domestic and overseas: "in the UK operations, which are partnered with the chambers of commerce, ... the main activity is to get companies exporting: to proselytise, to give them some education and training and some information"; but, he said, "overseas it is a rather different service"—the company was already abroad and there was no need to proselytise; the service was, therefore, more tailored, and involved assistance in breaking down the barriers in the importing country and passing on helpful contacts.[76] When asked about how he saw UKTI services developing, Mr Simon said that, over the next two or three years, he would like to see "a shift in resources away from providing written information" (because of the accessibility of information on the web)—that service, he suggested, could either be outsourced or companies would be told to do the research for themselves—and a shift towards putting "more expertise and resource into contacts and legal and regulatory barriers".[77]

3.16. **Mr Simon's reply worried us. It appears that, in the near future, the focus of the services provided by UKTI may shift away from domestic provision (of education and information for companies in the UK) towards overseas provision (that is, assisting those companies which are exporting or ready to export to deal with difficulties they may face in the importing country). Given our serious concern (see Chapter 5) that the most difficult challenge in encouraging SMEs to export is how to extend the reach of UKTI to those with export potential (but are either unaware or too cautious to export), we question whether this proposed shift of resources will most effectively encourage an increase in SME exports and assist an export-led recovery. We invite the Government to explain, in response to this report, their short to medium-term approach to deployment of UKTI resources.**

#### *Evaluation of UKTI: PIMS*

3.17. UKTI has two main sources of evaluation data regarding their own performance. These are:

- the Performance and Impact Monitoring Survey (PIMS) with a main quarterly survey (a quantitative report) and qualitative studies which follow on from the main PIMS data; and
- *ad hoc* evaluation reports commissioned from external organisations.

PIMS is a performance measurement and monitoring mechanism. It was developed to support the delivery of the UKTI five-year strategy, *Prosperity in a Changing World*, published in 2006 and has continued under the successor strategy, *Britain Open for Business*.

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75 PIMS, 24–27 September 2012, p 73.

76 Q 40.

77 Q 41.

### *Regional International Trade Advisers*

3.18. UKTI has a network of International Trade Advisers (ITAs) based in over 40 local offices throughout the UK who support business, including to access UKTI services and organising specific events. More recently UKEF have placed specialist staff in regional offices, alongside UKTI staff. The UKTI PIMS evaluation showed an overall quality rating of 80% for English Regions events,[78] with quality ratings for other products varying from 80% for Passport to Export services in the North East to a 92% quality rating for the West Midlands.[79]

3.19. The impression we have gained through our visits and from other evidence received is that the presence of these local ITAs is highly valued by SMEs. The importance placed on a local contact who knows the local SMEs beyond their paperwork, bank balances and accounts is reflected in our comments (in paragraph 4.11 below) about the importance of relationship banking and also echoes the impression we gathered when we visited Wales, Scotland and Northern Ireland that awareness amongst SMEs in those devolved administrations of their trade and investment organisations was higher than the awareness of English SMEs of UKTI (and so, it appeared to us, considerably greater than awareness within the devolved jurisdictions of UKTI itself). SMEs value those who understand the finer details of their needs, capacities and their potential.

### *Passport to export*

3.20. Passport to Export targets firms new to exporting. Under the scheme, companies are assessed for their export ability, given help with an action plan to get them started, training, and support to find the right market and make their first visit. Since 2001 it has assisted around 14,000 companies.[80] 2012 evaluation data gave an 87% quality rating to Passport to Export.[81]

### *Gateway to Global Growth*

3.21. Gateway to Global Growth is designed to help those SMEs which are already exporting to increase their overseas sales, both in existing markets and new ones. Only SMEs with two to 10 years of export experience, or those which are innovative, are eligible for the programme. The programme provides a strategic review with an ITA to assess trade development needs and construct a next steps action plan, guidance and mentoring from export professionals and support on specialist subjects. It also includes access to UKTI's international network; assistance with market research, language and culture and networking opportunities to learn from other exporters.[82] It places greater emphasis than Passport to Export on referrals to other services, including

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78 PIMS, September 2012, part 2, p 253. The "quality rating" is a calculation of a weighted average proportion of firms providing a rating of '4' or '5' on a 5-point scale across a number of aspects of the support they received, such as quality and relevance of information and advice, competence and knowledge of staff or quality of contacts made. The specific aspects varies depending on the scheme under evaluation.

79 *Ibid*, p 407.

80 HC, BIS Committee, 7th Report (2010–12): *Rebalancing the Economy — Trade and Investment* (HC 735–I).

81 PIMS, September 2012, part 2, p 253.

82 UKTI website.

charged-for help from private sector providers.[83] The programme received an overall quality rating of 89% in the 2012 PIMS evaluation report.[84]

*Export Marketing Research Scheme*

3.22. The Export Marketing Research Scheme (EMRS) provides support to SMEs to collect information about overseas markets. The scheme offers free advice on how to conduct or commission market research, as well as advice on whether the information already exists in published market research reports. SMEs can also apply for financial support to conduct the research. The scheme is open to UK companies with between five and 250 employees, wishing to research specific overseas markets for their own products and services, which must have a proven track record of at least two years. EMRS received an overall quality rating of 88% in the 2012 PIMS evaluation report.[85]

*Overseas Marketing Introduction Service*

3.23. The Overseas Marketing Introduction Service (OMIS) is a chargeable UKTI service which is open to both first time and experienced exporters. It provides analysis of market entry strategies, support during overseas visits, identification of potential business partners, along with wider political, security, economic and scientific advice available from the overseas diplomatic network.[86] OMIS received an overall quality rating of 76% in the 2012 PIMS evaluation report.[87] We consider OMIS further in Chapter 5. Box 2 below illustrates the benefit that an SME, Ness Clothing Ltd, has received from OMIS.

**BOX 2**

**Ness Clothing Ltd, Scotland**

"We are a Scottish women's clothing brand, updating tartan to bring a product we think is chic, individual and fun. We have shops across Scotland. Having developed the business from an initial investment of £500 to around £6 million now, we are looking to exports to grow further.

We came to exporting partly through luck. Scottish Development International (SDI) brought a Japanese shopping channel to Edinburgh and by chance they came into our flagship shop on the Royal Mile and went 'oh wow, we like this'. They contacted SDI, who put us in touch and we made a £50,000 sale that afternoon. After this the SDI ball started rolling. We attended a very useful workshop to develop an export strategy, received funding to go to Japan, and were advised to get an OMIS report. My first reaction was 'oh, 1500 quid for nothing', but the Japanese market is very complex and the report was actually very good. When we went to Japan they sorted everything, got us the contacts, helped us with business etiquette etc. Really helpful. It would have been good if SDI had come to us in the first place, maybe told the Japanese TV channel about us and our brand, but overall I'm glad to say our initial scepticism of anything government can do for business has been proved wrong."[88] (www.ness.co.uk)

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83 HC, BIS Committee, *op cit.*

84 PIMS, September 2012, part 2, p 253.

85 *Ibid.*

86 *Britain Open for Business*, *op cit.*

87 PIMS, September 2012, part 2, p 253.

88 Ness Clothing Ltd.

### *Trade fairs and exhibitions*

3.24. UKTI provide grant support for eligible SMEs to exhibit at overseas exhibitions through the Tradeshow Access Programme (TAP). Quality ratings for TAP services range from 71% to 82%, depending on the specific programme.

### FCO provision

3.25. The service provided by the FCO is contained in the *Charter for Business*. Edward Barker, Head of Commercial and Economic Diplomacy at the FCO, told us that the commitments "were aimed at all businesses" and that, "if a business walks through an embassy's door in any country in the world", he hoped that "they would receive a service that reflects the commitments set out in that charter".[89] One service Mr Barker identified as particularly suited to SMEs was the Overseas Business Risk Service (OBRS), an online resource (via the UKTI website) providing information about the risks associated with specific markets and other topical information.[90] As an illustration of the success of the service, Mr Barker said that, over the past year, the number of hits a month on the OBRS website had gone up from around 500 to around 5,000 (although, he said, it was "still a lot lower" than he would like).[91]

3.26. When asked whether the FCO was taking steps to improve its business culture amongst its staff, Mr Barker said that, over the past year, they had trained about 400 desk officers in London on "commercial awareness" and further training would be undertaken. They had also arranged private sector mentors for new entrants to the FCO and heads of mission were being encouraged, prior to taking up their posts, to undertake a short business attachment with a company.[92] We raise this point again in Chapter 7.

### Local provision

3.27. Local Enterprise Partnerships (LEPs) are partnerships between local authorities, organisations and businesses and are part of the Government's growth strategy through shifting power to local communities.[93] LEPs are able to decide on the priorities for investment in roads, buildings and facilities in the area, such as digital infrastructure, tailoring initiatives to local needs and are able to bid for enterprise zones. They can also act as an important means of engaging with SMEs on the ground. LEPs undertake a range of local export initiatives but there is no national pattern. We note that the Heseltine review places significant emphasis on the role of LEPs as "the Government's chosen engine of local growth".[94]

**3.28. Given the need to communicate with SMEs, identify their specific challenges to exporting, raise awareness of UKTI products and services, LEPs have the potential to be a significant part of the**

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89 Q 1.

90 *Ibid.*

91 Q 33.

92 Q 30.

93 LEPs were established following publication of a Coalition Government White Paper: BIS, *Local growth: realising every place's potential* White Paper (October 2010), Cm 7961. By January 2013, 39 LEPs had been formed across England.

94 Heseltine review, p 40, para 2.44.

**Government's institutional infrastructure for raising SMEs competitiveness and export performance. We recommend that LEPs and UKTI should be required to work more closely in this area and that consideration should be given to a specific fund for which LEPs could bid to assist SMEs in this respect.**

## EU provision

### *COSME 2014–2020*

3.29. The EU Competitiveness and Innovation Framework Programme (CIP) began in 2007 and will continue until 2013. One element of CIP is the Entrepreneurship and Innovation Programme (EIP) which includes provision for access to finance, the Enterprise Europe Network and other schemes for encouraging innovation. Subject to the agreement of the European Parliament and the Council, on 1 January 2014, a new programme will begin, the Programme for the Competitiveness of Enterprises and SMEs (COSME), with a planned budget of €2.5 billion. It will last until 2020. It will continue initiatives and actions taken under EIP. Its objectives include "facilitating access to finance" for SMEs, "encouraging an entrepreneurial culture in Europe" and "helping small businesses operate outside their home countries and improving their access to markets".[95] COSME is expected to increase the EU GDP by €1.1 billion and result in an annual increase of €3.5 billion in additional lending and investment for EU companies.

### *Small Business Act for Europe*

3.30. The Small Business Act (SBA) for Europe (which is not an Act in the UK sense but a statement of intentions) was launched by the EC in 2008 (see paragraph 1.17 above). It includes a set of principles, in particular the "Think Small First" principle, designed to guide EU and national action in the interests of SMEs. It also established the "SME test" as part of the impact assessment process, and introduced the appointment of the SME Envoys both at the EU and Member State levels.

3.31. The "Think Small First" principle requires that EU legislation takes SMEs' interests into account at the very early stages of policy-making. Implementation tools include the application of the "SME test" to legislative proposals, inclusion of specific SME provisions in legislation, consultation with SME stakeholders and the use of common commencement dates for legislation relevant for business.[96]

3.32. An example of a recent EU development designed to assist SMEs is a change in auditing and financial obligation regulations enabling exemption by small companies.

### *SME Envoys*

3.33. The EC has invited each Member State to nominate a national SME envoy to complement the role of the EU SME envoy. Together with representatives of EU-level SME business organisations, the Network of SME Envoys make

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95 EC website.

96 *Ibid.*

up an SBA advisory group. The group meets three or four times a year.[97] SME envoys are charged with promoting SMEs' interests and in particular:

- promote SMEs' interests throughout all government bodies, including those at regional and local levels, and ensure that the "Think Small First" principle is integrated into their policy-making and regulatory proposals;
- act as the main interface between the EC and national policy-makers for contributing towards the dialogue on SBA implementation;
- contribute towards evaluating and reporting on the uptake of the SBA in the Members States, stepping up efforts to disseminate widely information on SME-policy actions and promoting the exchange of good practices.[98]

3.34. The current UK SME envoy, Andrew Jackson, is both Director of Enterprise at BIS (responsible, amongst other things, for developing and delivering Government policy for SMEs and entrepreneurship) and SME envoy. Mr Jackson described the key aspects of his role as envoy as "raising and seeking agreement on issues that matter to [SMEs] and probably crucially can best be tackled at EU level" and "sharing best practice among Member States". His focus, he told us, has been on regulation (as "first, second and third priority") and "access to finance" (which "comes along after that").[99]

*Points of single contact*

3.35. Since December 2009, each member state of the EU has been required to offer a national point of single contact (PSC) for those wishing to supply services to that state. It is an online e-government portal which provides information about the rules, regulations and formalities governing the provision of services,[100] and also, in some cases, enables a business to complete the necessary administrative procedures online (rather than having to approach the individual offices of different authorities in different countries). The EC website has a list of all the countries' portals. Not all of them have an English language version and not all allow online application. All national PSCs are part of the European EUGO network.

*European Investment Bank*

3.36. The European Investment Bank lends money to SMEs through local banks. Its role is described in Chapter 4 below.

## Trade organisations

*Domestic trade organisations*

3.37. SMEs are represented by a number of different types of trade organisations. They include generic trade organisations, such as the BCC and the FSB, and

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97 Q 453.

98 EC (Industry and Enterprise) website.

99 Q 453.

100 Such as which licences, notifications or permits are needed to start a business in any EU country; how to apply for a licence; what fees have to be paid.

sectoral trade organisations such as the Society of Motor Manufacturers and Traders (SMMT), Gambica Association Ltd (representing about 200 companies in the instrumentation, control, automation and laboratory technology industries) and the Scotch Whisky Association. They also include organisations based on ethnicity such as the National Asian Business Association (NABA),[101] and those which exist to promote trade between the UK and a particular country, such as the China-Britain Business Council (CBBC), about 50% of whose membership of 660 is classified as SMEs.[102]

3.38. Chambers of commerce represent many businesses, including SMEs, and provide services that can support export. The BCC is the umbrella body which provides market research support including overseas market intelligence, export feasibility assessment and UK-based trade events; support in access to finance, letters of credit and foreign currency exchange; assistance in getting goods to market; help with overseas connections and support with marketing and communications.

3.39. Mr Spicer of the BCC told us that about a third of members were active exporters (compared with a fifth the year before). International trade was, he said, "absolutely central" to members of the BCC.[103] In 2013, the BCC plans to continue a strategic focus on SME exports and provide support through the following:

- Programmes: SME New Exporter Programme, SME Exporter Supply Chain and Consortium-building Programmes;
- Online Support: International Trade Directory and Portal, online training;
- PR and Campaigns: "Exporting is Good for Britain" Campaign 2012;
- Events: International Trade Conference, Debate and Seminar Series, Training Workshops, Trade Missions (inbound and outbound), matchmaking and networking events, SME Exporter Awards;
- Publications: reports, surveys, White Papers (for example, *Opportunities in Emerging Markets*), guides (for example, *Export Basics*, *Franchising Overseas*, *Supply Chain*).[104]

3.40. At the start of 2012, there were an estimated 4.8 million private sector businesses in the UK, of which 99.9% were SMEs.[105] Whilst the trade organisations are very important to any concerted effort to increase SME exports and we readily acknowledge the significance of their contribution, the extent of their influence will be limited by the reach of their membership. The IoD has 40,000 members, 73% of whom are SMEs. A representative panel suggested that just over 50% of the membership was engaged in exporting.[106] The FSB describes itself as "the largest organisation

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[101] The NABA is an umbrella body which represents a number of regional Asian business bodies. See the written evidence of the NABA.

[102] The CBBC represents businesses of all sizes and helps them to develop trade with China at all stages of market entry. See the written evidence of the CBBC. Figures are as of 31 March 2012.

[103] Q 93.

[104] BCC.

[105] BPE 2012, *op cit*, p 2.

[106] Q 73.

representing small and medium-sized businesses in the UK",[107] with around 200,000 members—less than 5% of all SMEs. The BCC represents 104,000 companies.[108] During the course of the House of Lords debate on the Heseltine review, Lord Heseltine commented on the very large pool of SMEs which are not connected to either the FSB or the BCC:

> "Chambers of commerce, as they are now constituted, represent only a fraction of our companies. Let me give just two examples: Birmingham has fewer than 3,000 members; Milan has 350,000 members. ... in Humberside, ... , the chamber there has 1,000 members. The Federation of Small Businesses has 1,000 members. There are 70 entrepreneurs who have formed a breakaway group; that is 2,070 firms. There are 40,000 firms on Humberside."[109]

3.41. In some countries, such as Germany, the chambers of commerce are statutory and membership is compulsory for most businesses (see Appendix 7). As a result, as the Heseltine review illustrates, in Germany, "a typical chamber will have a business membership of more than 30,000", to be contrasted with the Greater Manchester Chamber of Commerce, the largest single chamber of commerce in the UK, which has about 5,000 members.[110] Noting the differences in approach, the Government describe the UK model as "one of co-operation: depending on strong co-operation across government, business support bodies and the private sector".[111]

3.42. A principal theme of this report concerns the awareness (or lack of awareness) of SMEs about their export potential and the services available to assist them in realising it. In Chapter 5, we focus on this issue and the underlying challenge of engaging with SMEs which in the UK do not have a common voice or communication route to government. Compulsory membership of a trade organisation could provide a powerful resource for communicating with SMEs. The Heseltine review, however, concluded that, whilst "compulsory membership would provide the reach and membership levels that have eluded business membership organisations hitherto",[112] "compulsion rather than voluntarism would be unpopular".[113] Lord Heseltine, therefore, recommends that "Government and the private sector should collaborate to create a strong and stable, locally-based, private sector business support infrastructure".[114] He recommends further that the chambers of commerce should have an "enhanced role" in securing that collaboration.[115]

3.43. Given the Committee's remit, we decided that the debate about the role and status of trade organisations was beyond the scope of our inquiry and that our focus should be on what Government can do. **However, we share Lord Heseltine's view about the advantages of increasing the membership of organisations such as the chambers of commerce as a means of**

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107 FSB.

108 BCC.

109 6 December 2012, HL Debs, col 828.

110 Heseltine review, p 129, para 5.26.

111 The Government.

112 Heseltine review, p 137, para 5.45.

113 *Ibid*, p 137, para 5.46.

114 *Ibid*, p 138, Recommendation 64. See also Lord Heseltine, Q 419.

115 *Ibid*.

**facilitating the dissemination of information and opening up the lines of communication between UKTI and other export service providers more generally. We would, therefore, encourage organisations which have a close link with SMEs, such as the chambers of commerce, to consider as a priority how they can attract more SMEs into their organisations and thereby extend their reach.**

*European-wide trade organisations*

3.44. UEAPME (Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises) is an employers' organisation which represents the interests of European crafts, trades and SMEs at the EU level. It incorporates about 80 member organisations from 34 countries, and represents over 12 million enterprises.[116] The European Small Business Alliance concerns the interests of small business entrepreneurs and the self-employed. It represents almost one million small businesses and covers 35 countries.[117] The UK FSB is a member. Eurochambres is the Association of European Chambers of Commerce and Industry. It represents the interests of over 20 million member enterprises in 45 European countries through a network of 2,000 regional and local Chambers.[118] The UK is not currently a member of either UEAPME or Eurochambres.

## Professional advisers

3.45. SMEs are supported not only by various types of trade organisations but also by an infrastructure of professional advisers, such as banking and accountancy services. Given the extent of their reach, they are a potentially powerful channel of communication. The Institute of Chartered Accountants in England and Wales (ICAEW), for example, has 138,000 world-wide members, supporting 1.5 million businesses (of all sizes) in the UK. They told us: "Getting the right information about the markets SMEs want to export to is the biggest obstacle. ICAEW chartered accountants can help make this information more widely available".[119] Other accountancy bodies offer similar services. One of the SMEs which we met during our visit to RBS, London & General Marketing Ltd, suggested that, with regard to financial advice, the "best way" for the Government to provide help to SMEs was "through the banks".[120]

3.46. **We are aware that efforts are already being made to link UKTI and professional advisers to SMEs. Given the reach of the professional advisers in the SME sector, we would encourage the Government to consider, with relevant representative professional bodies, whether more can be done to use the professional adviser networks to improve communication between UKTI and SMEs.** We return to this issue in Chapter 5.

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116 UEAPME website.

117 European Small Business Alliance website.

118 Eurochambres website.

119 ICAEW.

120 London & General Marketing Ltd.

# CHAPTER 4: FINANCING EXPORTS

## Introduction

4.1. Many SMEs told us that they struggled to get the necessary finance to export —from loans to expand production or research new markets to insurance against bad payers. Trade and Export Finance Ltd (TAEFL), an advisory firm, wrote: "lack of finance is the single most important barrier to SMEs seeking to export".[121] This chapter outlines the financial hurdles SMEs face, the ways businesses can overcome them and how Government can help.

## Bank lending

4.2. Few SMEs had a kind word to say about banks. Lending had dried up even to SMEs with full order books and strong collateral and strong cash flow, they said, while any finance offered often carried punitive charges and interest rates.[122] Onerous guarantees were often requested against loans including demanding directors to put up their homes as security.[123] London & General Marketing Ltd (see Box 3 below) told us about their experiences when we visited RBS. Steel Services Direct Ltd, an SME exporter, wrote: "trying to expand in an overseas market whilst worrying about losing your home would put off most people".[124] Furthermore, banks can be slow to offer financial support, even when the export order has been won. Decisions on loan applications from banks could also be slow.[125]

**BOX 3**

**London & General Marketing Ltd, Middlesex**

"These family firms can absorb a lot of talents and keep a lot of people occupied and contribute towards the government taxation."

London & General Marketing Ltd (www.lon-gen.co.uk) has been trading for over 20 years supplying plastic polymers from its base in Middlesex. Recently they started supplying a product used in the manufacture of detergents and other cleaning products and have agency agreements with such companies as Chevron Phillips. Their main focus is on African markets but, through their website, they offer to supply products to any part of the world.

Writing to us as part of our inquiry, they highlighted problems with access to finance and argued that "the best way for the government to help is through the banks ... Most of the exporters approach their banks at the beginning to arrange the finance for their requirements in export trading, for example opening letters of credits, having overdrafts to tie in their small term requirements, and any advice on their transactions to do with their trade."[126]

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121 TAEFL.

122 For example, Andy Mears Q 214, Daniel Doll-Steinberg Q 259.

123 Steel Services Direct Ltd, Daniel Doll-Steinberg Q 259, and various comments during Committee roundtables with SMEs across the UK.

124 Steel Services Direct Ltd.

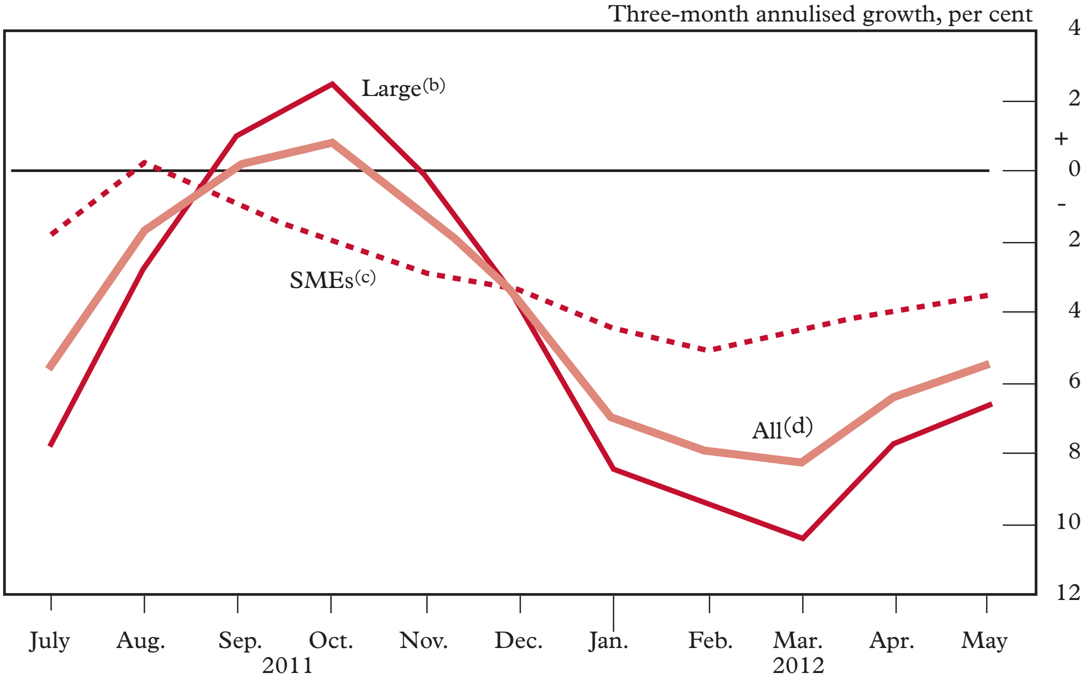
125 Steel Services Direct Ltd, Engineering the Future Alliance, Samir Desai Q 204.

126 London & General Marketing Ltd.

4.3. The Government have also been critical. The Rt Hon Dr Vince Cable MP, Secretary of State for Business Innovation and Skills, said: "The banking system had the equivalent of a massive heart attack. It's done enormous damage and one of the main casualties has been small business lending."[127]

**FIGURE 2**

**Lending to non-financial businesses by size**




(a) Three month-annualised growth in the stock of lending. Lending by UK monetary financial institutions to UK non-financial-businesses. Data exclude overdrafts. Data cover lending in both sterling and foreign currency, expressed in sterling terms. Non seasonally adjusted.

(b) Large businesses are those with annual debit account turnover on the main business account over £25 million.

(c) Small and medium-sized enterprises (SMEs) are those with annual debit account turnover on the main business account less than £25 million.

(d) All non-financial businesses are the sum of larege businesses and SMEs.

*Source: Bank of England, Trends in Lending, July 2012*

4.4. Banks, unsurprisingly, disagreed. Lloyds Banking Group and Barclays said their lending to SMEs was increasing, while RBS argued that banks' supply of loans was not the problem as SMEs' demand for RBS loans halved from 2007–12.[128]

[127] BBC Radio 4, *Today programme*, 6 February 2013.

[128] Q 137.

4.5. It is beyond dispute that bank lending has fallen to businesses—large and small—as the figure above shows. Given the greater risk in recessions of companies being unable to repay loans, it is reasonable to expect demand for and supply of loans to fall somewhat. Banks also have less money to lend because they now need to hold more capital to strengthen their balance sheets and comply with tighter banking regulations. The key issue, however, is whether SMEs capable of repaying their debts are being refused credit or offered on terms that are too onerous. One Government study last year showed that SMEs in 2008–09 were more likely to be rejected for bank loans than comparable firms with the *same* credit risk earlier in the decade.[129]

4.6. However, not all SMEs are struggling for funds. Mr Roberts, Brompton Bicycle Ltd, said: "We have far too much cash just sitting not doing an awful lot".[130] SMEs overall have more deposits than borrowings from banks. Total SME lending was £99.6 billion at the end of September 2012 compared to £124 billion of deposits.[131]

4.7. The Heseltine review concluded: "There does not appear to be a definitive answer as to whether this decline [in lending] is due to a lack of supply from banks or limited demand from businesses lacking confidence".[132] Likewise, this Committee is not in a position to provide a definitive answer on the conflicting evidence received about whether banks are refusing to lend to SMEs that were good credit risks. We could not assess individual cases. However, the Minister, Lord Green, said that when he follows up some individual firms' complaints about banks he finds "that somebody in bank X or bank Y has made an extraordinary decision".[133]

4.8. **We were struck by the number of SMEs and executives whom we met who complained of insufficient loans and other services on reasonable terms. We believe that bank lending practices contributed to this problem. Therefore, the Government should study how banks assess the credit risks of SME exporters and different overseas markets to determine the causes of this problem.**

4.9. SME executives during our roundtable discussions blamed the lack of loans on their local branch managers no longer being able to take lending decisions. Loan applications are referred up the chain to "relationship managers" in regional—rather than local—bank offices who did not know their companies and based the decisions on formulae. Alderley plc raised this issue with us (see Box 4 `below).

129 BIS, *The Impact of the Financial Crisis on Bank Lending to SMEs* (July 2012). We acknowledge that the picture may, however, have changed since the period covered by the study.

130 Q 124.

131 British Bankers' Association, *Banks support for SMEs*, 30 November 2012.

132 Heseltine review, p 146.

133 Q 484.

**BOX 4**

**Alderley plc,Wickwar, Wotton-under-Edge**

Alderley plc (www.alderleygroup.com) is a medium-sized engineering business making process equipment for the oil and gas industry. It was originally set up in 1959 and, since then, has established office across the world. Its headquarters are in Wickwar near Bristol and it employs about 350 staff worldwide. Eighty five per cent of its business is initiated from overseas. In 2011, it had a turnover of £55 million. Alderley plc describes itself as "a successful exporter".[134]

Tony Shepherd, Chairman of Alderley plc, told us about his experiences with the regional banking sector during the financial crisis: "we had some big difficulties in 2007 and 2008, and although we offered our business to every major bank in the country we are now back with the bank we started with". He went on: "our bankers decided they did not want to do any business with us even though we were profitable and even though we were exporting".[135] When we asked about the role of local bank managers, he replied: "I do not think they make the decisions at all ... We had a really first-class case and it has been proved by the performance for the past couple of years." He told us he could sell it to the regional branches of the bank "but the moment it went up to London it was rejected."[136]

4.10. Tied in with this is the demise of relationship banking where local bank managers knew their local business customers, leaving them better-placed to judge loan applications on their merits. Dr Cable said of the big British high street banks: "They allowed the whole relationship banking system to decline and fall into disrepute."[137] Lord Heseltine wrote in his report: "There is widespread awareness in the banking world of the need to revive relationship banking."[138] Some bank executives acknowledged lending decisions were taken too far from the companies concerned. Steve Box, Head of Trade and Receivables Finance Europe, HSBC, said: "We have recognised ... that maybe we went too far in having formulaic approaches or reviews to lending decisions. What we now have is local business managers back in the branches [and] we have had to specialise and give them empowerment to approve."[139] We also heard a widespread view that banks are all using the same formulae to determine whether loan applications are approved and on what terms. So if one bank rejects a loan application, they all do.

4.11. **Local bank managers must be given more discretion to approve or reject sizeable loan applications from SMEs using their judgement and not relying solely on formulae. They are much better-placed to take these decisions than staff in more distant regional offices with next to no interaction with their SME customers.**

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134 Alderley plc.

135 QQ 273–4.

136 Q 275.

137 BBC Radio 4, *Today programme*, 6 February 2013.

138 Heseltine review, p 150.

139 Q 139.

*European Investment Bank*

4.12. The European Investment Bank (EIB) lends money to SMEs via the banks. Around €10 billion was lent by the EIB to SMEs in 2010—up 43% since 2008—as the institution stepped up its support for SMEs following the financial crisis. No SME-only figure was provided for 2011.[140]

4.13. EIB loans for SMEs can support investments costing up to €25million (£16 million). The most the EIB can put into a loan is €12.5m but it can lend up to 100% of each individual investment. In aggregate, each participating bank is required to match the EIB loans to SMEs from their own funds to avoid displacing private bank lending.[141] Participating banks in Britain are Lloyds, RBS and Santander. Businesses cannot apply directly to the EIB for loans and must go through these banks. The figure below shows British SMEs have borrowed relatively little under the EIB scheme compared to most major EU economies except Germany where the UK received more for two of the years shown.

**FIGURE 3**

**Allocation of EIB funds by banks to SMEs**


*Source: EIB, Report on Activities Supporting SMEs 2011, page 15*

4.14. Last year, EU member states agreed to increase the EIB capital by €10 billion. In line with its shareholding, the UK contribution will be €1.6 billion.[142] In the UK €511m were disbursed under the EIB scheme in 2011. It is unclear why greater use is not made of the scheme. Santander, one of the banks participating in the scheme in the UK, suggested this may be

[140] Data taken from *Report on Activities Supporting SMEs*, EIB (2011), p 15.

[141] EIB Group, *Support to SMEs 2008–2010* (July 2011).

[142] Autumn Statement 2012, para 2.45.

because of the weak economy and that the scheme only applies to new lending rather than re-financing existing facilities.[143]

4.15. **The Government should examine why greater use is not being made of EIB funds and, in particular, whether so few UK banks being the gateway to the scheme is part of the problem.**

### *More banks for business lending*

4.16. Often when SMEs seek finance, they use high street clearing banks. However, many other banks, often headquartered overseas with branches in the UK, can also lend to SMEs. Mark Runiewicz of TAEFL said: "There are 600 banks in London; 300 have branches ... We had a case a month ago: a client with £4 million turnover had an order of £600,000 in Iraq. The clearing banks said, 'We don't touch Iraq'. Within three hours we ... placed that with a bank based in London."[144]

## Alternative sources of non-bank lending

4.17. SMEs can also look beyond banks to access loans. "Invoice discounting" eases cash flow constraints by allowing companies to borrow against receivables—money owed by customers for goods already provided. Companies repay the loans when the customers pay up. This can be done without the customers' knowledge. Alternatively, SMEs can forego confidentiality by going a step further and giving the invoices to the lender to chase up for payment—a process called "factoring". Invoice discounting and factoring can ease the cash flow of an SME that has sold a lot of goods, has yet to be paid but needs the cash relatively soon to settle its own bills but is not suitable to fund expansion into new markets.

4.18. "Crowd funding" is another option where small businesses can borrow online from a set of many lenders, often individuals. The biggest such business lender in Britain is Funding Circle. Its chief executive, Samir Desai, explained how they helped one firm quickly to obtain a loan that had been turned down by its high street bank. He explained: "This company is the global leader in aquarium lights. It has only a £5 million turnover but it is the global leader none the less. It banked with HSBC and basically could not get any more finance from HSBC. It came and got a loan from us. We got the money within two weeks, and it has since expanded to additional countries, so is now in 55 countries worldwide." [145] Funding Circle require security against loans over £100,000. However, banks have often required all an SME's assets to be pledged as security when extending loans or overdrafts. In such circumstances a waiver or a deed of priority is needed from the bank which enables the SME to pledge some assets against a Funding Circle loan. This can be a drawn-out process. Mr Desai said: "We have had examples of fundings where we have completed the funding of the actual business within seven days and then it has taken us three to four weeks to enter into a deed of priority with the banks so that we can release the funds to the client."[146]

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143 Santander.

144 Q 191.

145 Q 201.

146 Q 204.

### *Equity*

4.19. Selling shares to investors privately or floating on stock markets such as AIM are alternatives to bank finance. Equity works well for high-growth companies that need a lot of capital to expand and are prepared to share the future rewards they hope to achieve. High growth is easier for companies that are primarily equity, as opposed to debt, financed because they do not have to use up valuable funds repaying loans.[147]

4.20. For SMEs exploring new potential markets, equity can offer other advantages. Tim Hames, Deputy Chief Executive of the British Private Equity & Venture Capital Association (BVCA), said that exporting "is going to require some sort of upfront cost and expense at your end to go out to the market, to go out to international markets. Rightly or wrongly, there is a sentiment among many companies that it is not the sort of thing where you knock on the bank manager's door and expect to get a receptive welcome, compared with saying, 'I want the money to invest in new equipment or new technology'."[148] Echoing this Marcus Stuttard, Head of AIM at the London Stock Exchange,[149] said: "Most investors in public companies will appreciate that in order to get that growth, for many companies, exporting will be a key feature of that company's growth prospects."[150]

4.21. Mr Stuttard argued that listing on the stock market was beneficial to exporters as it gave them "profile and visibility" to potential overseas customers.[151] It also allowed potential customers to examine the accounts to reassure themselves the exporter was financially viable.[152] The London Stock Exchange stated in evidence to us: "AIM companies typically increase turnover by 37% and employment by 20% in the first year after admission to the market". AIM companies are also more than twice as likely to be exporters as SMEs overall—53% of AIM companies have at least some exports compared to an estimated 20% of all SMEs.[153]

4.22. However, private sources of venture capital have slumped. About 60% of UK venture capital raised last year came from government compared to only about 10% in 2007.[154] For many AIM-listed companies equity is still available. Mr Stuttard said: "Between 80% and 90% of all the capital that has been raised over the last four to five years has been companies on market going back to their investors to raise further rounds of finance."[155]

4.23. **SME exporters should examine other options for funds than the high street clearing banks including non-clearing banks, crowd funding and equity finance. Advice on these funding options should be available from UKTI, chambers of commerce, trade associations and accountants.**

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147 Marcus Stuttard Q434.

148 Q 434.

149 AIM means alternative investment market.

150 *Ibid.*

151 Q 435.

152 Q 434.

153 London Stock Exchange.

154 Tim Hames Q 432.

155 Q 432.

### UK Export Finance

4.24. We have already touched on UKEF (in paragraph 3.12 above). UKEF provides insurance to British exporters, usually via banks, against non-payment by overseas buyers and guarantees bank loans to facilitate the provision of finance to overseas buyers of British goods and services. Its customers include some SMEs but it has in recent years worked mainly with large exporters like Rolls Royce. Since 1991—when UKEF's short-term credit guarantee arm was privatised—the body has focused on medium/long term support for companies exporting capital goods such as plant and machinery. The organisation seeks to complement rather than compete with privately provided export finance. None the less, given the ongoing credit crunch, it is startling how few companies use its services even if an increasing proportion of those firms are SMEs. We set out the figures in paragraph 3.12. Challenged on the low numbers of SMEs helped, Mr Crawford, (then) CEO of UKEF, said: "The reason for that is we have been absent from the market for over 20 years ... We have had to reintroduce ourselves to the market."[156]

4.25. The Government have now started to put more emphasis on UKEF helping SMEs sell overseas. In 2011, UKEF launched three new short-term products to meet gaps in the provision of support to exporters, especially SMEs, from private sector providers.[157] These products are accessed through banks. The new products are:

- Bond Support Scheme—where a bank issues a contract bond to insure an overseas buyer against breaches of a contract with a British exporter (for example, goods not delivered on time to the right specification). UKEF usually can guarantee 50% of the value of the bond. In 2011–12, 26 bonds were supported for five companies.

- Export Working Capital Scheme—UKEF can typically guarantee 50% of the credit risk to banks providing working capital to exporters who need it to fulfill their orders. The scheme is aimed at companies who have a surge in export orders. One facility was granted in 2011–12.

- Foreign Exchange Credit Support Scheme—when a bank provides an export working capital facility. Exporters may also request a forward hedging facility to mitigate the effects of fluctuating exchange rates on the value of the contract. In these circumstances, UKEF can increase their guarantee of the working capital facility by an amount equal to 50% of the amount of the foreign exchange hedging facility. As of June 2012, no business has been supported under the scheme.[158]

UKEF's annual report does not spell out how many of the companies used these schemes were SMEs. A review was launched in June 2012.[159]

4.26. In 2012, the All-Party Parliamentary Group (APPG) on International Corporate Responsibility published a report on UKEF, *Exploring the tension*

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156 Q 10.

157 UKEF Annual Report, 2011–12.

158 Letter from UKEF launching a review of the three schemes, 22 June 2012.

159 *Ibid.*

*between trade and responsibility*, in which it concluded that "at present, UKEF backs less than 1% of British exports" and that the evidence suggested that many SMEs were "unaware of its products and services. Its growth impact", the report said, was "minimal and could be improved".[160] The report went on to recommend that UKEF should review its products with a view to developing bespoke services for SMEs and should "improve its efforts at awareness-raising and engagement with businesses and banks outside of its traditional customers."[161]

4.27. Manufacturing Technologies Alliance, a trade association, explained the low take-up of UKEF's new products: "The problem lies with their marketing and the chosen main route to market (ie through the high street banks) rather than with the products themselves or indeed a lack of demand for them."[162] TAEFL echoed the problems of using the banks as gatekeepers: "UKEF has quality products but is reliant on the mainstream banking channels for delivery. These channels are restricting access to the benefits of the schemes."[163] Box 5 below provides an example of an SME, Griffon Hoverwork Ltd, which has had experience of UKEF.

**BOX 5**

**Griffon Hoverwork Ltd, Southampton**

"The UK dominates the Hovercraft export market, but it is small and therefore we are not complacent, whoever wins the most recent large order is in effect the market leader."

Griffon Hoverwork Ltd (GHL) (www.griffonhoverwork.com) is a medium-sized enterprise based in Southampton, formed in 2009 from Hoverwork and Griffon Hovercraft. It brings together 44 years of hovercraft design, manufacture and operational experience, has more than 170 craft in operation with customers in 41 countries and describes itself as "the world leader in launching new designs into practical service." GHL told us that they remain ambitious and that " ... the opportunity lies in developing new markets rather than pursuing complete domination of the existing market. Breaking into new markets requires significant investment in consultative selling, with associated up-front cost."

GHL felt that UKEF efforts to be more accessible to SMEs "need to be taken to another level. In GHL we have a relatively robust finance team, because we are already involved in exporting. Without that strength in depth we would not have the capacity to be able to meet the information requirements of UKEF. Potentially the UKEF product could be scaled with the diligence package associated with the smallest scale UKEF guarantees requiring a modest online submission."[164]

160 APPG on International Corporate Responsibility, *Exploring the tension between trade and responsibility* (2012), p 3.

161 *Ibid*, p 4.

162 Manufacturing Technologies Alliance.

163 TAEFL.

164 Griffon Hoverwork Ltd.

4.28. BExA listed numerous changes it would like to see to the products offered by UKEF including:

- supporting indirect exports by SMEs (see paragraph 1.10 above);
- greater clarity of the terms of the Export Insurance Policy which insures British companies against not being paid by an overseas buyer;
- making the Export Insurance Policy available worldwide in addition to the current support for non-OECD[165] countries and Greece;
- increasing UKEF cover up to 90% of the value of letters of credit from the current maximum of 50%;
- introducing a foreign exchange rate protection scheme to help protect SMEs against losses from adverse changes in currency values;
- introducing a Fixed Rate Export Finance scheme to enable exporters to offer medium and long-term finance to overseas buyers at officially supported fixed rates of interest. Such official financing support is provided by a number of overseas governments;
- improving promotion of UKEF products; and
- streamlining the application process for UKEF products.

4.29. **Given that London is one of the world's key financial centres, it is surprising that more is not done to meet the financial needs of our indigenous SMEs who are, or intend to become, exporters. It would help the sector if our financial institutions and the Government developed more specific products to meet the unique requirements of exporting SMEs. It cannot be left to UKEF.**

4.30. **We were taken aback by the very small number of SMEs helped by UKEF. The new emphasis on aiding SMEs in addition to its big clients like Airbus is welcome. UKEF services need to be better publicised amongst SMEs and banks. The role of the banks, which are the gateway to the schemes aimed at SMEs, needs to be examined as they share the risk with UKEF. If the banks are not prepared to take on some of the risk then the schemes, as currently structured, are dead in the water. An examination of this should form part of the Government study we recommended earlier (Recommendation 5) on how banks view the risks attached to SMEs seeking to export.**

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165 Organisation for Economic Cooperation and Development.

# CHAPTER 5: MARKET INFORMATION AND ACCESS

## Introduction

5.1. Some SMEs come to exporting by chance, others make a conscious decision to seek out export markets, and others do not export but should. We have summarised some of the reasons which inhibit exporting, from challenges in accessing finance to concerns over a lack of skills (see Chapter 2). The purpose of UKTI is to break down those apparent barriers and to increase the amount exported by SMEs and the number of SMEs engaged in exporting activities.

5.2. Government provision of products and services to support SMEs in exporting is extensive (see Chapter 3), and is often praised by those who have used the services of UKTI in particular. Deltex Medical Ltd told us, for example, that UKTI is "a very good source of information. It produces a very good service in general" and it was where they would go first if they wanted information "about exporting into new territories".[166] The BSIA described UKTI services as "useful" (although "very costly" for SMEs).[167] The Scotch Whisky Association said that UKTI and the embassies had "good resources in many markets" of which many Scotch whisky companies were often beneficiaries.[168] Mike Watts, Chief Executive of Novel Entertainment, an SME, said: "I am a big supporter of what UKTI with an organisation like PACT [Producers Alliance for Cinema and Television] can do for producers"; the relationship between the two organisations had, he said, "worked well".[169] The Engineering and Machinery Alliance (EAMA) said that UKTI "had achieved some good results" (although went on to comment that "the [budgetary] pressure on UKTI may well have gone too far").[170] Alexander Ehmann of BExA said that UKTI was "broadly … very effective".[171] Many of the SMEs we met during our visits also spoke of UKTI positively.

5.3. Inevitably, we received some criticisms of the products and services of UKTI as well. For example, Daniel Doll-Steinberg, CEO and Founder of Tribeka, an SME involved in information technology, reported difficulties in communication and accessing services:

> "We work with UKTI. It has been relatively ineffective but I wouldn't necessarily blame UKTI or the people that we deal with. Maybe the structure could be better as it is very difficult to find out what they could offer an SME. You have to go to a meeting with them. You don't have a team that is constantly looking at what grants are available, what makes it easier to export. We tend to be quite reactive. Also, a lot of what they tend to offer us involves some sort of cost that we would prefer not to take on; we have cost in the business anyway."[172]

166 Q 113.
167 BSIA.
168 SWA.
169 Q 303.
170 EAMA.
171 Q 88.
172 Q 237.

Other witnesses also expressed concern about the costs involved in using UKTI services (see 5.12 below).

5.4. From the evidence we have heard on the suitability of UKTI products and services, two questions arise. First, are the products and services able to deliver the benefits for SMEs needed to help them export more? Secondly, are SMEs aware of the products and services available to them and, if not, does this inhibit the potential of SMEs to export?

### Suitability of products and services available from UKTI and the embassies

5.5. Evidence from the Government identified two key factors in encouraging more firms to export: building confidence, knowledge and capabilities; and, help to individual firms to overcome barriers to new markets.[173] What we have heard from SMEs supports this, with provision of information and direct support to access markets cited as positive examples of UKTI services.

5.6. Chapter 3 outlines the range of products and services available, and their regular evaluation through PIMS and *ad hoc* evaluation reports commissioned from external organisations. PIMS findings were cited by UKTI to support claims about the benefits received by firms who had accessed their services (whilst also acknowledging a need for improvement in some services, especially web services).[174]

**FIGURE 4**

**UKTI—How effective are current mechanisms?**[175]

UKTI's Performance and Impact Monitoring Survey (PIMS) shows high benefits to many firms but some areas for quality improvement.

| **PIMS Mean additional sales: £1.794m** | All Trade Services | UK-based Advisory Service | Overseas Network Services | Events | Trade-shows & Missions | Web & Report Services | DSO Support |
|---|---|---|---|---|---|---|---|
| **Number of Firms Supported (PIMS 24-27)*** | 25,400 | 6,800 | 9,040 | 12,780 | 5,290 | 3,730 | 860 |
| **Quality Rating** | 78% | 86% | 78% | 76% | 74% | 57% | 84% |
| **% Reporting significant Business Benefit (Improved Productivity & Competitiveness)** | 70% | 74% | 65% | 64% | 88% | 54% | 71% |

5.7. According to PIMS data, 53% of firms which had accessed UKTI support, and 73% of those using Passport to Export in particular, showed improved business performance as a result.[176] The most highly rated UKTI products

173 The Government.

174 The Government, answer to Q9 'How effective are the current policy mechanisms at supporting SMEs to export?': "There is a substantial body of independent evaluation evidence which demonstrates that UKTI trade services are highly effective. However, there are still gaps in quality for some services, especially web services".

175 The Government, slide 16.

176 PIMS, September 2012, p 3.

and services relevant to our inquiry were Passport to Export (87%), Gateway to Global Growth (89%) and the EMRS (88%). OMIS scored a 76% quality rating, while TAP scored between 82% and 74% depending on the specific service provided.

5.8. These findings are consistent with other evidence we received. Passport for Export, TAP and ITAs were well-regarded by witnesses. PIMS data for regional performance supports this. Those areas that received the highest quality rating overall for a specific product also tended to score highly on the "competence and knowledge" of the ITA score. For example, the East Midlands, London and the West Midlands all scored 90% or over for their overall quality rating (the highest of the regions) and their ITAs were rated 94%, 95% and 94% respectively.

### *Passport to Export*

5.9. Passport for Export was praised by a number of SMEs. Ms Parry of Exquisite Handmade Cakes Ltd, for example, described it as "a very useful exercise".[177] Minden Systems Ltd, an SME involved in the design, manufacture and installation of high velocity centralised extraction systems, having set out the challenges faced in exporting, went on to say:

> "I then got to hear about the 'Passport for Export' programme run by UKTI. I committed the company and myself to the time and energy to complete the course—the course was Very Good in terms of instruction and make up, there was also additional grants which we used to translate our marketing in to other languages—French, Spanish and German."[178]

### *Tradeshow Access Programme*

5.10. TAP received similarly good reviews, albeit with caveats. Richard Wilson, Chief Executive of TIGA (The Independent Games Developers Association), identified trade shows as important, but argued that greater flexibility was needed in how money was spent, with the ability to fund travel and missions as well as trade shows. This was particularly important, he said, for small businesses which often lacked the finance for travel and whose need was to demonstrate their latest game rather than have a stand at a trade show that was more appropriate for manufacturers.[179] Paul Alger, Director of International Affairs of the UK Fashion and Textile Association (UKFT), said that his industry was "the largest single user of TAP funding"; it was, he said, "the lifeblood" of his industry.[180] But, he also said, more resources were needed for higher profile stands and greater promotion of the UK "brand" in order to compete:

> "The Italians, the Germans and the French will spend a lot of money on very large, very expensive and sometimes overly expensive pavilions, but the long-term approach that they are taking tends to mean that over a very long period of time the world has recognised that they are a force to be reckoned with and they are therefore the benchmark. I would like to

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177 Q 343.

178 Minden Systems Ltd.

179 Q 307.

180 Q 312.

> see more money spent over a longer period of time on trade shows, which you also mentioned, and on national promotion, which you mentioned. What I think we do very well with UKTI is information, because our overseas colleagues say, 'We may have lots of money, but actually you have a lot of really good information'."[181]

5.11. The Minister, Lord Green, conceded that the Government had "skinned down the amount of funding available for trade fairs far too far. The Autumn Statement money will enable us to double that, from some £7 million to some £14 million. Therefore we will be able to offer more discounted attendance at more trade fairs. What is more, it will enable a company to go for more than a couple of years; we can increase that to three or four years' attendance at trade fairs".[182] Whilst we welcome the increase in TAP funding, we note the concern expressed by the trade association Gambica Association Ltd that in 2004 it stood at £20 million and that the recent reduction to £7 million led to a "drastic reduction" in the number of companies supported.[183]

### *OMIS*

5.12. OMIS also received mixed reviews. The most significant complaint about OMIS was the charge. The SMMT, for example, said: "Government could encourage SMEs to export by offering further support for market information. This information is currently available from UKTI as an OMIS Report, however there is a cost to the SME of £500 to £1,000 per country which makes it prohibitive for smaller companies to expand into new territory without making a significant investment up front".[184] Testhouse Ltd, an SME, stated that "the UKTI's first response is to sell ... an OMIS report, this is a chargeable piece of work and seems more like a money making exercise rather than supporting the SME community". They suggested that OMIS should be free of charge and shared with others.[185] BExA also suggested that UKTI should change its charging regime, including charging for OMIS only when exports are won. They cite an example where a company was asked to pay £2,200 for an OMIS report on a Far Eastern market as a result the company did not pursue the OMIS inquiry. BExA suggested that a mini-OMIS, providing basic introductory information, should be introduced free of charge. This could provide information more quickly, they argue, compared to an OMIS which usually takes six to eight weeks.[186]

5.13. We also received evidence about the inconsistent quality of OMIS reports. Mr Mears of Deltex Medical Ltd told us, for example: "you can have some very good OMISs and, in contrast, you can have some not so good OMISs"; and Mr Emerson of Brompton Bicycle Ltd agreed: "We have commissioned three OMIS reports, all for South American countries. Two were

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181 Q 329.

182 Q 479.

183 Gambica Association Ltd.

184 SMMT.

185 Testhouse Ltd.

186 BExA.

commissioned by me a couple of years ago, one for Brazil and one for Chile. One was pretty mediocre and the other was pretty excellent."[187]

### *Follow-up*

5.14. A number of witnesses were also critical of UKTI for lack of follow-up after the initial involvement to enter a market. For example, the BCC cited as a case study MW Polymer, highlighting that "there is a lot of support in the initial stages of the export journey, but once contacts have been made abroad they are left alone. Continued support would be helpful".[188] Mr Davenport of FBS made a comparison with Germany: "... for small businesses a barrier is the quality of the backup that you get from the Government. Take the situation with Germany, which has around 18,000 people. They are stationed all over the world and their task in life is to find orders and feed those orders back to Germany".[189]

5.15. **The high quality ratings given to UKTI products and services by the PIMS evaluation are borne out by the evidence that we have heard. While there are improvements that can be made to UKTI products and services and their delivery through the embassies, the overall picture is positive and points to an organisation that has a great deal to offer SMEs.**

5.16. **The one significant exception to this is OMIS and, in particular, the charges made for OMIS reports. We recommend that the charging structure for OMIS should be reviewed with a view to making it more flexible so that charges better match individual cases and needs. UKTI should consider adapting its charging structure to SMEs so that, for example, the first OMIS report commissioned by an SME is charged at a lower rate.**

5.17. **Furthermore, while it appears that the quality of reports is often high, concerns were also raised about consistency of quality. We recommend also, therefore, that UKTI should take steps to ensure consistency in the quality of OMIS reports.**

## Awareness of UKTI

5.18. While the products and services provided by UKTI and the embassies received great deal of positive feedback, a strong theme in the evidence we received was that many SMEs were not aware of them. The Birmingham Chamber of Commerce Group, for example, spoke favourably of UKTI but said that it "is not widely known enough" and more resources should be allocated to publicising its services.[190] The ICAEW said that "according to ICAEW chartered accountants advising SMEs, small businesses often know little about UKTI and UK Export Finance, and what they can offer", and "Government can struggle to talk directly to SMEs".[191] The FSB said they had a positive relationship with UKTI but:

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187 Q 115.

188 BCC, case study 1.

189 Q 96.

190 Birmingham Chamber of Commerce Group.

191 ICAEW.

> "General awareness of UKTI is relatively low amongst the FSB membership at 21% overall (37% amongst exporters and 16% of non-exporters). However, we recognize that there may be cases in which members have used 'overseas commercial services' and don't necessarily recognise the UKTI brand. Usage of UKTI services is relatively low also sitting at around 18% of exporters."[192]

5.19. Mr Davenport of FSB elaborated the point. He said the problem was "getting UKTI to actually talk to businesses. ... Instead of 'Come to us', we feel that, 'How can we help you?', is the way that should happen. A surprising number of our members do not know about UKTI ... They just do not know it exists".[193] Woodhead Publishing Ltd also had some complaints (see Box 6 below).

**BOX 6**

**Woodhead Publishing Ltd, Cambridge**

"Woodhead Publishing Ltd (WP) was established in 1989, in Cambridge, to publish books on the latest science and technology in the field of materials science and engineering ... . The company has expanded steadily into additional fields such as textile technology, food science / technology, energy and biomedicine. It is now the largest independent UK publisher in these fields, employs 40 people in two locations, Cambridge and Oxford, and exports account for 80% of sales. The company also has a joint venture publishing business in India."

"The Government needs ... a far simpler structure of trade support and not to keep changing how it provides services. In the last 20 years there have been constant changes in export support policy and departmental names which makes it very difficult to keep up with what's happening and who to contact about securing an all important grant. Communication about these changes is abysmal."[194]

(www.woodheadpublishing.com)

5.20. Part of the explanation for this lack of awareness may, in part, be down to a mindset that does not engage well with public sector style, strategies and structures. Ms Parry of Exquisite Handmade Cakes Ltd said: "I do think that if I go and sit in a seminar, by the time I have finished the seminar I will probably have changed my mind about whether I want to do what I am actually sitting there and taught about, because I am bored to death".[195] Although Ms Parry praised the Passport to Export scheme, she had a fundamental complaint about the complexity of the totality of support (from UKTI and others) available to SMEs.[196] It needed to be simpler:

> " ... as a business owner, the whole process of where to go for support is way too complicated. I have only just met the FDF [Food and Drink Federation] outside [this room]. I have never come across them before. I have met the UKTI. The chamber of commerce apparently can help with export. Where do I go? I have got to run my business as well as

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[192] FSB.

[193] Q 104.

[194] Woodhead Publishing Ltd.

[195] Q 344.

[196] Q 343.

networking with all these people. If it could be made simple, then it would be really helpful, because we are missing opportunities for things that are available just because we do not know about them or because they are being overlapped."[197]

5.21. Another part of the explanation may be that those running SMEs just do not have the time to make themselves aware. Mr Doll-Steinberg of Trebika put the point succinctly. He admitted that "small businesses are very difficult to communicate with" but this was because they "tend to be run by entrepreneurs who spend most of the time running their business ... they don't have that attention to spare in running a day-to-day business, particularly fast-growing companies".[198]

5.22. UKTI have made substantial efforts to increase their profile; for example, the rollout of ITAs throughout England. However, awareness of products and services remains low and the ICAEW, for example, urged the Government to "boost efforts to encourage small businesses to make the most of the resources available".[199] The Minister, Lord Green, accepted that awareness of UKTI was nowhere near good enough.[200] Mr Simon of UKTI agreed and said that awareness had to be "significantly higher" (although he also said that one of his challenges was "to increase the awareness of the awareness" since, in his view, UKTI was better known than given credit for).[201] He told us that awareness amongst exporters was above 50% but that the figures should be "much higher than that" and that UKTI should be "better known".[202] He said that a challenge for UKTI was trying "to get SMEs to ask for more";[203] and Mr Barker of the FCO conceded that, a year after publication of their document *A Charter for Business*, the FCO needed "to articulate more clearly" what they could do for SMEs and "to make clear that" they were "open to SMEs" as they were "to other businesses".[204] We note with interest that the *Charter* makes no specific reference to SMEs.

5.23. UKTI products and services are, generally, praised by SME exporters and we have been given numerous examples where UKTI support has assisted SMEs to export. But the value of UKTI products and services extends only so far as the limited extent to which they are known. Low level of awareness of UKTI is a significant problem. If only around 50% of exporters are aware of UKTI, it is likely that the percentage is far lower for that crucial and substantial group of SMEs who are unaware of their export potential or the services available to assist them to export (see paragraph 3.2 above).

5.24. Lord Green and Mr Simon told us that a new marketing director has been appointed to develop marketing programmes for awareness-raising for UKTI.[205] **We welcome this development. We invite the Government, in their response to this report, to set out in detail what measures have**

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197 *Ibid.*

198 Q 237.

199 ICAEW.

200 Q 476.

201 Q 43.

202 Q 36.

203 Q 28.

204 Q 31.

205 Q 476 and Q43.

**put in place, or will be put in place, to raise awareness of UKTI; and also to describe how they will evaluate those measures.**

5.25. More, however, needs to be done. **We recommend that increasing awareness of UKTI should be a key priority for the Government and that specific attention should be paid to tailored communication with SMEs. This should not be done in isolation, but should be designed and taken forward in collaboration with trade organisations, such as chambers of commerce and the FSB, and with professional advisers and their professional bodies, such as accountancy bodies[206] (see Recommendations 3 and 4).**

5.26. The effectiveness of any communications system depends on exploiting the potential of the most up to date information technology (IT). Not only is the potential of modern IT to deliver large quantities of information infinitely greater than that of traditional methods of communication; but, these days, most of us expect to receive information in this way. For this reason, Defra's *Plan of Action*, *Driving Export Growth in the Farming, Food and Drinks Sector*, published in January 2012, included a commitment to develop export information tools "such as a web portal", "initially through a Defra and Food and Drink Federation research project to identify the most effective dissemination route to raise awareness of exporting information for the farming, food and drink sector".[207] The EU "single point of contact" is another example of a portal to simplify communications (see paragraph 3.35 above), as is the online Anti-Corruption Portal (described in paragraph 10.6 below).

5.27. **In order that SMEs can easily access information about provision for SME exporters, we recommend that the Government should undertake investigations, in consultation with relevant public and private sector organisations, into the viability of a single portal giving particulars of all SME exporting services available from all sources, whether public or private sector.**

## Branding and badging

5.28. In September 2011, the Government launched a three-year campaign called the GREAT campaign. They described it as "one of the most ambitious and far-reaching marketing campaigns ever developed by the UK Government".[208] Building on the world-wide popularity of the Royal Wedding and the Diamond Jubilee, and on the spectacular events of the 2012 Olympic and Paralympic Games, the purpose of the campaign was described by the Government as helping the world discover why our country "is such a great place to visit, study, work, invest and do business".[209] In a similar vein, Defra's *Plan of Action* included an action to "champion the best

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206 We are aware that links already exist. For example, we note the cooperation between UKTI and ICAEW: "The ICAEW is working with UK trade and investment (UKTI) and UK Export Finance (formerly ECGD) to promote the benefits of exporting to its members working in smaller businesses and advising them." ICAEW website.

207 Defra, *Driving Export Growth in the Farming, Food and Drink Sector: A Plan of Action* (January 2012), p 15.

208 DCMS website.

209 *Ibid.*

of British produce" and to showcase at the 2012 Olympic and Paralympic Games.[210]

5.29. Several witnesses referred to the significance of the British brand. Mr Roberts of Brompton Bicycle Ltd said that, although his company operated in a very competitive sector and was comparatively small, it was sought out "for the excellence" of their product and "the appeal" of their brand which "was associated with British engineering and manufacturing"; and Mr Roberts described the GREAT campaign as a "very welcome step" (although he also urged what he described as "a broader approach" and "proper support on the ground".)[211] Mr Mears of Deltex Medical Ltd referred to the advantage of being associated with the National Institute for Health and Clinical Excellence (NICE) and the National Health Service because they were "respected all around the world", as a result his company heavily promoted being British.[212] Although, whilst the endorsement of the NHS worked to his company's advantage, Mr Mears also noted the downside (see Box 7 below).

**BOX 7**

**Deltex Medical Ltd, West Sussex**

"We have developed an innovative technology, built a market for it, and from a UK base we are now looking to increase our global reach."

Deltex Medical Ltd (www.deltexmedical.com) is a Chichester-based, medical technology company employing 75 people and provides an innovative solution to fluid management in surgery and intensive care. Using technology developed in the UK and goods manufactured and exported from Chichester, Deltex Medical exports products and expertise worth £3 million a year. They told us: "we can confidently say that we see ourselves as a British SME export success story."[213]

They praised the Tradeshow Access Programme, but reported that both their biggest advantage and their biggest challenge came from their home market: "in the UK we have the ability through the NHS to show how life science and health sector companies can be successful. ... if you are a UK manufacturer of any medical device or pharmaceutical product, there is a route to take your product from evidence base to standard of care. This is probably the only country in the world now that has that route. .... this is extremely important because to sell your product overseas you have to have a successful home market. No one in any country wants to buy your product if it is not being used here in the NHS." [214]

5.30. Paul Alger of UKFT gave the specific example of Japan. He had recently attended a "made-in-UK lifestyle event to promote the UK" in Japan because, he said, the Japanese were "particularly open to products physically made in the UK".[215] As a result of the value of the UK brand, Buckinghamshire Business First, a business organisation, told us that they regarded "defending the UK's brand" as one of the "key roles" of

210 Defra, *A Plan of Action, op cit*, p 4.

211 Brompton Bicycle Ltd.

212 Q 128.

213 Deltex Medical Ltd.

214 Q 118.

215 Q 312.

Government;[216] and EAMA proposed the establishment of new export agency, the purpose of which, amongst other things, would be to deliver "a high profile British branded presence at prestigious trade shows around the world".[217]

5.31. The UKIBC also emphasised the importance of the British brand. In a roundtable discussion of SMEs hosted by the UKIBC, SMEs called for the development of a strategy to boost "British brand awareness".[218] The benefits would be significant: some states in India were "growing [at] double digit rates, house world class industrial clusters hungry for UK technology, and collectively are at home to hundreds of millions of aspirational consumers with an attraction to UK brands".[219]

5.32. We were not surprised, therefore, that some SME exporters we met thought that it would improve their credibility in overseas markets if they could show on their literature and websites that they had some official UK support. Clearly the UKTI and the Government cannot be expected to give any kind of guarantee in support of SMEs. **We recommend that the Government should consider, however, allowing those companies which have made significant use of UKTI services to say so by means of a suitable registered logo such as a Union Jack and the words "UKTI supported".** This would have the additional benefit of helping to raise awareness of UKTI and its services.

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216 Buckinghamshire Business First.

217 EAMA.

218 UKIBC.

219 *Ibid.*

## CHAPTER 6: LANGUAGE AND CULTURE

### Introduction

6.1. The Committee received mixed evidence about the importance of foreign language skills in developing trading relationships and whether the absence of language skills inhibited exporting. Some companies took the view that language differences were generally not an issue because of the universality of English, particularly in some sectors. Alderley plc, an SME involved in the oil and gas industry, said, for example, that although language skills were needed when exporting to Russia, "elsewhere, the use of English is so common in the oil and gas industry that language has not proved a barrier".[220] Another SME, Minden Systems Ltd, said that they had not found languages "a big problem".[221] Other SMEs, however, suggested the language skills could be critically important. Black Country Metals Ltd, an SME which trades metals, said: "if you are competing with another country for business and you don't speak that country's language and your competitor does, there is no doubt about it that the competitor will get the business".[222] We heard the same message during our visit to Germany, and it chimes with Professor Stephen Hagen's reference to the advantage of the "personal rapport" that develops when individuals speak the same language.[223] Mr Davenport of the FSB said that languages could cause difficulty even in Europe and that "there are definite sector problems there, where if you go to a trade meeting you have difficulty with communication".[224]

6.2. Of the numerous surveys of SMEs that have been drawn to our attention, all indicate that language skills are an issue, albeit not, on the whole, regarded as a principal reason for not exporting. The UKTI found that between 10% and 18% of SMEs identified language and cultural issues as a barrier to exporting.[225] The BCC 2012 survey of 8,000 businesses (of all sizes) found that 21% of respondents agreed that language barriers were highly influential in deciding if, when and where to export, and 31% agreed they were somewhat influential.[226] Similarly the IOE 2012 International Trade Survey showed that 14% of companies identified languages as an issue preventing them from developing export markets. Whilst not the highest, these figures alone are cause for concern. What makes the picture even more disturbing is that, according to the BCC survey, "the perceived influence of language barriers on trading internationally varies significantly in line with the propensity to export: 61% of non-exporters "likely to consider" exporting in the future see language as a barrier to doing so", and "businesses that have less propensity to export are more likely to view language barriers as highly influential in any decision to enter global markets".[227] This would suggest that, **if UKTI is to make inroads into the large number of SMEs not**

220 Alderley plc.

221 Minden Systems Ltd.

222 Black Country Metals Ltd.

223 Q 352. Professor Hagen is the author of the PIMLICO study (see para 6.39)

224 Q 96.

225 The Government, slide for Q6.

226 BCC, *Exporting is good for Britain and exporters need SKILLS 2012*, p 3.

227 *Ibid.*

**currently exporting, the task of dispelling any misleading perceptions associated with language differences and improving the ability of SMEs to deal with language and cultural differences should be regarded as a priority. We recommend accordingly.**

6.3. Even if language and cultural differences are not generally a principal disincentive to exporting, they are significant. Both the absence, and acquisition, of language skills have commercial and financial consequences. Professor Foreman-Peck analysed the language barrier as being "equivalent to a tax" and estimated that "the minimum possible gains from optimal investment in languages for Britain in 2005 was £9 billion".[228] In 2006, an EC Survey of exporting SMEs (the ELAN survey) reported that over 10% of SMEs declared they had lost a contract as a result of a lack of foreign languages, and nearly one in five SMEs reported cultural differences as a problem.[229] More recently, in 2011, the PIMLICO study looked at 40 SMEs across 27 EU Member States which had been selected for their significant trade growth as a result of their formulating and employing Language Management Strategies.[230] The study reported that three out of four experienced at least a 16% increase in sales turnover as a result of the strategy, with 43% increasing their turnover by over 25%.[231] The 2012 BCC survey found that up to 96% of respondents had no foreign language ability for the markets they served. Seventy-seven percent of companies surveyed "reckoned they had missed or lost business because of this", whereas exporters who proactively used language and cultural skills achieved on average 45% more sales.[232] The APPG on Modern Languages refer in their evidence to us to research by Cardiff University Business School which suggested that the "economy could be missing out on up to £21 billion a year in lost contracts because of lack of language skills in the workforce".[233]

### English as the universal language of business?

6.4. Whilst some witnesses argued that learning languages was not important because English was the universal language of business, others commented that they only did business with English-speaking countries. Professor Hagen suggested that smaller businesses in particular had an expectation that "they can use English wherever they go".[234] But, as the British Academy have said: "We can no longer assume that English is the global language par excellence: 75% of the world's population do not speak English as their first language".[235] According to the APPG on Modern Languages, "only 6% of the world's population are native English speakers".[236]

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228 Professor James Foreman-Peck, *Costing Babel: the Contribution of Language: Skills to Exporting and Productivity in the UK* (2007).

229 *ELAN: Effects on the European Economy of Shortages of Foreign Language Skills in Enterprise*, CILT, and Interact International (2006).

230 Language Management Strategies are defined as "the planned adoption of a range of techniques to facilitate effective communication with clients and suppliers abroad", *ibid.*

231 EC, *Report on language management strategies and best practice in European SMEs: the PIMLICO Project*, Professor Stephen Hagen (April 2011).

232 APPG on Modern Languages.

233 *Ibid.*

234 Q 351.

235 British Academy Policy Centre, *A Position Statement: Language matters more and more*, para 6.4.

236 APPG on Modern Languages.

6.5. Furthermore, the supremacy of English on the Internet is decreasing. In the past decade alone, Chinese online traffic has increased by 1,500%, Russian by 1,800% and Arabic rose by a staggering 2,500%; while English saw a modest increase of 300%.[237] We were also told that "over 70% of consumers require information in their native language in order to make an online purchase", and those who do not speak English well were six times less likely to buy online from an English only website.[238] Whilst online translation systems are undoubtedly useful they have obvious limitations, particularly where precise details are needed.[239]

6.6. In addition, many studies note that although English is the main language of business, companies without access to multi-lingual staff who trade with countries which prefer to do business in their native tongues are at a disadvantage.[240] Spain, Russia and France are all identified within the Eurobarometer as countries where speaking the native language is important for trade.[241]

### Language skills and language skills gaps in the UK

6.7. The European Survey on Language Competences, carried out by the EC with a consortium including Cambridge Assessment, compared the modern foreign language skills, in reading, listening and writing, of 15-year-olds in 16 jurisdictions on the continent (14 countries) in 2011. It rated England as follows:

- bottom in reading, writing and listening in the main foreign language taught (French for English pupils);
- worst in reading in the second foreign language taught (German for English pupils);
- 14th out of 16 in listening and writing in the second foreign language taught.[242]

6.8. We asked Professor Hagen which languages would be of particular value to companies. He suggested Brazilian Portugese and Mandarin in the future, but currently it was German.[243] According to the BCC survey, 99% of respondents could not speak sufficient Chinese or Russian to conduct business in the importers' language, and 57% spoke no German at all.[244] UKTI suggested that language and cultural barriers were most widespread amongst companies trading with China and France.[245]

6.9. Given our generally low level of language skills, we were encouraged by the Government's decision to include in their proposals for reform of the national curriculum, published on 7 February 2013, compulsory teaching of

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[237] Internet World Stats: http://www.internetworldstats.com/stats7.htm

[238] APPG on Modern Languages, citing research from Common Sense Advisory.

[239] Q 352.

[240] The PIMLICO Project, *op cit*.

[241] EC (Public Opinion) website.

[242] Department for Education website.

[243] Q 355.

[244] BCC, *Exporting is good for Britain and exporters need SKILLS (2012)*, p 3.

[245] The Government, slide for Q 8.

foreign languages at Key Stage 2 (ages 7 to 11) for schools in England.[246] The policy is based, according to the consultation document accompanying the proposals, on the Government's view that "proficiency in languages is vital to the future economic well-being of this country",[247] a view with which we concur. **We welcome the Government's acknowledgment, in their proposals for the reform of the national curriculum, of the importance of learning foreign languages at early stage in the education system.**

6.10. The Government have decided that primary schools should be required to teach one of the following languages: French, German, Italian, Mandarin, Spanish, Latin or Ancient Greek, with an emphasis on "practical communication" or, for Latin and Ancient Greek, on providing "a linguistic foundation for learning modern languages".[248] We are aware that many of those responding to an earlier consultation of the proposals relating to foreign languages at Key Stage 2 either did not agree with a defined list of languages at all or did not agree with the seven languages proposed. Of the latter, some suggested that the list should include, at the very least, BRIC[249] country languages; and a small number of respondents (14%) commented specifically on the importance of selecting languages "from a global business perspective" and as a means of "improv[ing] the country's competitiveness".[250] **The Government included Mandarin in the list of required languages because they regard it as "important economically";[251] and, arguably, the same is true of other BRIC languages. Whilst we draw this matter to the attention of the Government, we make no specific recommendations. We recognise that the debate is a complex and long-standing one and not one which this Committee is in a position to take further.**

### UKTI provision

6.11. In answer to a parliamentary question in June 2012, Baroness Wilcox, (then) Parliamentary Under Secretary of State at BIS, described UKTI provision as follows:

> "[UKTI] provide a subsidised service, available to SMEs, which helps them overcome language and cultural barriers in overseas markets. The service can provide a bespoke written report with in-depth advice and information on types of language learning and rates, and on recruiting students and foreign nationals to provide in-house language skills. The service also signposts companies to professional bodies such as the Chartered Institute of Linguists and the Association for Language Learning when they wish to select a provider for foreign language training."[252]

246 DfE, *The National Curriculum in England: framework document for consultation* (February 2013), p 173.

247 DfE, *Reform of the National Curriculum in England* (February 2013). The proposals are out for public consultation, the deadline for which is 16 April 2013.

248 DfE, *The National Curriculum in England: framework document for consultation* (February 2013), p 173.

249 Brazil, Russia, India and China.

250 DfE, *Consultation report: Foreign languages at Key Stage 2* (February 2013), pp 8–9.

251 *Ibid*, p 5.

252 28 June 2012, HL Debs, col 322.

On the same occasion, Baroness Wilcox also acknowledged the importance of understanding a country's culture more generally.

6.12. The UKTI Export Communications Review service involves companies receiving a day or half day of expert advice on how to cope with language problems in exporting.[253] The Government describe the service as "highly effective, consistently showing high benefits",[254] and Baroness Wilcox suggested that, if there were an apparent need for more provision, "very often" it was "just a case of making sure that [SMEs] realise that there are agencies that can provide their employees with the languages that they need".[255] The PIMILICO study was complimentary about the services provided by UKTI, although Professor Hagen, author of the study, thought that provision was too centralised.[256]

### How SMEs can help themselves

6.13. Translation services and language courses offer two routes to tackling the language issue. Both, however, incur what Professor Hagen described as "severe costs".[257] He suggested that SMEs should consider other approaches, for example, recruiting foreign students on placement, particularly those from foreign business schools.[258] It was, therefore, encouraging to hear from Professor Hagen that a recent study indicated that there "has been a massive increase in the number of native speakers being taken on by British companies to cope with language problems".[259]

6.14. Given the services provided by UKTI, and following up the point made by Baroness Wilcox, SMEs and trade organisations representing SMEs are encouraged to explore the help that is at hand to assist them in overcoming the language barrier. Both the Government's commitment to promote a culture of foreign language learning from an early stage and the experience of many SMEs that developing language capacity is commercially advantageous will, we anticipate, bring about a significant improvement in the current perception of language as an obstacle to exporting.

6.15. **SMEs are unlikely to have the breadth of languages available to larger organisations. There needs to be a cultural shift in attitudes towards learning modern foreign languages. We welcome, therefore, the Government's proposal that foreign languages should be taught from Key Stage 2 upwards. More generally, we look to the Government to demonstrate to children and their parents the potential career benefits of foreign language skills.**

6.16. **We recommend also that, as part their communication strategy with SMEs, UKTI should include the message to SMEs that there are significant commercial benefits to addressing the language issue and adverse consequences if it is ignored. As part of that message, UKTI**

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253 The Government. See also Q356.

254 *Ibid.*

255 28 June 2012, HL Debs, col 322.

256 Q 356.

257 Q 351.

258 *Ibid.*

259 QQ 359–60. In 2006, 16% of companies surveyed had taken on native speakers. In 2012, of a survey conducted in southern England and south Wales, the figure was 43%.

**should offer effective and realistic advice about how SMEs can address the language barrier (such as offering placements to foreign students and using online translation services).**

6.17. **SMEs should be encouraged to develop Language Management Strategies to mitigate the effects of the language differences on their businesses. We recommend that UKTI should develop a short template Language Management Strategy which SMEs could modify according to the needs of their business and potential export markets.**

### Tapping into existing linguistic diversity

6.18. Despite the poor statistics about language skills in the UK, the UK has a very high degree of linguistic diversity, including among young people, many of whose first languages are not often taught in schools. A 2011 survey found that 233 distinct languages were spoken in London.[260] Baroness Wilcox referred to the advantages of having "a multicultural society" when answering the parliamentary question mentioned in paragraph 6.11 above,[261] and the APPG on Modern Languages saw "London's linguistic diversity", in particular, as "an important under-promoted asset".[262] Professor Hagen commented similarly: "there is a greater abundance of native speakers around the London area who can be drawn into British companies which are not available elsewhere in the country".[263]

6.19. When we raised the question with UKTI in July 2012, Mr Simon offered some welcome news about tapping into the UK's "under-promoted asset" more generally. He said that there was an initiative "just getting underway to look at diaspora communities in general", of which India and Pakistan were principal examples. He agreed, however, that more needed to be done: although the Government recognised the value of diasporas, "I think we are not quite there yet on establishing how that can be done in a systematic way".[264]

6.20. **We invite the Government, in their response to this report, to set out what mechanisms they intend to put in place in order to ensure that our cultural and linguistic diversity are put to better use in addressing the opportunities, for SMEs, associated with the different languages and cultures of potential trading partners.**

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260 Eversley et al, *Language Capital: mapping the languages of London's schoolchildren*, CILT (2011).

261 28 June 2012, HL Debs, col 322.

262 APPG on Modern Languages.

263 Q 360.

264 Q 48.

# CHAPTER 7: LEARNING TO EXPORT

## Introduction

7.1. The focus of this report is on what Government can do to assist and promote exporting by SMEs, and much of our inquiry has been about *direct* assistance in the form of, for example, products and services offered by UKTI and UKEF (Chapters 5 and 4) or having a robust infrastructure for the enforcement of intellectual property rights (Chapter 9) or appropriate guidance on the application of the Bribery Act 2010 (Chapter 10). But there are other, indirect, ways in which the Government can assist SMEs. *Indirect* assistance can be in the form either of encouraging others to assist SMEs (for example, help by the banks in offering finance) or of encouraging SMEs to help themselves. We have already touched on this in our consideration of language and cultural barriers (in Chapter 6). This chapter concerns what SMEs can do to equip themselves with the skills they need more generally.

7.2. "Specific skills for the specific activity of exporting" are, we were told by Magnus George of Lancaster University Management School (LUMS), "definable and trainable".[265] Acquiring those skills is important for an SME if it is to succeed. Although we tend to share the view of Norman Rose, Executive Chairman of UKTF, that "training is never going to stand in the way of exporting" so long as those running the SME have the right "entrepreneurial spirit", we also share his appreciation of the value of training and skills as a means of developing more effectively new markets and growing the business.[266] This view appears to accord with the finding of Aston Business School in that whereas "commercial and managerial *experience* helps firms become exporters", "once overcoming the export hurdle it is *education* … that has a substantially positive effect".[267]

## Current level of export skills

7.3. Companies need to be in the right position to export in terms of both good managerial skills and capabilities to grow. Exporting has to be an integral part of discussions about the capabilities needed for the growth of a company, and a part of overall training for SMEs and those seeking to start companies in the future. Once a company is in a position to export, they then need to develop practical skills for exporting, including, for example, understanding financial requirements, how to bid for finance and how to complete an export certification application.

7.4. Several witnesses suggested that lack of management skills and of relevant exporting skills were barriers to exporting for SMEs. TAEFL, for example, said that SMEs rarely had access to experts who understood "the mechanics and funding of exporting", and commented that "specialist export training appear[ed] to be very limited".[268] The International Trade Survey,

[265] Q 363.

[266] *Ibid.*

[267] Aston Business School.

[268] TAEFL.

commissioned by the IOE and carried out by TAEFL, found that 67% of respondent companies did not train staff in international trade. The headline finding of the survey was that:

> "Few companies undertake adequate training on export matters: even fewer have staff holding recognised qualifications relevant to international trade. Trained staff are typically found only in larger companies, while smaller businesses rely on experienced staff who approach exporting in the way they have done for many years. For the export potential of these companies to be realised fully requires a change of approach which is brought about with professional training and access to high quality advice."[269]

7.5. The BCC 2012 survey of over 8,000 businesses reported that over one in five businesses believed they lacked the in-house skills, managerial capacity or knowledge to export.[270] As a result, the BCC has called for SMEs to be encouraged to take up export-related training (whether private sector or Government training) and suggested that the Government should "consider financial incentives for non-exporting businesses that train up their existing staff to export".[271] The BCC urged that "understanding of the commercial aspects of exporting must be embedded in higher and further education courses" and that business degrees and other relevant qualifications should include "compulsory modules on international trade and exports".[272] Going Global Skills, a specialist international marketing consultancy, endorsed these recommendations in their evidence to this Committee.[273]

### Management and business skills courses

7.6. Education and training courses are provided by a variety of institutions, both public and private sector, and sometimes in collaboration.[274] We mention below two examples of programmes that have been introduced at universities. We recognise that many other organisations, schools, colleges and universities are also promoting entrepreneurship and learning: some targeting specific segments of the population, such as younger entrepreneurs and older entrepreneurs;[275] and others focusing on enhancing capacity and capabilities of managers and workers including managerial, marketing and social media skills amongst SMEs. UK business schools, in particular, have sought to engage directly with SMEs through the provision of training programmes, executive education, knowledge exchange, the development of incubator units and spin out companies.[276] The Higher Education Innovation Fund seeks to promote interaction between universities colleges and the wider world with a view to promote economic and social benefit to the UK. Numerous examples of good knowledge

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269 International Trade Survey, para 1.1.

270 This is broken down into 15% who say it is a slight barrier and 6% a significant barrier.

271 BCC, *Exporting is good for Britain and exporters need SKILLS*. The BCC suggests incentives such as a guarantee of support for a first trade mission or a reduced rate of tax on early exporting profits.

272 *Ibid.*

273 Going Global Skills.

274 Dr Ellwood, Q 374.

275 See for example, Lord Young, *Make Business Your Business, Supporting the start-up and development of small business* (May 2012) URN12/892.

276 For more examples see the HEFCE website.

exchange practices and workforce development programmes with SMEs and universities exist. They include Training with Education: a vehicle for developing higher-level skills in the small and medium-sized enterprise (SME) workforce at De Montfort University; KUBIS—Kingston University Building Interaction with SMEs; Sheffield Hallam and Sheffield Universities Innovation Leaders Programme; and at Kent Business School, the Business Improvement and Growth Journey. The potential of such programmes is very exciting and we hope that they continue to develop and can be replicated elsewhere.

### *UKTI*

7.7. UKTI provides a range of assistance for developing exporting skills. This includes Passport to Export, Gateway to Global and Open to Export. The latter is a peer-to-peer website which provided an e-networking facility for SMEs, including mentoring and experience-sharing, in collaboration with Yell. *GrowthAccelerator* is a £200 million programme launched in May 2012, designed to help up to 26,000 of England's brightest businesses achieve their ambition and potential.

### *Goldman Sachs 10,000 Small Businesses UK Programme*

7.8. The Goldman Sachs *10,000 Small Businesses* UK Programme is a fully-funded programme, designed to support the growth of established small business and social enterprises. Eligibility criteria include a requirement that a business has been operating for at least one year and has between five and 40 employees. It is intended to provide "high quality, practically-focused business and management education" with a view to each participating business developing a customised Growth Plan.[277] The programme currently operates in London (University College London), Midlands (Aston University), North West of England (Manchester Metropolitan University Business School) and Yorkshire (Leeds University Business School). Dr Ellwood, Innovation Research Manager at Leeds University Business School, described the programme as "not simply business school academics ... it is also experienced people from the world of business" who give masterclasses.[278] One of our SME witnesses, Ms Parry of Exquisite Handmade Cakes Ltd, had been on the programme (see Box 8 below). She said she found it "a very insightful private-sector initiative" and described how it had led her to be invited to join a trade mission to New York funded by Santander which in turn led her successfully to enter the US market for her product.[279]

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277 Goldman Sachs website.

278 Q 335.

279 *Ibid.*

**BOX 8**

**Exquisite Handmade Cakes Ltd, Leeds**

"If there is a barrier to overcome, if you are passionate about what you want to do, then you overcome it."

Exquisite Handmade Cakes Ltd (www.exquisitehandmadecakes.co.uk), a small Leeds-based bakery company employing 30 people, exports cakes in tins to the USA. They have, for example, a fruitcake, made of fruit soaked in beer from a micro-brewery in Yorkshire, for sale in a hotel at the top of Fifth Avenue, New York. Exquisite came to exporting through support from the Goldman Sachs *10,000 Small Businesses UK Programme*, with a visit to New York funded by Santander. They are currently being supported by the UKTI Passport to Export programme.

The company has faced barriers to exporting, including difficulties in food import procedures in the US market. The Managing Director, Viv Parry, told us that these can be overcome if you are passionate about what you do, but also saw supporting SMEs in this as a practical role for UKTI. Describing her visit to New York to begin exporting, she said "All I did was take my tin in my handbag. I could not actually take any products at all. I was not allowed to take any into the country, and I just did some market research. Then, in New York style, I approached a buyer of a food hall and said: 'Do you want to take this product in the food hall?' They said yes."[280]

*LEAD and GOLD Programmes at Lancaster University Management School*

7.9. Lancaster LEAD was launched in 2004.[281] It is a programme designed by LUMS for owner-managers of SMEs. It concentrates on two areas of business: the business itself, and the personal development of the owner-manager. The programme involves owner-managers committing to a 10-month programme, taking up about two to two and a half days a month. Since its inception, the LEAD programme has involved over 250 companies and it has about 2,000 alumni. Because of the programme, Mr George estimated that those companies were now employing another 1,500 to 2,000 people a year.[282] In 2010, the University ran a pilot of the GOLD (Graduate Of LEAD Development) programme, which gave participants a structured approach to experimenting in having a Non-Executive Director (NED) in their company and to practise being a NED themselves.[283]

7.10. In 2012, LUMS appointed 20 new Entrepreneurs in Residence. The first had been appointed in 2009. Mr George described them as the sort of people who ran "normal businesses very well" and did "the daily work of employing people and trading", rather than "big, charismatic" entrepreneurs who had achieved national and international recognition.[284]

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280 Q335

281 Q 372.

282 *Ibid.*

283 LUMS, the GOLD Programme website.

284 Q 367.

### *Other trainers*

7.11. The BCC offers “trade training”,[285] in the form of six nationally accredited export training courses, as well as specialist training on specific issues.

7.12. The objects of the IOE, an organisation committed to supporting businesses in exporting goods and services, include maintaining standards of competence and skills. It is an OfQual Awarding Body with qualifications starting at the equivalent of an NVQ level 1 (Young International Trade) to Foundation Degree at level 6 (Professional Practice of International Trade). The IOE plans to launch Bachelors and Masters degrees in 2013 and 2014.[286] Lesley Bachelor, Director-General of the IOE, explained that the IOE offered “starter courses that help people understand the various stages of international trade”.

7.13. We heard evidence from ITS Training Ltd, a government-funded further education provider specialising in shipping-based training, and Felixstowe College which has been set up and managed by ITS Training Ltd. They suggested that many SMEs were “deterred from exporting or exploring international markets by lack of knowledge about them and by fear of local regulation”.[287] Mr Rose of UKTF described how he and ITS Training Ltd were developing “a continuum of vocational education” from level 2 to level 7. In partnership with the University of East London and the Association of Business Professionals, they were designing a postgraduate diploma in international trade, transport and logistics which, like the Goldman Sachs programme, would combine academic and vocational training.[288]

7.14. **A range of services are provided by UKTI and by other service providers (public and private sectors) which are intended to promote exporting skills; and important further developments are in the pipeline. We welcome and encourage these developments.**

7.15. **Given the evidence we have received about the reasons for a lack of awareness of UKTI more generally and the connection with the time and resource pressures on SMEs, we would urge those who are designing these services to pay particular regard to the time burden of undertaking a course. Time is at a premium for SMEs. Efforts should be made therefore to make courses as accessible and as flexible as possible.**

7.16. **We urge further that, where appropriate, courses should include teaching about the skills associated with salesmanship. The salesman is the interface between buyer and seller. Salesmanship skills are, therefore, critically important to the success or otherwise of an SME, whether exporting or trading domestically.**

### Sector Skills Councils

7.17. Sector Skills Councils (SSCs) are independent, employer-led, UK-wide organisations “designed to build a skills system driven by employer

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285 BCC. See also BCC website.

286 IOE.

287 UKTF, ITS Training Ltd and Felixstowe College.

288 Q 365.

demand".[289] They are licensed by the UK Commission for Employment and Skills (UKCES). UKCES is a Non-Departmental Public Body, accountable to a number of government departments including BIS, the Department for Work and Pensions, the Treasury, the Department for Education and the devolved administrations. The Alliance of Sector Skills Councils (the Alliance) "represents, promotes and supports" the SSCs across the UK.[290] The Skills Council for Administration (CfA) is a Sector Skills Body which works closely with the SSCs.[291] It is a registered charity which promotes skills and qualifications in the workplace covering a range of areas, including enterprise, languages and intercultural working, management and leadership, marketing and sales.[292]

7.18. Of the SSCS, Skills for Logistics offers an International Trade and Logistics Operations qualification which "provides those who are in administrative roles within the logistics sector and who are involved in arranging the international transportation of goods, with a qualification demonstrating they have the skills and knowledge in order to carry out their role to a professional standard".[293] Mr Rose suggested that international trade skills and Skills for Logistics were not well-matched: "My experience of dealing with [Skills for Logistics] is that they are not really interested in this area, because it does not fit within the industry profile they think they really want to have".[294] John Edson of ITS Training Ltd echoed the point: "Skills for Logistics are very competent on the road transport, logistics of warehousing and storage, but when it comes to international trade it is a very different animal". [295]

7.19. We received evidence from the Alliance, however, that export skills tend "to be sectorally focused rather than concentrating on the generic skills of selling to overseas customers".[296] They also noted that Skills for Logistics has worked with the IOE to get the IOE Young International Trader qualification on to the OfQual Qualifications and Credit Framework.[297]

7.20. The Alliance told us also about other relevant developments. The CfA has submitted a proposal to establish National Occupational Standards (known as NOS) in Trading Internationally, in partnership with the Small Firms Enterprise Developments Initiative (SFEDI); and, "if successful, SFEDI Awards plan to develop qualifications in international trade";[298] and we note that there are already NOS related to exporting. For example, CfA offers two NOS in marketing-related job functions. One, for marketing professionals, includes developing knowledge and understanding of "different ways of entering markets ... including exporting, joint ventures and direct investment".[299] Under the suite of four standards relating to enterprise,

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289 Alliance of SSCs website.

290 *Ibid.*

291 The Alliance.

292 Skills CfA website.

293 Skills for Logistics website.

294 Q 373.

295 Q 376.

296 The Alliance.

297 *Ibid.*

298 *Ibid.*

299 CfA, *Marketing* (April 2010), CFAM6.2.2, Establish the business case and market plan for distributing products/services to international and/or diverse markets, p 387.

developed by CfA and SFEDI, the one on Enterprising Skills includes a component called “explore overseas markets for your business”. It begins: “there are many things that are different about trading abroad than trading locally or in the UK. It is important to identify these differences ...”; and goes on to advise that exploring markets abroad includes considering the costs and benefits, finding out about the paperwork and knowing where to go for information and help.[300]

7.21. As in other aspects of this inquiry, on investigation, a great deal seems to be happening and the principal issue is less a matter of action and more a matter of better communication. Richard Beamish, Senior Officer at the Alliance, commented: “our own experience of working with SMEs suggest that a significant number are not aware of the advice and support already available to them, and that this is a significant inhibitor as a lack of skills in terms of entering overseas markets in a competitive manner”. He added: “one of the challenges for the network of Sector Skills Councils is to ensure that the elements are in place to ensure SMEs know how to obtain the skills and advice they require”.[301]

7.22. **We have already made recommendations about the need to increase SME awareness of the products and services of UKTI (Recommendation 11) and UKEF (Recommendation 8). The same applies with regard to the availability of skills training. We would urge those organisations involved in provision of exports skills training to take steps to improve awareness of what is on offer, including consideration of how best to use the network of other organisations and professional advisers associated with SMEs as a conduit for dissemination of information. The Alliance of the SSCs, in conjunction with the CfA, SFEDI, BCC and the IOE, may be best placed to take this recommendation forward.**

### Developing a pro-business culture

7.23. Societal attitudes to business—to trade—are complex and the impression we have is that it is not always held in the high esteem that it deserves. Lord Green agreed with this observation: “In other countries—Germany is certainly one and America is another—the standing of business as a career and an occupation in life is higher than it is in this country”;[302] and he suggested that changing this cultural predisposition should begin in the schools.[303] Michael Fallon MP, Minister for Business and Enterprise, agreed and went one further: “we must deal also with the perception of the parents”.[304]

7.24. Adam Jackson, UK SME envoy, told us that, according to the Global Entrepreneurship Monitor which looks at attitudes particularly amongst the young, “we have the highest rates in the G7 for people wanting to start businesses or having a positive attitude towards starting a business”. None the less, he agreed that “we could have a stronger culture of enterprise”. He went on to describe schemes for encouraging appreciation of enterprise

300 CfA, *Enterprising Skills* (May 2008), CFAWB6, Explore overseas markets for your business, p 346.

301 The Alliance.

302 Q 472.

303 *Ibid*.

304 Q 473.

activities in schools (for example, a Peter Jones programme called Tenner) and at universities (the Government were encouraging all universities by 2015 to have an enterprise society).[305]

7.25. Changing historically entrenched societal views about the standing of business and business careers is largely beyond the scope of this inquiry. It is however relevant. If SMEs are to work in a supportive and encouraging environment and thereby succeed, then, in addition to the raft of products and services made available to them, there needs to be a change in current attitudes. **We welcome initiatives to start that process of change at primary school level. We have already noted, in paragraph 3.26 above, the steps being taken in the FCO to improve staff understanding of business. We also welcome the Government's commitment, set out in *The Plan for Growth*, that UKTI should "develop a more entrepreneurial culture which makes better use of private sector expertise and talent".** The December 2012 update stated that progress had been made and that a new UKTI senior management team was in place, 75% of whom were recruited from the private sector.[306] The Minister, Lord Green, also drew our attention to the importance of the "strongly private sector" background of many of those working at senior levels in UKTI.[307] This point resonates with the view expressed in the Heseltine review that "the culture and work of the public sector" had tended to "discourage risk taking" and "shackle innovation"—it was now time to "look at ways to unlock the latent potential in public servants";[308] and the report goes on to describe some of the good practices already taking place, such as the scheme run by the Enterprise Directorate in BIS whereby staff are able to gain concentrated experience of small businesses by joining one for a week.[309] **We invite the Government, in response to this report, to set out further proposals which will sustain and even perhaps accelerate the gradual shift towards a pro-business culture.**

[305] Q 455.

[306] *Plan for Growth: implementation update* (December 2012), p 25, entry 118.

[307] Q 478.

[308] Heseltine review, para 3.53, p 73.

[309] *Ibid*, para 3.17, p 76.

# CHAPTER 8: REGULATORY CHALLENGES

## Introduction

8.1. Regulations span all business activities, especially in relation to finance, health and safety and employment. They are intended to affect relations between customers and suppliers and employers and employees through moderating market activities and provide a basic rule of law. Although many witnesses complained about regulations (pejoratively described as "red tape"), it goes without saying that some degree of regulation of the economic system is essential if the interests of participants are to be protected. As the World Bank *Doing Business 2013* report says: "just as good rules are needed to allow traffic to flow in a city, they are also essential to allow business transactions to flow".[310]

8.2. Regulations can have other beneficial effects. Some can generate new market opportunities for businesses whilst others are designed specifically to protect entrepreneurialism.[311] We heard, for example, that domestic food manufacturing and hygiene regulations may give confidence in British products in overseas markets. Mr Dholakia of NABA told us: "one of our USPs [unique selling points] is that we are the best regulated country in the world. For example, food manufacturers in India would like to have food manufactured here and then exported to the United States. It adds value …".[312] Another example is the regulation of intellectual property rights—if they are registered and enforceable, business activity will have been facilitated which may otherwise have not taken place.

8.3. Whilst no company would call for complete de-regulation, many witnesses argued that some regulations were a disincentive to exporting. Two distinct areas of concern were raised. First, complaint was made about specific regulations governing UK exports and imports into the customers' countries. The CBBC, for example, commented on the effect of the regulatory environment in China: their surveys and research indicated that "the challenging regulatory environment" in China meant that companies would often need help from the British Embassy and government representatives in China and, to make matters worse, "regulatory changes" often happened "at very short notice" and keeping pace with the changes was difficult for SMEs.[313]

8.4. The second area of concern was the effect of general UK and EU regulations on business compared with overseas competitors' domestic regulations. Griffon Hoverwork Ltd, for example, referred to the "counter competitive effect" of the UK's "well-developed regulatory, employee welfare and business control system" which caused "a much higher level of diligence around many areas from Health and Safety to product certification,

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310 World Bank, *Doing Business 2013: Smarter regulations for small and medium-size enterprises* (2013), p 2. See also Lord Heseltine Q 427.

311 This approach highlights the direct and indirect effects of regulations on the business as well as their constraining, enabling and motivating impacts. See BERR, *The Impact of Regulation on Small Business Performance* (2008).

312 Q 398.

313 CBBC.

compliance and documentary evidence" and, as a result, increased "the overall cost of supply".[314]

8.5. In both areas of concern, it is the complexity of the regulatory framework, volume of regulations, constant changes in requirements and cost of compliance that concern SMEs and their representative bodies, especially given the relatively scarce resource base of SMEs. Owner-managers and entrepreneurs can often ill-afford to spend their valuable time dealing with paperwork and regulatory authorities. Black Country Metals Ltd commented quite simply: "over regulatory paperwork ... can put people off exporting".[315]

### Source of UK regulations

8.6. The EU has competence for trade policy and free trade agreements are negotiated at the EU level.[316] Regulations relating to exporting therefore emanate from the EU as well as nationally. Eamon Cassidy, Deputy Director, Trade Negotiations and Programmes, in the Trade Policy Unit (BIS and DFID) explained the role of the Unit as being in part "to help shape British policy" which is then fed into shaping the European position at the negotiating table.[317]

### Generic studies of the effect of regulation

8.7. Regulation comes at a cost. In practical terms, the costs for SMEs can be divided into the costs of

- *understanding* a regulatory requirement (this is, reading the regulations, keeping up to date with changes and assessing their possible relevance to the business concerned). SMEs do not have experts spanning the breadth of regulatory requirements and hence this can be time consuming and expensive, often involving expensive outside advice;
- *implementation* (such as the additional cost of parental leave, or a new piece of equipment to meet a new environmental or Health and Safety standard); and
- *remaining compliant* with any changes in the regulations.

8.8. Analyses of the impact of regulations on SMEs are innumerable (many undertaken by government departments such as the Better Regulation Executive (BRE)). However, they draw on different sources, are undertaken for different purposes and provide contradictory results.[318] As a result, estimating the costs of regulation on SMEs with any precision is problematic and some of the data sources are subject to response bias. They should, therefore, be regarded as broad indicators rather than exact measures.

8.9. With that caveat, the weight of evidence suggests that the compliance costs of regulation fall disproportionately on SMEs. According to a 2002 report by the Small Business Service, such costs for small businesses with less than 20

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314 Griffon Hoverwork Ltd.

315 Black Country Metals Ltd.

316 Q 463.

317 Q 459.

318 Kitching, J (2006) A burden on businesses? Reviewing the evidence base on regulation and small business performance, *Environment and Planning C: Government and Policy*, 24(6): 799–814.

employees are at least 35% more than for businesses with over 500 staff.[319] An EC report, published in 2007, went further: "on average, where a big company spends one euro per employee to comply with a regulatory duty a medium-sized enterprise might have to spend around four euros and a small business up to ten euros".[320] Graham Turnock, Chief Executive of the BRE, said unequivocally: "regulation clearly falls disproportionately on smaller businesses".[321] Mr Cassidy of the Trade Policy Unit said the same: "the barriers created by the rules and regulations ... tend to be more disproportionate for small businesses" and "if you do not have a big compliance department to aid you it can be very difficult to wade your way through".[322]

8.10. **SMEs are at a disadvantage compared with larger firms when dealing with administration and regulations, particularly when they change, because of the time and additional financial costs of many of the bureaucratic procedures in order to export. This reduces the margins on returns from exporting and so may act as a deterrent to export for both newcomers to exporting and those already exporting. It can also mean loss of sales when the regulations do not apply equally to foreign competitors.**

### Government and reducing regulation

8.11. The burdensome effect of regulation on SMEs has been recognised for at least four decades. In 1973, in a debate in the House of Lords on the Bolton Committee Report on Small Businesses, published in 1971, the Earl of Courtown referred to how "Government regulations may take a great toll of the management's time in small firms".[323] Aware of the risk of regulatory burden on businesses, governments over the years have sought to control the rise of regulations. The Better Regulation Task Force, established in 1997, sought to set out principles of good regulations and, since 1998, regulatory impact assessments have been undertaken to assess the costs and benefits of regulations using the standard cost model.

8.12. Most recently, the Government have introduced a series of measures aimed at reducing regulation, particularly for small firms and growing businesses. These include:

- a "one-in, one-out" scheme (since January 2013, the "one-in, two-out" scheme)—which dictates that new regulations must be matched by the removal of burdens elsewhere;
- the Red Tape Challenge—which seeks business input to find and remove burdensome or obsolete regulations;[324]

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[319] Small Business Service, *Developing Better Regulation and Policy* (2002), para 30.

[320] EC, *Models to reduce the Disproportionate Regulatory Burden on SMEs: A Report by the Expert Group* (May 2007).

[321] Q 444.

[322] Q 466.

[323] 21 February 1973, HL Debs, col 155.

[324] In April 2011, the Government announced their intention to reduce the current stock of over 21,000 statutory rules and regulations (except for those relating to tax and national security). The initiative, called the Red Tape Challenge, will last until April 2013.

- scrutiny by the Regulatory Policy Committee[325] of impact assessments;
- a proposal to give Ministers the power to apply a sunset clause to regulations under the Enterprise and Regulatory Reform Bill; and
- measures at the EU level to reduce regulation (see Chapters 3 and 5).

8.13. In April 2011, the Government introduced a three-year "micro-business moratorium", exempting micro-businesses (and start-up businesses) from all new domestic regulation which falls within scope of the "one-in, one-out" scheme and is due to come into force before 31 March 2014 (the end of the moratorium period).[326] The intention of the moratorium is to minimise "the sometimes disproportionate burden that new regulation can impose on the smallest businesses".[327]

8.14. Although the outcome of successive attempts by governments to reduce regulation is debatable, comparative indicators suggest that the regulatory environment in the UK is relatively supportive to business. A World Bank survey published in 2013 (covering the period June 2011 to May 2012), for example, places the UK seventh out of 185 in rankings for "the ease of doing business".[328] The EC 2012 annual assessment of how Member States are performing in relation to the SBA showed the UK to have a relatively "business friendly" environment.[329] (Other EU activities relating to reducing the regulatory burden are set out in Chapter 3.)

## Regulations and exporting

8.15. An export transaction may involve two sets of regulations: those imposed in the exporting country and, secondly, those imposed in the importing country.

### *UK regulations*

8.16. Exporting from the UK requires a series of interactions with relevant government agencies. The step-by-step procedures are clearly set out in the UKTI and the Open to Export webpages. Essentially, the regulations for exporting begin with a check to see if an export licence is required on a commodity code listing. Services may require different procedures to manufactured goods or those that are sold through the Internet. Some "strategic" goods may require approval from the Export Control Organisation (see paragraph 8.33 below).

8.17. When exporting within the EU, ostensibly trade regulations are less onerous because there are no duty and customs checks. However, EU product regulations and standards require compliance, and exporters have to record

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325 The Regulatory Policy Committee was established in 2009. In 2012 it became a non-executive independent Non-Departmental Public Body, sponsored by BIS. Its role is to provide independent scrutiny of proposed regulatory measures. Rules coming from the EU or from the economic regulators are outside of the remit of the Committee.

326 See CBI, *Changing the rules: Eight steps to a better regulatory regime* (December 2012) and *Plan for Growth: Implementation update* (December 2012), p 20, entry 85.

327 BIS website.

328 World Bank, *op cit*, p 3.

329 See EC, *Enterprise and Industry* SBA Factsheet UK (2012).

all goods sold in the EU on a Value Added Tax return, fill in a EC Sales List and, if total dispatches are worth more than £250,000, fill in an Intrastat Declaration (used to enable the compilation of statistics on the trade in goods between EU Member States). Several witnesses commented on obstacles to trade within the EU. The BSIA, for example, identified product certification as a barrier to exporting and noted that currently almost every EU market has a different set of product certifications. The BSIA recommended that, in the security sector at least, the Government should "work towards harmonising the product testing and certification requirements in EU" because the current arrangement created "a huge trade barrier for companies within the EU itself".[330]

8.18. To export outside the EU, a business has to register with the HM Revenue and Customs CHIEF (Customs and Handling of Import and Export Freight) system, an electronic processing system for imports and exports (including the calculation of duties, currency and quantity conversions and clearance of consignments).[331]

### *Regulations imposed by importing countries*

8.19. The evidence we received suggested that, of the two sets of regulations described in paragraph 8.15 above, it is the regulations imposed by countries to which the SMEs are exporting which tend to be the greater source of regulatory barrier. They include regulations relating to product design, packaging, technical specifications through to having to pay local authorities upfront fees to gain access to markets or basic import taxes. We have set out the evidence we have received, country by country, illustrating the types of regulatory barriers in other (importing) countries, in Appendix 8 to this report.

8.20. **Regulations emanating from importing countries vary in their level of burden, from being relatively benign to highly prohibitive and costly. Overall, however, our evidence suggests that regulations in the importing countries are more likely to pose a burden on UK exporters than domestic regulation. The general picture, therefore, is that, rather than domestic regulation tending to inhibit exporting, it is more likely to be the regulations imposed by the importing country.**

## Evidence on the regulatory barriers to exporting

8.21. The extent to which regulations are inhibit specifically SME export performance is unclear and can be affected by the sector. The BCC 2012 survey indicated that larger businesses found regulation more burdensome than smaller businesses (22% for micro-businesses and 31% for businesses employing 250 or more). Sixty three percent of respondents did not view UK regulations as a barrier and 15% thought them a slight barrier. Fifty two per cent did not view overseas regulations as a barrier and 25% thought them a slight barrier.[332] The TAEFL survey found that 23% of respondents cited "red tape, such as export legislation in the buyers' country, was preventing

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330 BSIA.

331 See HMRC CHIEF website.

332 BCC, *Exporting is good for Britain but RED TAPE STIFLES GROWTH* (2012).

them from developing markets”.[333] The 2010 BIS Annual Business Survey asked specifically about barriers to exporting for those companies which were not exporting. The results provided no significant evidence of regulation as barrier to non-exporters becoming exporters: instead the survey reported, “do not have a product” (39%), “not part of the business plan” (34%), “have enough business anyway” (16%) and “financial issues” (4%) as reasons for not exporting.[334]

8.22. Other surveys that have examined regulation and exporting provide more complex information. They indicate that when the specific barriers in relation to regulations are unpacked, more detailed issues emerge linked to taxation, customs and meeting standards. For example, the UKTI International Business Strategies, Barriers and Awareness Survey 2012[335] found that 24% of the respondents said that “dealing with customs procedures and paperwork” was a barrier and 21% said that “dealing with legal or tax regulations and standards” was a barrier. Of the 11 barriers identified, these were the first and third most significant. A survey of 1,500 SMEs (of which 1,000 were exporters) in June 2012 by Barclays Bank showed that 27% of respondents cited “understanding different legal and tax structures” as a barrier and 21% cited “customs procedure”.[336] A survey about barriers to overseas trade by UKTF, ITS Training Ltd and Felixstowe College of 100 SMEs, to which 80 responded, found that “far and away the biggest issue for respondents of all sizes was that of problems in understanding and implementing regulations” (51 out of 80).[337]

8.23. Even if the evidence overall indicates that regulation tends not to be a principal obstacle to exporting, complying with regulations is not an insignificant hurdle for SMEs seeking to export. As with generic regulation, SMEs have fewer resources to draw upon than larger organisations when having to undertake administrative tasks, or to fill out licences to export. The evidence we received included illustrations of the opportunity cost of compliance. The BCC case study (see paragraph 5.14) MW Polymer reported that “red tape can be burdensome—time spent filling out forms, takes away from time actually producing. Institutions change too often which increases the red tape burden”.[338] Steel Services Ltd, also an SME, said that there was a need for “less red tape generally to release SME Directors to invest more of their time into exporting and trying to export”.[339] Exporting has the potential to take up considerably more time than domestic sales through the need for export licences and meeting import regulations. This is in addition to the time needed to tailor products and services to meet local tastes and technical standards. Such challenges are particularly onerous for

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333 TAEFL.

334 See BIS *Small Business Survey 2010* (April 2011) and Adam Jackson Q 446.

335 Based on a telephone survey of 900 internationally active UK firms conducted between March and May 2012.

336 Kingston University London and Barclays, *Export to Expand: the key to small business growth in the UK* (2012) by Professor Robert Blackburn.

337 UKTF, ITS Training Ltd and Felixstowe College.

338 BCC, Export Case Study 1.

339 Steel Services Direct Ltd.

certain overseas markets (for example, China) and for certain sectors (for example, food and drink).[340]

8.24. **On the whole, it appears that UK export regulation, whilst significant, is not a crucial deterrent for SME exporting. When set within the context of other factors (such as possessing innovative and unique products or services, understanding the export market, or dealing with currency fluctuations), export-specific regulations appear not to be overwhelmingly critical inhibitors to SME performance.**

8.25. There are, however, some aspects of regulation which have emerged from the evidence as particularly burdensome. These include, for some sectors, administrative delay and over-lengthy application forms.

### Bureaucratic procedures as a regulatory issue

8.26. Compared with the EU average, it appears from EC data[341] that overall the UK is performing well in terms of the efficiency of its bureaucratic procedures associated with exporting. For example, the data shows that it takes on average seven days for a SME in the UK to export compared with 11 for the EU average. The number of documents for UK firms to export is also lower: four, compared with five for the EU as a whole. Some of the anecdotal evidence we received, however, paints a different picture. This is not surprising: first, the EC evidence is aggregated and masks wide variations in specific experiences; and, secondly, SMEs are much more conscious of the time needed to internationalise than their larger firm counterparts and, as a result, complain about form filling.

8.27. Furthermore, the regulations that exporters have to deal with in the importing countries are sector specific. To some extent, UKTI has a system to assist businesses with this process: this assistance is segmented by sector and according to whether the company is a new exporter or experienced exporter. Two broad sectors that are particularly subject to controls are food (particularly animal products) and strategic goods.

### Food (particularly animal products)

8.28. The food and farming sector, taking account of the whole food chain, contributes £85 billion a year to the economy and 3.5 million jobs.[342]

8.29. The Department for Environment, Food and Rural Affairs (Defra) (along with its agencies) is the lead department for food and drink export certification requirements. For exportation of live animals and animal products such as meat, dairy goods, pet food and wool, for example, Defra is often required by the importing country's veterinary authorities to provide animal health, public health and animal welfare assurances—typically by a veterinary health certificate. These certificates usually require a consignment to be inspected by a Defra-approved veterinarian shortly before export to confirm that the necessary assurances can be met. The regulations that apply to a particular export vary widely. Factors such as the destination country,

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340 For a discussion of specific challenges in certain overseas markets see: EC, *Trade and Investment Barriers Report* (2011), section 3.6.

341 See SBA Factsheet 2012, *op cit*.

342 Defra (2011), Food Statistics Pocketbook 2011.

the species, the nature of the animal products and the intended use of the consignment all influence the conditions that must be met.

8.30. Research commissioned by Defra, involving 500 food and drink companies, concluded that a key challenge for exporting for SMEs was dealing with tax or legal restrictions, specifically negotiating and administering export certificates, relating to animal, human, and plant health to third countries.[343] Poultry Logistic Services Ltd, which provides logistics support to companies in the poultry industry, said, for example:

> "… the layers of bureaucracy have hindered UK companies from growing as well as accessing new markets, I can recall on several occasions when orders have been lost to foreign competitors because they are able to turn around orders at a greater rate as there is less paper work and ease of access to the system than there currently is in the UK".[344]

8.31. There are attempts to tackle this slowness. In 2012, UKTI, in collaboration with Defra and a number of other organisations in the industry,[345] published a Plan of Action called *Driving Export Growth in the Farming, Food and Drink Sector*. The Plan acknowledged that maximising the trade opportunities for the agrifood and drink sector could be "an engine for driving strong, sustainable growth in the UK economy", and that it was "essential" for SMEs to consider the benefits of exporting.[346] It also recognised the inhibiting effect of regulations: "To exploit international market opportunities the right trading framework needs to be in place. Almost a third of exporting companies in our research identified dealing with tax or legal restrictions as a barrier".[347] The plan includes, therefore, provision to open up markets and remove trade barriers for the sector, including the simplification of food exporting paperwork.

8.32. Our discussions with food and drink SMEs in Yorkshire and Humberside indicated that the UK Export Certification Partnership (UKECP) (a partnership between Defra and industry) had been a success in terms of streamlining the export certification process in specific markets. The Plan of Action also gave the following positive example of UKECP: "The rapid opening of markets as a result of UKECP's work has seen non-EU exports of pig and sheep meat increase by 73% and beef by 66% in 2011".[348]

### Strategic goods

8.33. The Export Control Organisation (ECO) is responsible for assessing and issuing export, trade transhipment and trade control licences for specific categories of "controlled" goods (which include "dual-use" goods, as well as military items). There are two main licences: the Standard Individual Export

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343 SERIO, *Obstacles to Export Growth for Agrifood SMEs* (October 2011). SERIO is a specialist social, economic and market research service based at the University of Plymouth. The research was designed to inform Defra's Export Action Plan.

344 Contained in an annex to the evidence of the University of Chester

345 The Food and Drink Federation, the Food and Drink Exporters Association, the Agriculture and Horticulture Development Board and the Scotch Whisky Association.

346 Defra and others, *Driving export Growth in the Farming, Food and Drink Sector: a Plan of Action* (2012), Foreword.

347 SERIO, *op cit.*

348 Defra and others, *op cit*, p 14.

Licences (SIEL) (specific to one exporter and one consignee) and the Open General Licences (OGEL) (pre-published export licences in the public domain which apply to less sensitive products or less sensitive destinations). The EOC has a target to process 70% of applications within 20 working days.[349]

8.34. Several witnesses were critical of the export control regulations. The British Marine Federation (BMF), for example, said that SMEs experienced "extreme difficulties" in complying with them, in particular: "understanding the dual-use goods register; licence application times; confusion about when liability on the exporter ceases; and the lack of sector specific guidelines".[350] The BMF were also critical of the length of time it took for a SIEL to be issued.[351] The ADS Group (the trade organisation for aerospace, defence, security and space industries) also complained about delays. They suggested that the Government had adequate resources to cope with around 10,000 SIEL applications a year but, since 2009, the export control system has struggled to process upwards of 17,000 SIEL applications a year,[352] resulting in delays which have affected SMEs in particular. One of their members had to wait 180 days for a license to be approved.[353]

8.35. We put these concerns to Christopher Chew, Head of Policy at the ECO. He said that they would just about meet their target this year but admitted that, in the last two years, they had slipped.[354] Mr Chew said that the ECO was "clearly" under "a resource constraint" and that, if they could, they would "employ a lot more staff" and invest more in their IT systems: the number of staff had stayed the same for the past three or four years but the number of licence applications had gone up.[355]

8.36. We asked Mr Chew and also Michael Williams of the Trade Policy Unit whether SMEs were an important component of their activities.[356] Mr Williams said his organisation did not "compartmentalise by business size". Mr Chew said that the ECO was the same because their concern was "risk of harm that the export might do" which was, largely, independent of the size of the exporter. As a result, the ECO did not hold information about the size of the companies applying for licences. He suggested that, in terms companies understanding the system and being able to use it effectively and efficiently, this depended not on the size of the company but on how frequently they applied for licences; and so, he said, "the challenge for us is trying to reach out to those infrequent exporters regardless of how big they are rather than focusing on the specific size of the exporter".[357]

8.37. We were surprised that the ECO does not hold information about the size of the firms applying for SIELs. It seems likely to us that small firms will not only tend to be infrequent users (and therefore be less prepared in using the

[349] Q 461.

[350] BMF.

[351] *Ibid.*

[352] Christopher Chew, Head of Policy, ECO, told us that the ECO had about 75 staff and in 2012 had processed around 16,000 applications. Q 459.

[353] ADS.

[354] Q 461.

[355] Q 469.

[356] Q 461.

[357] *Ibid.*

system well) but also be more severely affected than larger firms by delays in the system. **We recommend that the ECO should take steps to assist firms, particularly SMEs, to use the export control system more effectively and efficiently; and a first step should be to develop a procedure whereby information about the size of an applicant company is built into the application process itself and, using that information, to offer assistance pro-actively and tailored to the needs of SMEs at an early stage in the procedure**.

### Over-lengthy application forms

8.38. We received some evidence suggesting that some UK application procedures associated with exporting were far more elaborate compared with other exporting nations. For example, BExA referred to the UK's Bond Support Application documentation which ran to 33 pages, compared with Swedish Export Credit Agency documentation at nine pages long. The Swedish short-term export credit insurance application was five pages long compared with the UKEF equivalent at 18 pages.[358] The Forum of Private Business described a change in security regulations for air freight which allows companies to become a "Known Consignor". Whilst this measure is intended to facilitate exporting whilst maintaining high standards of security, it comes at a price which is likely to disadvantage SMEs: this includes the cost of registering, annual inspections and the introduction of measures such as CCTV and background checks for staff.[359]

8.39. **Whilst we make no recommendation about specific application procedures associated with exporting, we deplore the use of over-lengthy forms by the UK and we urge the Government more generally to consider the needs of SMEs and to take into account the disproportionate impact regulations have on SMEs when formulating procedures and forms associated with those regulations.**

### SMEs and trade policy

8.40. We acknowledge the Government's commitment to reducing regulatory burden, both at the national and EU level. We note also that in a number of ways, the needs of SMEs are specifically taken into account. However, there are two broad issues about which we make further recommendations. They are linked. The first is the need to distinguish more fully the requirements and capacity of SMEs when developing trade policy and in formulating the associated regulations; and the secondly is the need to improve the content and reach of communication with SMEs about UK and overseas export regulations and the assistance available to help them navigate their way through them.

8.41. Mr Williams of the Trade Policy Unit explained to us that his part of the Unit focused on the regulatory aspect of trade policy. We have already noted Mr Williams' comment about not compartmentalising businesses by their size (see paragraph 8.36 above). When pressed further, he said: "the work that we lead on … is about setting the regulatory legal framework within which businesses operate when they trade and set the rules of the trading game, we do not differentiate by business size". But, he said, in developing

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[358] BExA.

[359] Forum of Private Business.

EC priorities in free trade agreement negotiations, efforts were made to take on board issues which affected SMEs in particular. The difficulty was, however, ensuring that the voice of SMEs was heard. He admitted: "we do rely very heavily on the trade associations".[360] This was not the first time we had come across this issue and we have already (in paragraph 3.40) commented on the limited extent to which trade organisations are representative of SMEs.

8.42. SMEs need particular assistance in dealing with the licensing, customs and bureaucratic procedures for exporting in specific sectors and overseas economies. **Building on our recommendation (Recommendation 11) on improving awareness of UKTI products and services, we further recommend that included within the "key priority" which we have identified there should be tailored communication to SMEs about both UK and overseas trade regulations and the assistance available to SMEs to help them deal with those regulations.**

8.43. In addition to assisting SMEs in dealing with the current regulatory environment, in looking forward, **we also urge the Government to ensure that the requirements and capacities of SMEs are specifically taken into account in ongoing and future multilateral and bilateral trade negotiations. We are aware of recent developments with regard to an EU and US free trade agreement and urge the Government to ensure that more attention is given to the needs of SMEs in these negotiations, particularly given the importance of SMEs to the long-term future of the UK economy. We make the same point with regard to negotiations within the World Trade Organisation.**

360 Q 466.

# CHAPTER 9: INTELLECTUAL PROPERTY

## Introduction

9.1. Intellectual property rights are of four main types: patents (protecting "what makes things work"), copyright (an automatic right applicable to a work which is written or recorded), designs (protecting "the appearance of a product/logo") and trademarks ("signs which distinguish goods and services in the marketplace").[361]

9.2. Protection of intellectual property rights is of crucial importance to our economy. In past centuries Britain's economic position was hugely strengthened by the early development of an effective Patent Office[362] to protect and hence encourage innovative entrepreneurs. In a world where we cannot compete on price for mass markets it is even more important. The Bradford Centre in International Business (BCIB) describes the UK as "one of the main global players in the exporting of intellectual assets"; and, in 2009, the total value of UK intellectual property exports exceeded £100 billion.[363] Given this, mechanisms for the protection of intellectual property rights at home and abroad are essential. In the Intellectual Property Office (IPO) report *Prevention and Cure: the UK IP Crime Strategy 2011*, Baroness Wilcox, (then) Minister at BIS, recognised the importance of holders of intellectual property rights being able to enforce them through the courts of foreign jurisdictions and also the role of the Government in "influencing and knowledge sharing" with EU and other international counterparts.[364]

## Importance to SMEs

9.3. We recognise that the significance of intellectual property issues will vary according to sector and market. PACT said that it was "a major barrier to the export of television content".[365] UKIBC, on the basis of a survey of 211 companies,[366] described intellectual property rights protection as only "slightly problematic" although a subsequent roundtable discussion which they held with 20 businesses disagreed because of "problems with dealing with any kind of bureaucratic service in India".[367]

9.4. Protection of intellectual property can be a significant issue for SMEs. Recognition of this fact underpins the Government's approach to increasing SME exports. The UKTI's five-year strategy states: "we know that exploiting overseas markets plays a greater role in business success among innovative and high growth companies—those investing in R&D or holding intellectual property, and those which have experienced annual growth of 20% per annum over three years".[368] According to UKTI, such companies "contribute

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361 IPO website.

362 The Patent Office was set up in 1852. The IPO became the operating name of the Patent Office in 2007.

363 BCIB.

364 IPO, *Prevention and Cure: the UK IP Crime Strategy* 2011.

365 PACT.

366 Of which, 69% were SMEs, 72.2% were exporters and 27.8% were not. See the written evidence submitted by the UKIBC.

367 UKIBC.

368 *Britain Open for Business*, *op cit*, p 13.

disproportionately to the economy and benefit most from government help".[369] As a result, an ambition of the five-year strategy is to target innovative and high-growth SMEs (see paragraph 3.9 above).

9.5. For SMEs which are innovative and hold intellectual property, the structures in place to protect their intellectual property abroad are a particularly important consideration when deciding whether to export at all or, if an exporter, in selecting an export market.[370] It is unfortunate, therefore, that, according to the IPO, often exporters do not realise the importance of intellectual property protection until it is "too late", that is, "once they are faced with imitators or counterfeiters or once they are being accused of infringing the rights of others".[371] Often they do not realise that the laws and procedures for the protection of intellectual property rights are not the same the world over, and often they make the mistake that intellectual property rights are not universal but extend only to the national jurisdiction of the granting IPO.[372]

9.6. The importance of protection of intellectual property rights (which if not secured, or subsequently cannot be enforced, can cause businesses to be significantly damaged or even destroyed) is illustrated by one of the SMEs which we visited in Wales, Concrete Canvas Ltd. They described to us what they thought of the current system of patenting and how it could be improved:

> "It is widely held among technology SMEs that the UK system significantly advantages large corporations and damages the development of viable technology. The US system for example is much more conducive to SMEs developing defendable IP. In particular: allowing punitive damages for infringement, removing the right to sue for invalidity as an immediate counter to any claim for infringement and removing the bond required to take an infringer to court, would help to redress the balance."[373]

9.7. Of those who submitted evidence on this subject, most complaint was about China. The BCIB suggested that the issue was a particular problem for those SMEs intending to export to emerging economies because they had "the most pronounced problems of protecting intellectual property".[374] When we visited Aardman Animations in Bristol, we heard about the charismatic "Shaun the Sheep" being pirated in China within days of being launched on Chinese television. Alderley plc said: "In some markets, particularly China, customers reverse engineer equipment as routine. There appears to be little opportunity for redress. For a comparatively low technology business like Alderley, this is a major barrier to trade. At present it has no intention of selling to China".[375] Lee Hopley, Chief Economist of EEF, the Manufacturers' Organisation, concurred and said that, according to

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369 *Ibid.*

370 BCIB.

371 IPO website, *Common IP mistakes made by exporters.* A similar point was made in the written of the Forum for Private Business.

372 *Ibid.* International rights may be available through the Patents Co-operation Treaty or the Community Trade Mark system.

373 Concrete Canvas Ltd.

374 BCIB.

375 Alderley plc.

anecdotal evidence they had received, the issue was "particularly acute" in China.[376]

9.8. In contrast, the CBBC[377] suggested that, although an issue, intellectual property was not the most pressing for companies trading with China. In a survey undertaken by UKTI, CBBC and the University of Leeds in 2008, very few—four—responses cited intellectual property as a challenge to exporting to China, compared with 39 responses indicating that regulatory issues were a problem and 39 citing language and culture.[378] An update in 2011 revealed a similar result; and the 2012 China business climate survey[379] concluded that, although "the key business challenges facing those in the China market continue to be bureaucracy, securing licences and protecting intellectual property", "the number of infringements that actually harmed operations was relatively low";[380] and, as Brompton Bicycle Ltd demonstrates, some SMEs are prepared to take on the risk of infringement (see Box 9 below)

**BOX 9**

**Brompton Bicycle Ltd, West London**

"Differentiate through quality and focus on what you do well, and that can be sold as readily in Brussels and Baltimore as Basingstoke and Brighton, albeit in different ways."

Brompton Bicycle Ltd (www.brompton.co.uk) is based in West London, employs over 180 people, and sells its range of bicycles, and related spares and accessories, into markets around the world. In addition to the UK, their products are sold in 27 markets in Europe and the Near East (Russia, Israel, etc.), with a further six in the Americas and 11 in Asia. They recently added China despite fears from some quarters that "There are going to be knock-offs left, right and centre".[381] Having experienced problems with copy Bromptons in Taiwan after a failed attempt at shifting production, Brompton were nevertheless willing to take a risk with their IP.[382]

"IP concerns surround exports to markets where patent/copyright infringement is rife, though Brompton took the view that Chinese copycats would create a Chinese Brompton soon enough anyway, so why forego selling the real thing to Chinese consumers and educate them about what it *should* be?"[383]

9.9. Of course, not all SMEs will have the confidence or capacity to take this approach of risking infringement. It is fortunate, therefore, that the Minister, Lord Green, is optimistic for the future: "Gradually over time it will get better. In particular, the more successful the Chinese economy is, the more

376 Q 279.

377 The CBBC helps companies develop their business with China. It is a membership organisation. The majority of members are SMEs. See the written evidence submitted by the CBBC.

378 CBBC.

379 Conducted by CBBC and British Chamber of Commerce in China.

380 CBBC.

381 Q123.

382 Brompton Bicycle Ltd.

383 *Ibid.*

they will build up intellectual property of their own that they want to protect”.[384]

## Current Government action

9.10. In 2011, Professor Ian Hargreaves published a Review of Intellectual Property and Growth which set out a number of difficulties faced by SMEs in navigating the intellectual property protection system. The IPO, following the review, included plans to address the problems identified in the BIS *Innovation and Research Strategy for Growth* published in December 2011. A discussion paper, published in April 2012, *From ideas to growth: helping SMEs to get value form their intellectual property*, developed these plans and, in November 2012, the IPO set out its conclusions and proposals for improving awareness of intellectual property issues amongst SMEs, improving access to intellectual property advice, developing intellectual property skills and for handling disputes.[385]

9.11. The IPO, UKTI, FCO and others have developed a range of publications and services available to UK businesses. They include specific business guides and improved business support literature, such as a range of IP Primers for Brazil, China, India, Korea and Vietnam. Furthermore, IPO recruited an Intellectual Property Rights attaché for China in December 2011 and subsequently for India, Brazil, and South-East Asia to work with the existing network of UKTI representatives and to provide on-the-ground help for UK businesses with IP-related issues.[386] This focus on emerging economies chimes with comments by the Forum of Private Business that it is these economies “where the real economic prizes are”. As a result, the Forum recommends “stronger enforcement of UK patents and intellectual property overseas” and welcomed agreements like the ones the UK had recently signed with Mexico[387] and Nigeria.[388] It also reflects the reality expressed by Ms Hopley of the EEF that the emerging economies are the most challenging arena in terms of intellectual property protection.

## European Patent Organisation

9.12. The European Patent Office (EPO), based in Munich, began work in 1978 following the conclusion of a European Patent Convention. Its membership is wider than the EU and includes, for example, Turkey, Switzerland, Albania and others;[389] and, clearly, the wider the agreement the better. The EPO has a single procedure for applying for a patent but grants what is in effect a bundle of patents each covering one of the individual Members States of the EPO.

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384 Q 488.

385 *From ideas to growth: helping SMEs to get value form their intellectual property: conclusions* (November 2012).

386 *Plan for Growth: implementation update* (December 2012), pp 31–2, entry 151.

387 The Government: in October 2011, IPO also signed a key agreement with the Mexican Institute of Industrial Property. This agreement will help UK businesses operating in Mexico by improving co-operation between the two nations on issues such as copyright, patents, trademarks and designs.

388 Forum of Private Business.

389 Full membership is the 27 EU member states, Albania, Croatia, Iceland, Liechtenstein, FYROM, Monaco, Norway, San Marino, Serbia, Switzerland and Turkey.

### EU action

9.13. In December 2012, MEPs agreed a Council proposal for a unitary EU patent regime so that a single patent is to be granted rather than a bundle. The EC suggest that the new unitary patent will greatly benefit SMEs and that "when the new system is up to speed, an EU patent may cost just €4,725, compared to an average of €36,000 needed today".[390] They also agreed to set up a European Patent Court to improve enforcement.

### Enforcement

9.14. For innovative SMEs enforcement is often the problem. The UK Patent Office and patent offices in other countries register patents but do not enforce them. If a shop reports a shoplifter the investigation and prosecution are carried out by the police and CPS. If a patent is broken, the resulting legal action is under civil law and all the expense and difficulty of investigation and court action fall on the patentee. Success results in an award of damages not a fine. In a case of an innovative SME versus a giant overseas international firm, well equipped with lawyers, the odds are heavily stacked against the SME patentee. This is a loading of the patent system against innovative SMEs which SMEs and governments simply have to recognise and try to mitigate. In the UK, the situation has recently been eased by the introduction of a Small Claims Track in the Patents Court.

9.15. When we put to Lord Green that intellectual property was a significant fear for many SMEs, he said: "with good reason. There are no simple answers";[391] and, referring to developments in Europe, he said that, although they would "kick in" in three to four years: "do not hold your breath for rapid action".[392]

9.16. We acknowledge that the problem of intellectual property rights is an intractable one. Action can, however, be taken. Broadly, difficulties with intellectual property protection can be approached in two ways. First, the formal structures for the protection of intellectual property and the enforcement of intellectual property rights can be made easier and more accessible, and we acknowledge the work of the IPO in the UK, the developments in Europe and the value of bilateral agreements such as the recent agreement with Mexico (see paragraph 9.11 above) and a recent co-production treaty between the UK and Brazil for TV and Film.[393] **We invite the Government, in their response to this report, to set out what progress is being made in developing further effective bilateral and multinational agreements which will give those SMEs which hold significant intellectual property the confidence to enter new markets. We would also invite them to define how they measure progress and what constitutes success.**

9.17. Realistically, no formal structure of intellectual property protection will eliminate a risk of breach of intellectual property rights entirely, just as no system of criminal law will prevent crimes being committed entirely. SMEs

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390 European Parliament website.

391 Q 488.

392 *Ibid.*

393 PACT. In reference to the agreement, PACT said that it would "facilitate access for UK SMEs working in the audiovisual sector to an important export market".

therefore need to be on their guard. A second approach to dealing with intellectual property issues, therefore, is to equip SMEs with information about measures to mitigate the likelihood of breaches (such as the use of licensing agreements with businesses in the importing country, developing local partnerships and joint ventures) or with local information that will enable them to take an informed decision about the risk of breaches of intellectual property rights and, should they decide to go ahead, that will enable them to use effectively whatever system of protection is available. **A number of witnesses have welcomed the appointment of IP attachés.**[394] **We welcome this development as well and invite the Government to state their plans for extending the programme of IP attachés**.

9.18. In Chapter 5, we called upon UKTI to make extra efforts to raise awareness of their services and of the benefits of exporting. These efforts should include a specific focus on intellectual property issues. We share the view of Lord Green that "at the end of the day it is the job of UKTI to alert companies to the dangers".[395] PACT made a similar point: "an area in which the ... Government could assist SMEs further" was "by raising awareness of the importance of copyright", and other intellectual property issues, "through trade delegations; cultural attachés in UK embassies" and, where appropriate, the negotiations of international treaties.[396] Understanding intellectual property protection will enable SMEs to be forearmed; it may also remove anxieties borne of misunderstanding and ignorance and encourage them to enter markets which they would not otherwise have considered. **We recommend, therefore, that, as part of a concerted effort to raise awareness about UKTI services amongst all SMEs, efforts should be made to improve their understanding of intellectual property protection generally and to convey how important it is to assess the risk of intellectual property rights breach, and its implications for the company, when deciding whether to enter a market.**

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394 For example, PACT, UKIBC.

395 Q488.

396 PACT specifically suggest co-production treaties for audiovisual works.

## CHAPTER 10: BRIBERY ACT 2010

### Introduction

10.1. The Bribery Act 2010 came into force in July 2011. Its purpose was to modernise domestic and foreign offences of bribery. Its enactment led to a flurry of concern that SMEs would be particularly harshly affected. Mr Simon of UKTI agreed that the Act had "provoked a bit of anxiety" and said that "it is possible that [the UK] have lost some business".[397]

10.2. It was not surprising, therefore, that whilst several witnesses recognised it as having enhanced the reputation of the UK in terms of business ethical standards, some expressed concern that the Act had given rise to uncertainty and put the UK at a trading disadvantage. Deltex Medical Ltd, for example, said:

> "The Bribery Act is a concern because it creates an imbalance with other markets. We support appropriate measures to uphold industry best practice and ethical business practices. However, the terms of the Bribery Act itself potentially restrict trading opportunities—for example in countries such as China and Brazil that do not conform to the same code of practice as the UK. In our experience, we have had to pay to review potential overseas distributors in China. Many Directors of SMEs are rightly concerned about being able to expand export markets whilst conforming to the Bribery Act."

10.3. He went on:

> "BRIC countries especially raise challenging questions around the Bribery Act. My fellow directors and I have concerns over how we operate correctly under the Bribery Act within those countries. We have taken legal advice. We have made changes to our contracts. All of those areas have ways of trading that are different from those that we have in the UK, and different standards. It is difficult for any company to go in and follow the recommendations."[398]

10.4. Tony Shepherd of Alderley plc expressed his views robustly:

> "The existing Act is virtually impossible to operate as far as a UK company is concerned. You cannot really take someone out to dinner without committing a crime. I am very strongly in favour of trying to eliminate bribery, but to have a situation where we are subject to a law that is much more severe than anywhere else in the world is not good."[399]

10.5. ADS also recognised the value of the Act but asked for "clearer guidance ... on its practical application and its implications, particularly the responsibility on SMEs for local 'agents'". They also thought it "essential that the UK pursues a global level playing field in bribery rules so UK companies are not disadvantaged".[400] LMK Thermosafe Ltd similarly understood the purpose

[397] Q 53.

[398] Q 133.

[399] Q 278.

[400] ADS.

of the Act but said that adhering to the Act restricted their ability to sell successfully and, as a result of Act, they preferred to "work in markets where honesty is appreciated".[401] Mr Ehmann of the IoD described the Bribery Act 2012 as a "counterproductive" measure that has "held us back". It had had, he said, "a significant impact" on his members, especially for those trading with BRIC countries and developing economies.[402]

### Current Government action

10.6. The Government explained to us what action they had taken to help SMEs to understand the implications of the Bribery Act 2010. The Ministry of Justice has published guidance on the Act and has run a programme of awareness-raising, prioritising UK industrial sectors most exposed to corruption risks. There is an online Business Anti-Corruption Portal which is specially targeted at SMEs and provides a comprehensive and practical business tool to help them avoid and fight corruption, with specific advice on 62 countries. Commercial Awareness training for FCO staff aims to equip them with the knowledge and skills to be able to provide suitable support to businesses, including advice on this issue.[403] Mr Simon referred also to an initiative being considered by UKTI, "a potential signposting opportunity to people who can give specific guidance to companies as to how directors can take appropriate levels of care to ensure they do not infringe the Bribery Act". He suggested that the "most dangerous thing" was not "the legislation *per se*" but "a lack of confidence".[404]

10.7. **As with intellectual property issues, we exhort the Government to make efforts to promote the international harmonisation of standards, and also to raise awareness amongst SMEs about the application of the Bribery Act 2010 and explain exactly how it will be applied in practice.**

10.8. Mr Simon suggested that "there is a desire that the Bribery Act be tested by the Crown Prosecution Service, because then the community as a whole will have a better sense of where it stands".[405] We do not agree. **It is not satisfactory to wait for elaborate court cases to define the actual workings of the Bribery Act 2010 in case law.**

10.9. **Whilst we acknowledge the importance of the example of high ethical standards being set by the UK, application of the Bribery Act 2010 has been met with confusion and uncertainty. We recommend, therefore, that, at the earliest opportunity, the Act should be the subject of post-legislative scrutiny by a Parliamentary select committee.**

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401 LMK Thermosafe Ltd.

402 Q 93.

403 The Government.

404 Q 53.

405 Q 54.

# CHAPTER 11: RECOMMENDATIONS, REQUESTS FOR INFORMATION AND OBSERVATIONS

The following is a list of the recommendations, requests for information and observations which we have made during the course of this report. They have been group in categories. The text in bold indicates action required. The paragraph numbers are a reference to the paragraph number in the report.

## Recommendations

*Recommendation 1 (paragraph 1.24)*

**We recommend that the Government should make a commitment to report back to the House before the end of Session 2013–14 with an update on what they have done in response to this report and what has been achieved, and that the Government should ensure that time is made available for their update report to be debated by the House.**

*Recommendation 2 (paragraph 3.28)*

Given the need to communicate with SMEs, identify their specific challenges to exporting, raise awareness of UKTI products and services, LEPs have the potential to be a significant part of the Government's institutional infrastructure for raising SMEs competitiveness and export performance. **We recommend that LEPs and UKTI should be required to work more closely in this area and that consideration should be given to a specific fund for which LEPs could bid to assist SMEs in this respect.**

*Recommendation 3 (paragraph 3.43)*

We share Lord Heseltine's view about the advantages of increasing the membership of organisations such as the chambers of commerce as a means of facilitating the dissemination of information and opening up the lines of communication between UKTI and other export service providers more generally. **We would, therefore, encourage organisations which have a close link with SMEs, such as the chambers of commerce, to consider as a priority how they can attract more SMEs into their organisations and thereby extend their reach.**

*Recommendation 4 (paragraph 3.46)*

We are aware that efforts are already being made to link UKTI and professional advisers to SMEs. **Given the reach of the professional advisers in the SME sector, we would encourage the Government to consider, with relevant representative professional bodies, whether more can be done to use the professional adviser networks to improve communication between UKTI and SMEs.**

*Recommendation 5 (paragraph 4.8)*

We were struck by the number of SMEs and executives whom we met who complained of insufficient loans and other services on reasonable terms. We believe that bank lending practices contributed to this problem. Therefore, **the Government should study how banks assess the credit risks of SME exporters and different overseas markets to determine the causes of this problem (see also Recommendation 8).**

*Recommendation 6 (paragraph 4.15)*

**The Government should examine why greater use is not being made of EIB funds and, in particular, whether so few UK banks being the gateway to the scheme is part of the problem.**

*Recommendation 7 (paragraph 4.23)*

**SME exporters should examine other options for funds than the high street clearing banks including non-clearing banks, crowd funding and equity finance. Advice on these funding options should be available from UKTI, chambers of commerce, trade associations and accountants.**

*Recommendation 8 (paragraph 4.30)*

We were taken aback by the very small number of SMEs helped by UKEF. The new emphasis on aiding SMEs in addition to its big clients like Airbus is welcome. **UKEF services need to be better publicised amongst SMEs and banks. The role of the banks, which are the gateway to the schemes aimed at SMEs, needs to be examined as they share the risk with UKEF. If the banks are not prepared to take on some of the risk then the schemes, as currently structured, are dead in the water. An examination of this should form part of the Government study we recommended earlier (Recommendation 5) on how banks view the risks attached to SMEs seeking to export.**

*Recommendation 9 (paragraph 5.16)*

**We recommend that the charging structure for OMIS should be reviewed with a view to making it more flexible so that charges better match individual cases and needs. UKTI should consider adapting its charging structure to SMEs so that, for example, the first OMIS report commissioned by an SME is charged at a lower rate.**

*Recommendation 10 (paragraph 5.17)*

Furthermore, while it appears that the quality of reports is often high, concerns were also raised about consistency of quality. **We recommend also, therefore, that UKTI should take steps to ensure consistency in the quality of OMIS reports.**

*Recommendation 11 (paragraph 5.25)*

**We recommend that increasing awareness of UKTI should be a key priority for the Government and that specific attention should be paid to tailored communication with SMEs. This should not be done in isolation, but should be designed and taken forward in collaboration with trade organisations, such as chambers of commerce and the FSB, and with professional advisers and their professional bodies, such as accountancy bodies.**

*Recommendation 12 (paragraph 5.27)*

**In order that SMEs can easily access information about provision for SME exporters, we recommend that the Government should undertake investigations, in consultation with relevant public and private sector organisations, into the viability of a single portal giving particulars of all SME exporting services available from all sources, whether public or private sector.**

*Recommendation 13 (paragraph 5.32)*

**We recommend that the Government should consider allowing those companies which have made significant use of UKTI services to say so by means of a suitable registered logo such as a Union Jack and the words "UKTI supported".**

*Recommendation 14 (paragraph 6.22)*

**If UKTI is to make inroads into the large number of SMEs not currently exporting, the task of dispelling any misleading perceptions associated with language differences and improving the ability of SMEs to deal with language and cultural differences should be regarded as a priority. We recommend accordingly.**

*Recommendation 15 (paragraph 6.16)*

**We recommend that, as part their communication strategy with SMEs, UKTI should include the message to SMEs that there are significant commercial benefits to addressing the language issue and adverse consequences if it is ignored. As part of that message, UKTI should offer effective and realistic advice about how SMEs can address the language barrier (such as offering placements to foreign students and using online translation services).**

*Recommendation 16 (paragraph 6.17)*

SMEs should be encouraged to develop Language Management Strategies to mitigate the effects of the language differences on their businesses. **We recommend that UKTI should develop a short template Language Management Strategy which SMEs could modify according to the needs of their business and potential export markets.**

*Recommendation 17 (paragraph 7.22)*

**We have already made recommendations about the need to increase SME awareness of the products and services of UKTI (Recommendation 11) and UKEF (Recommendation 8). The same applies with regard to the availability of skills training. We would urge those organisations involved in provision of exports skills training to take steps to improve awareness of what is on offer, including consideration of how best to use the network of other organisations and professional advisers associated with SMEs as a conduit for dissemination of information. The Alliance of the SSCs, in conjunction with the CfA, SFEDI, BCC and the IOE, may be best placed to take this recommendation forward.**

*Recommendation 18 (paragraph 8.37)*

We were surprised that the ECO does not hold information about the size of the firms applying for SIELs. It seems likely to us that small firms will not only tend to be infrequent users (and therefore be less prepared in using the system well) but also be more severely affected than larger firms by delays in the system. **We recommend that the ECO should take steps to assist firms, particularly SMEs, to use the export control system more effectively and efficiently; and a first step should be to develop a procedure whereby information about the size of an applicant company is built into the application process itself and, using that information, to offer assistance pro-actively and tailored to the needs of SMEs at an early stage in the procedure.**

*Recommendation 19 (paragraph 8.42)*

SMEs need particular assistance in dealing with the licensing, customs and bureaucratic procedures for exporting in specific sectors and overseas economies. **Building on our recommendation (Recommendation 11) on improving awareness of UKTI products and services, we further recommend that included within the "key priority" which we have identified there should be tailored communication to SMEs about both UK and overseas trade regulations and the assistance available to SMEs to help them deal with those regulations.**

*Recommendation 20 (paragraph 8.43)*

In addition to assisting SMEs in dealing with the current regulatory environment, **in looking forward, we also urge the Government to ensure that the requirements and capacities of SMEs are specifically taken into account in ongoing and future multilateral and bilateral trade negotiations. We are aware of recent developments with regard to an EU and US free trade agreement and urge the Government to ensure that more attention is given to the needs of SMEs in these negotiations, particularly given the importance of SMEs to the long-term future of the UK economy. We make the same point with regard to negotiations within the World Trade Organisation.**

*Recommendation 21 (paragraph 9.18)*

**We recommend, therefore, that, as part of a concerted effort to raise awareness about UKTI services amongst all SMEs, efforts should be made to improve their understanding of intellectual property protection generally and to convey how important it is to assess the risk of intellectual property rights breach, and its implications for the company, when deciding whether to enter a market.**

*Recommendation 22 (paragraph 10.7)*

**We exhort the Government to make efforts to promote the international harmonisation of standards, and also to raise awareness amongst SMEs about the application of the Bribery Act 2010 and explain exactly how it will be applied in practice.**

*Recommendation 23 (paragraph 10.9)*

Whilst we acknowledge the importance of the example of high ethical standards being set by the UK, application of the Bribery Act 2010 has been met with confusion and uncertainty. **We recommend, therefore, that, at the earliest opportunity, the Act should be the subject of post-legislative scrutiny by a Parliamentary select committee.**

## Requests for information

*Request for information 1 (paragraph 3.9)*

**We invite the Government to explain in detail:**

- **what level of service is provided to an SME for it to be counted as being within the UKTI client base;**
- **whether there is a point (and, if so, how is it described) when an SME is said no longer to be part of the UKTI client base and is therefore deducted from the total for the purposes of assessing progress towards the target figure of 50,000; and**
- **given that there are estimated to be 4.8 million SMEs in the UK, on what basis they decided to set 50,000 as a target client base.**

*Request for information 2 (paragraph 3.16)*

Mr Simon's reply worried us. It appears that, in the near future, the focus of the services provided by UKTI may shift away from domestic provision (of education and information for companies in the UK) towards overseas provision (that is, assisting those companies which are exporting or ready to export to deal with difficulties they may face in the importing country). Given our serious concern that the most difficult challenge in encouraging SMEs to export is how to extend the reach of UKTI to those with export potential (but are either unaware or too cautious to export), we question whether this proposed shift of resources will most effectively encourage an increase in SME exports and assist an export-led recovery. **We invite the Government to explain, in response to this report, their short to medium-term approach to deployment of UKTI resources.**

*Request for information 3 (paragraph 5.24)*

**We welcome the appointment of a new marketing director. We invite the Government to set out in detail what measures have been put in place, or will be put in place, to raise awareness of UKTI; and also to describe how they will evaluate those measures.**

*Request for information 4 (paragraph 6.20)*

**We invite the Government to set out what mechanisms they intend to put in place in order to ensure that our cultural and linguistic diversity are put to better use in addressing the opportunities for SMEs, associated with the different languages and cultures of potential trading partners.**

*Request for Information 5 (paragraph 7.25)*

**We invite the Government to set out further proposals which will sustain and even perhaps accelerate the gradual shift towards a pro-business culture.**

*Request for Information 6 (paragraph 9.16)*

**We invite the Government to set out what progress is being made in developing further effective bilateral and multinational agreements which will give those SMEs which hold significant intellectual property the confidence to enter new markets. We would also invite them to define how they measure progress and what constitutes success.**

*Request for Information 7 (paragraph 9.17)*

A number of witnesses have welcomed the appointment of IP attachés. We welcome this development as well and **invite the Government to state their plans for extending the programme of IP attachés**.

## Observations

*Observation 1 (paragraph 3.14)*

It important to distinguish between what firms can and should do for themselves and what the Government can do to help. SME exporters can be helped by Government (and their agencies) in several ways. They can:

- help firms understand and deal with local tariffs, regulations, licensing and political barriers;
- help firms choose the most likely markets for specific products and services;
- help with specific local knowledge of markets, cultural differences and business practices, language, labelling and competition;

- develop mechanisms, through the embassies, which exploit the potential borne of Britain's historical connections with other countries and of Britain's current ethnic diversity;
- open doors to key people, both potential customers and reliable agents and advisers;
- help, though UKEF, to minimise payment risks particularly those arising from political factors; and
- help market the "British Brand" both generally and at trade fairs.

Furthermore

- Government purchasing policies at home can both provide a sound base for exports and demonstrate confidence in the products and enhance their reputation;
- Government support for innovation can help ensure that the UK remains in the forefront of technical competition; and
- Government can, more generally, foster a culture within the UK, beginning at the early stages of the education process, which pays appropriate regard to the importance and value of business and careers in business.

However, there are a number of aspects of successful exporting for which the Government cannot be held responsible. Responsibility for these must rest with the SMEs themselves and the individuals behind them. The Government cannot help ensure the quality of products and services required for overseas markets. Nor can they select the products and services which have the necessary distinctive advantages to sell at a profit. That is the job of the entrepreneur. It is our good fortune that the UK has long had a flair for innovation and entrepreneurship.

*Observation 2 (paragraph 4.11)*

Local bank managers must be given more discretion to approve or reject sizeable loan applications from SMEs using their judgement and not relying solely on formulae. They are much better-placed to take these decisions than staff in more distant regional offices with next to no interaction with their SME customers.

*Observation 3 (paragraph 4.23)*

SME exporters should examine other options for funds than the high street clearing banks including non-clearing banks, crowd funding and equity finance. Advice on these funding options should be available from UKTI, chambers of commerce, trade associations and accountants.

*Observation 4 (paragraph 4.29)*

Given that London is one of the world's key financial centres, it is surprising that more is not done to meet the financial needs of our indigenous SMEs who are, or intend to become, exporters. It would help the sector if our financial institutions and the Government developed more specific products to meet the unique requirements of exporting SMEs. It cannot be left to UKEF.

*Observation 5 (paragraph 5.15)*

The high quality ratings given to UKTI products and services by the PIMS evaluation are borne out by the evidence that we have heard. While there are improvements that can be made to UKTI products and services and their delivery through the embassies, the overall picture is positive and points to an organisation that has a great deal to offer SMEs.

*Observation 6 (paragraph 6.9)*

We welcome the Government's acknowledgment, in their proposals for the reform of the national curriculum, of the importance of learning foreign languages at early stage in the education system.

*Observation 7 (paragraph 6.10)*

The Government included Mandarin in the list of required languages because they regard it as "important economically"; and, arguably, the same is true of other BRIC languages. Whilst we draw this matter to the attention of the Government, we make no specific recommendations We recognise that the debate is a complex and long-standing one and not one which this Committee is in a position to take further.

*Observation 8 (paragraph 6.15)*

SMEs are unlikely to have the breadth of languages available to larger organisations. There needs to be a cultural shift in attitudes towards learning modern foreign languages. We welcome, therefore, the Government's proposal that foreign languages should be taught from Key Stage 2 upwards. More generally, we look to the Government to demonstrate to children and their parents the potential career benefits of foreign language skills.

*Observation 9 (paragraph 7.14)*

A range of services are provided by UKTI and by other service providers (public and private sectors) which are intended to promote exporting skills; and important further developments are in the pipeline. We welcome and encourage these developments.

*Observation 10 (paragraph 7.15)*

Given the evidence we have received about the reasons for a lack of awareness of UKTI more generally and the connection with the time and resources pressures on SMEs, we would urge those who are designing exporting skills services to pay particular regard to the time burden of undertaking a course. Time is at a premium for SMEs. Efforts should be made therefore to make courses as accessible and as flexible as possible.

*Observation 11 (paragraph 7.16)*

We urge further that, where appropriate, courses should include teaching about the skills associated with salesmanship. The salesman is the interface between buyer and seller. Salesmanship skills are therefore critically important to the success or otherwise of an SME, whether exporting or trading domestically.

*Observation 12 (paragraph 7.25)*

We welcome initiatives to start that process of change at primary school level. We have already noted the steps being taken in the FCO to improve staff understanding of business. We also welcome the Government's commitment, set out in The *Plan for Growth*, that UKTI should "develop a more entrepreneurial culture which makes better use of private sector expertise and talent".

*Observation 13 (paragraph 8.10)*

SMEs are at a disadvantage compared with larger firms when dealing with administration and regulations, particularly when they change, because of the time and additional financial costs of many of the bureaucratic procedures in order to export. This reduces the margins on returns from exporting and so may act as a deterrent to export for both newcomers to exporting and those already exporting. It can also mean loss of sales when the regulations do not apply equally to foreign competitors.

*Observation 14 (paragraph 8.20)*

Regulations emanating from importing countries vary in their level of burden, from being relatively benign to highly prohibitive and costly. Overall, however, our evidence suggests that regulations in the importing countries are more likely to pose a burden on exporters than those in the UK. The general picture, therefore, is that, rather than domestic regulation tending to inhibit exporting, it is more likely to be the regulations imposed by the importing country.

*Observation 15 (paragraph 8.24)*

On the whole, it appears that UK export regulation, whilst significant, is not a crucial deterrent for SME exporting. When set within the context of other factors (such as possessing innovative and unique products or services, understanding the export market, or dealing with currency fluctuations), export-specific regulations appear not to be overwhelmingly critical inhibitors to SME performance.

*Observation 16 (paragraph 8.39)*

Whilst we make no recommendation about specific application procedures associated with exporting, we deplore the use of over-lengthy forms by the UK and we urge the Government more generally to consider the needs of SMEs and to take into account the disproportionate impact regulations have on SMEs when formulating procedures and forms associated with those regulations.

*Observation 17 (paragraph 10.8)*

It is not satisfactory to wait for elaborate court cases to define the actual workings of the Bribery Act 2010 in case law.

## APPENDIX 1: MEMBERS AND DECLARATIONS OF INTERESTS

### Members

Baroness Cohen of Pimlico
Lord Cope of Berkeley
Baroness Drake
Lord Empey
Lord Evans of Watford (replacing Lord Mitchell)
Lord Grade of Yarmouth
Lord Haskel
Lord Haskins
Baroness Kramer
Lord Mawson
Lord Popat (until January 2013)
Lord Storey

### Declared Interests

Members declared the following interests relevant to the inquiry:

Baroness Cohen of Pimlico
*NED of the London Stock Exchange PLC*
*Owner and regulator of Alternative Investment Market*

Lord Cope of Berkeley (Chairman)
*None*

Baroness Drake
*Member, the Walker Guidelines Monitoring Group – UK private equity industry*

Lord Empey
*Vice president, The Institute of Export*

Lord Evans of Watford
*Chairman, Institute of Collaborative working; Chairman, Evans Mitchell Books; Chairman, Senate Consulting Ltd*

Lord Grade of Yarmouth
*None*

Lord Haskel
*None*

Lord Haskins
*Director of two farming companies, one of which exports pigs to several countries*
*Chairman of Humberside LEP*

Baroness Kramer
*None*

Lord Mawson
*None*

Lord Storey
*None*

A full list of Members' interests can be found in the Register of Lords Interests: http://www.publications.parliament.uk/pa/ld/ldreg.htm

Professor Robert Blackburn, Specialist Adviser
*Editor-in-Chief, International Small Business Journal*
*Director of The Small Business Research Centre, Kingston Business School, Kingston University*

## APPENDIX 2: LIST OF WITNESSES

Evidence is published online at http://www.parliament.uk/hlsmecommittee and is available for inspection at the Parliamentary Archives (020 7219 5314).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with * gave both oral evidence and written evidence. Those marked with ** gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

### Oral evidence in chronological order

| | | |
|---|---|---|
| * | QQ 1–56 | Edward Barker, Head of Commercial and Economic Diplomacy, FCO |
| * | | Patrick Crawford, CEO of UKEF |
| * | | Crispin Simon, Managing Director, Trade Development, UKTI |
| ** | QQ 57–72 | Professor Lester Lloyd-Reason, Professor of International Enterprise Strategy, Anglia Ruskin University |
| * | | Professor Richard Kneller, Professor of Economics, University of Nottingham |
| ** | | Professor Colin Wheeler, Professor of Marketing, Portsmouth Business School |
| * | QQ 73– 92 | Lesley Batchelor, Director-General, IOE |
| * | | Jon Coleman, Chairman, BExA |
| ** | | Alexander Ehmann, Head of Government and Parliamentary Affairs, IoD |
| * | QQ 93–112 | Clive Davenport, Trade and Industry Spokesman, FSB |
| * | | Mike Spicer, Senior Policy Adviser, BCC |
| * | QQ 113–158 | Emerson Roberts, Sales and Marketing Director, Brompton Bicycle Ltd |
| * | | Andy Mears, Group Sales Director, Deltex Medical Ltd |
| * | | Steve Box, Head of Trade, Receivables Finance Europe, HSBC |
| * | | Stephen Pegge, Director SME & Corporate Communications, Lloyds Banking Group |
| * | | Simon Nicholson, Head of International and Trade, Barclays Business |
| ** | | Peter Ibbotson, Chairman of Small Business, Royal Bank of Scotland |
| * | QQ 159–189 | Elizabeth Fells, Head of International Strategy, CBI |

| | | |
|---|---|---|
| * | QQ 190–233 | Mark Runiewicz, CEO, TAEFL |
| ** | | Simon Davies, Head of International Trade Finance, Bibby Financial Services |
| ** | | Samir Desai, CEO, Funding Circle |
| ** | QQ 234–259 | Daniel Doll-Steinberg, CEO and Founder, Tribeka |
| ** | | Phil Smith, CEO, CISCO UK and Ireland |
| ** | | Charles Ward, Chief Operating Officer, IntellectUK |
| * | QQ 260–296 | Tony Shepherd, Chairman, Alderley plc |
| ** | | Lee Hopley, Chief Economist, EEF, the Manufacturers' Organisation |
| ** | QQ 297–329 | Jane Turton, Director of Business Development and Business Affairs, All3Media and member of PACT |
| ** | | Richard Wilson, Chief Executive, TIGA |
| ** | | Patrick O'Luanaigh, Chief Executive, nDreams and a director of TIGA |
| ** | | Paul Alger, Director of International Affairs, UKFT |
| ** | | Mike Watts, Chief Executive, Novel Entertainment |
| * | QQ 330–349 | Melanie Leech, Director-General, FDF |
| * | | Steve Barnes, Director of Economic and Commercial Services, FDF |
| ** | | Philip Opie, Technical Director and Chairman of Bennett Opie Ltd |
| ** | | Viv Parry, Managing Director, Exquisite Handmade Cakes Ltd |
| ** | QQ 350–361 | Professor Stephen Hagen, Acting Vice Chancellor, University of Wales, Newport, and author of the PIMLICO Project |
| ** | QQ 362–377 | Magnus George, Head of Strategic Partnerships, Institute for Entrepreneurship and Enterprise Development, Lancaster University Management School |
| * | | Norman Rose, Executive Chairman, UKTF |
| * | | John Edson, International Trade and Logistics Tutor, ITS Training Ltd |
| ** | | Dr Paul Ellwood, Innovation Research Manager, Leeds University Business School |
| * | QQ 378–408 | Peter Mathews, Chairman and Managing Director, Black Country Metals Ltd and a member of the board of the Black Country LEP |
| * | | Charlotte Ritchie, Head of Policy, Black Country Chamber of Commerce |
| * | | Uday Dholakia, Chairman, NABA |

| | | |
|---|---|---|
| ** | | Christine De Myers-Robinson, Director of European Centre, Asian Business Research |
| ** | QQ 409–429 | Lord Heseltine |
| * | QQ 430–443 | Marcus Stuttard, Head of AIM, London Stock Exchange |
| ** | | Tim Hames, Deputy Chief Executive and Director, Policy, BVCA |
| ** | QQ 444–458 | Adam Jackson, Director, SME Envoy and Director of Enterprise, BIS |
| ** | | Graham Turnock, Chief Executive, BRE |
| ** | QQ 459–470 | Michael Williams, Deputy Director and Senior Economist, Market Access, Trade Policy Unit |
| ** | | Eamon Cassidy, Deputy Director Trade Negotiations and Programmes, Trade Policy Unit |
| ** | | Christopher Chew, Head of Policy, ECO |
| ** | QQ 471–490 | Lord Green of Hurstpierpoint, Minister of State for Trade and Investment |
| ** | | Michael Fallon MP, Minister of State for Business and Enterprise |

## Alphabetical list of all witnesses

| | |
|---|---|
| | ADS |
| * | AIM, London Stock Exchange |
| * | Alderley plc |
| ** | All3Media |
| | Alliance of Sector Skills Councils (the Alliance) |
| | APPG on Modern Languages |
| | Association of Event Organisers |
| | Aston Business School |
| | Atradius |
| | BAA Airports Ltd |
| * | Barclays |
| ** | Bennett Opie Ltd |
| | Betfair |
| ** | Better Regulation Executive (BRE) |
| ** | Bibby Financial Services Ltd |
| | Birmingham Chamber of Commerce |
| * | Black Country Chamber of Commerce |
| * | Black Country Metals Ltd |

Blue Sheep LLP
BP Sail Boats
Bradford Centre in International Business (BCIB)
* British Chambers of Commerce (BCC)
* British Exporters Association (BExA)
British Furniture Confederation
British Insurance Brokers' Association
British Marine Federation (BMF)
** British Private Equity and Venture Capital Association (BVCA)
British Security Industry Association Ltd (BSIA)
British Textile Machinery Association
* Brompton Bicycle Ltd
Buckinghamshire Business First
China-Britain Business Council (CBBC)
** CISCO UK and Ireland
Concrete Canvas Ltd
* Confederation of British Industry (CBI)
Dart Sensors Ltd
* Deltex Medical Ltd
* Department for Business, Innovation and Skills (BIS)
** EEF, the Manufacturers' association
EMASUK
Engineering and Machinery Alliance (EAMA)
Engineering the Future Alliance
** European Centre for Asian Business Research
** Export Control Organisation (ECO)
** Exquisite Handmade Cakes Ltd
* Federation of Small Businesses (FSB)
Federation of Small Businesses, Kent and Medway Region
Felixstowe College
* Food and Drink Federation (FDF)
* Foreign and Commonwealth Office (FCO)
Forum of Private Business
** Funding Circle Ltd
Gambica
Global Trade Network
Going Global Skills

| | |
|---|---|
| * | The Government (see UK Trade and Investment) |
| | Griffon Hoverwork Ltd |
| ** | Hagen, Stephen – Professor at University of Wales, Newport |
| | Hampshire Chamber of Commerce |
| | Harrap, Tim |
| ** | Heseltine, Lord |
| * | HSBC |
| | Institute of Chartered Accountants in England and Wales (ICAEW) |
| ** | Institute of Directors (IoD) |
| * | Institute of Export (IOE) |
| | Institute of Physics |
| ** | IntellectUK |
| * | ITS Training Ltd |
| * | Kneller, Richard – Professor at University of Nottingham |
| ** | Lancaster University Management School (LUMS) |
| ** | Leeds University Business School |
| ** | Lloyd-Reason, Lester – Professor at Anglia Ruskin University |
| * | Lloyds Banking Group |
| | LMK Thermosafe Ltd |
| | London & General Marketing Ltd |
| | Manufacturing Technologies Association |
| | Market Research Society |
| | Minden Systems Ltd |
| ** | Minister of State for Business and Enterprise, Michael Fallon MP |
| ** | Minister of State for Trade and Investment, Lord Green of Hurstpierpoint |
| * | National Asian Business Association (NABA) |
| | NEPIC |
| | Northern Defence Industries Ltd |
| ** | Novel Entertainment Ltd |
| ** | nDreams Ltd |
| ** | Producers Alliance of Cinema and Television (PACT) |
| | Quartzlock |
| | Rank Brothers |
| | Research Councils UK |
| ** | Royal Bank of Scotland (RBS) |
| | Scotch Whisky Association |
| | Society of Motor Manufacturers and Traders (SMMT) |

| | |
|---|---|
| | Steel Services Direct Ltd |
| | Teapigs Ltd |
| | Testhouse Ltd |
| ** | The Independent Games Developers Association (TIGA) |
| * | Trade and Export Finance Ltd (TAEFL) |
| * | Trade Policy Unit, BIS and DFID |
| ** | Tribeka Ltd |
| * | UK Export Finance (UKEF) |
| ** | UK Fashion and Textile Association (UKFT) |
| | UK India Business Council (UKIBC) |
| * | UK Trade Facilitation (UKTF) |
| * | UK Trade and Investment (UKTI) |
| | University of Chester |
| ** | Wheeler, Colin – Professor at Portsmouth Business School |
| | Whitmore, Malcolm |
| | Woodhead Publishing Ltd |

## APPENDIX 3: CALL FOR EVIDENCE

### Select Committee on SME Exports

Small and Medium-Sized Enterprises are central to the UK economy, providing nearly 60% of private sector employment. Exports provide important opportunities for SMEs to grow. A new *ad hoc* Committee, chaired by Lord Cope of Berkeley, has been established by the House of Lords to examine what the Government is doing to assist and promote SME exports.

In May 2011, UK Trade and Investment, the Government export promotion body, unveiled their strategy.[406] They stated that "succeeding in international markets" is essential to "rebuilding the economy at home in a balanced and sustainable way". One year on, it is timely to assess the progress of UKTI and other Government bodies in promoting SME exports.

We are seeking answers, particularly from SMEs, to the questions below and any related matters. The submissions we receive will guide the Committee's deliberations in oral evidence sessions which will take place later in the year and also inform the Committee's final conclusions and recommendations when it reports in February 2013.

*Are you an SME export success story?*

The Committee want to understand why some SMEs have succeeded in exporting, why others have been less successful and why some have chosen not to sell overseas at all. We are, therefore, very interested to hear from individual SMEs which are able to provide an example of any of these situations.

### Questions

The Committee invites submissions on the following points and related issues (please provide practical examples and evidence to support the points that you make where possible and please also specify whether you are talking about SMEs in general, or micro, small or medium sized enterprises in particular). Submissions need not cover all the points listed below.

*Current export market*

(1) What contribution do SMEs currently make to the export market (in products and services) and in which countries and sectors (both directly and through the supply chain to larger companies)?

(2) What contribution could SMEs potentially make both now and in the future, and within which markets and countries?

(3) How does the UK's SME export performance compare to those in competitor countries? What can the UK learn from their successes?

*Internationalisation of SMEs*

(4) What are the characteristics of successfully exporting SMEs? How do they differ from SMEs that are not exporting?

[406] UKTI (2011) *Britain Open for Business: growth through international trade and investment*.

(5) What are the perceived and real risks and opportunities to SMEs of exporting?

(6) What steps should SMEs that want to export take to prepare themselves to do so? What role should Government play in supporting them?

*Barriers and market failures*

(7) What are the key barriers and market failures (including regulatory, financial, operational, and other barriers) that inhibit SMEs from beginning to export or to increase their export efforts? How does this compare to the barriers experienced by larger companies? For example, how significant are foreign languages and customs as barriers to SMEs exporting? How can Government help SMEs overcome the barriers and market failures?

*Incentives*

(8) What are the key factors to encouraging SMEs:

(a) which already export, to sell more overseas; or

(b) which do not currently export, to start doing so?

For example, how have developments in information technology influenced the performance of SMEs and their capacity to compete internationally for trade and investment?

*Government Actions*

(9) How effective are the Government's current policy mechanisms in supporting SMEs to export at the UK and EU level? What are the most effective, what are the least effective mechanisms and when might they act as a barrier to exporting?

(10) What more should Government be doing to assist or promote the export of products and services by SMEs through different departments and agencies? Are the Government able to provide adequate local intelligence to assist SMEs in understanding foreign markets?

(11) How should Government act and behave with regard to SME exports?

(12) Should the Government target specific sectors, markets or types of companies where the potential is thought to be greatest? What are the costs and benefits of such an approach?

(13) Is there sufficient co-ordination of actions and awareness across Government and other bodies? How should other bodies be acting?

## APPENDIX 4: SEMINAR AND PRESENTATIONS

### Presentation

On **21 June 2012**, the Committee attended a briefing with the officials from UKTI, UKEF and FCO at the Department for Business, Innovation and Skills at 1 Victoria Street, London SW1. The following participants gave presentations:

- Tahir Ahmed, Chief Executive's Office, UKEF
- Edward Barker, Head of Commercial and Economic Diplomacy, FCO
- Crispin Simon, Managing Director, Trade Development, UKTI

### Seminar

On **28 June 2012**, the Committee held a seminar at the House of Lords. The following participants attended:

- Patrick Caiger-Smith, CEO, Green Energy Options Ltd
- Mike Chapell, Sales Manager, John Reid and Sons Ltd
- Steve Cooper, Managing Director of Barclays Business and Personal Banking, Barclays Plc
- Professor Nigel Culkin, Head of Enterprise and Entrepreneurial Development, University of Hertfordshire
- Daniel Doll-Steinberg, CEO, Tribeka Ltd
- Alexander Ehmann, Head of Government and Parliamentary Affairs, IoD
- Angela Franklin, President, and Gary Hobbs, Chief Executive, Cameleon Communications International Ltd
- Charles Gay, Corporate Director, TAEFL
- Peter Ibbetson, Small Business Chairman, RBS
- Chris Jarvis, Export Director, Titon Hardware Ltd
- Bob Keen, Head of Government Relations, BAE Systems plc
- Keith Lambourne, Export Director, ACO International, ACO Technologies plc
- Simon Poyser, Director, Velocity RDT Ltd
- Rosina Robson, Senior Policy Officer, FSB
- Mike Spicer, Senior Policy Adviser, BCC
- Doug Tweddle, Chairman, IOE

## Presentation

On **4 September 2012**, the Committee attended a presentation by representatives of RBS. The following participants attended:

- Russ Grazier, Regional Director, Transaction Services UK
- David Houghton, Head of Strategic Partnerships, UK
- Peter Ibbetson, Small Business Chairman, RBS
- Mark Parsons, RBS Group Public Affairs
- David Salter, Head of Market Management, Trade Finance, UK
- Aidene Walsh, Managing Director, Transaction Services UK

The following SMEs also participated:

- Bhupendra Dattani, Mitim Dattani and Vinesh Dittani of London and General Marketing Ltd, Watford
- David Davies and Morgan Holden of Sovereign Beverage Company Ltd, Blackburn

## APPENDIX 5: VISITS TO REGIONS IN ENGLAND

The Committee undertook five visits to regions in England: South East, South West, North West, Yorkshire and Humberside, and East Midlands.

### South East

The visit took place on **Wednesday 3 October 2012**. The focus of the visit was the marine sector. Members travelled to Southampton. They went to Griffon Hoverwork Ltd, an SME, where discussions were held with:

- David Barrow, Barrow International Ltd
- Mark Brostor, ECDIS Ltd
- James Grazebrook, Halyard Ltd
- James Hewitt, Ocean Signal Ltd
- Gary Jeffries, Solent LEP director
- Amarjit Singh, Co-chairman of Solent India Business Council
- Phil Turnham, InterForm Manufacturing Ltd
- Adrian Went, Griffon Hoverwork Ltd

In addition, the following representatives of UKTI South East attended:

- Chris Burchell, Executive Manager
- Janet Edwards, Executive Assistant
- Rory Pereira, Deputy Regional Director
- Christopher Uniacke, International Trade Adviser

Members visited another SME, Trimline Interiors, where they met:

- Gary Oliver, Trimline Interiors Ltd
- Jonathan Williams, Marine South East Ltd

### South West

The visit took place on **Thursday 4 October 2012**. The focus of the visit was on the creative sector. The Chairman travelled to Bristol. Discussions were held with the following:

- Paul Appleby, West of England LEP/Bristol Media
- James Durie, West of England LEP/Bristol Chamber

- Russell Jones, UKTI SW Regional Director
- Clive Wray, Business West/UKTI

The Chairman visited Aardman Animations Ltd where he had discussions with:

- Sean Clarke, Head of Rights
- Alix Wiseman, Head of TV Sales and Acquisitions

A roundtable discussion was held with:

- Paul Appleby, VID Communications Ltd
- Sarah Denley, Mubaloo Ltd
- Sean Devane, Kinneir Dufort Design Ltd
- Roberta Fuke, Bray Leino Ltd
- Russell Jones, UKTI SW Regional Director
- Rob Law MBE, Magmatic Ltd
- Alasdair McIntyre, Double Europe Ltd
- Dick Penny, The Watershed
- Linda Richards, Tigress Productions Ltd
- Mark Taylor, A Productions Ltd

The Chairman visited Avon Barrier Company Ltd where he had discussion with:

- Nigel Crowe, International Trade Adviser, Security and Defence
- Jason Hunter, Regional Business Development Manager
- Paul Jeffrey, Managing Director

## North West

The visit took place on **Friday 5 October 2012**. The focus of the visit was technology and innovation. Members travelled to Daresbury Science and Innovation Campus where they held discussions with the following:

- Phil Carroll, Managing Director, LPW Technology Ltd
- Neville Freeman, Director, Nanoflex Ltd
- Yash Khandia, Applied Computing and Engineering Ltd
- Lisa Layzell, Managing Director, Thin Space Ltd

- Mike Lodge, Commercial Manager, Arvia Technology Ltd

In addition, the following representatives of UKTI North West attended:

- Clive Drinkwater, Director North West
- Mike Eccleshall, Deputy Director North West
- John Leake, Business Development Manager
- Paul Treloar, Business Support Manager

Members also visited Oliver Valvetek Ltd, Knutsford where they held discussions with the following:

- Mark Oliver, Oliver Twinsafe Ltd
- Michael Oliver, Chairman, Oliver Valves Ltd, Oliver Valvetek Ltd, Oliver Twinsafe Ltd
- Paul Wilcox, International Trade Adviser, UKTI

## Yorkshire and Humberside

The visit took place on Friday **12 October 2012**. The focus of the visit was the food and drink industry. Members travelled to the Hull and Humber World Trade Centre where they held discussions with the following:

- Mohammed Aslam MBE, Aagrah Group of Restaurants (Aagrah Leopold LLP)
- Naeem Aslam, Aagrah Restaurant (Aagrah Leopold LLP)
- Jill Bartlett, Gordon Rhodes and Son Ltd
- Claire Brumby, Scrubbys Foods Ltd
- John Brumby, Scrubbys Foods Ltd
- Jay Mackay, F.W. Bishop & Son Ltd
- Tom Mellor, Wold Top Brewery Ltd
- Stephen Newton, Suma Wholefoods Ltd
- James O'Dwyer, Just Desserts Yorkshire Ltd
- Mark Pratt, JSR Genetics Ltd
- Gemma Richardson, Gordon Rhodes and Son Ltd
- Tim Rymer, JSR Genetics Ltd
- Lindsay West, Garthwest Ltd

In addition, the following representatives of UKTI Yorkshire and Humberside attended:

- Stephen Noblett, Food and Drink Adviser
- Mark Robson, Yorkshire and Humber Regional Director
- Stephan Stahl, International Trade Adviser

Members also visited the Humber Seafood Institute, where they held discussions with the following:

- Claire Brumby, Scrubbys Foods Ltd
- John Brumby, Scrubbys Foods Ltd
- Gary Cadey, Garfish Ltd
- Simon Dwyer, Sea Fox Management Consultants Ltd and Grimsby Trade Corridor Group
- Richard Enderby, Alfred Enderby Ltd
- Elsa Fairbanks, Director, Food and Drink Exporters Association
- Jason Longhurst, Head of Regeneration for North East Lincolnshire Council
- David Robinson, Economic Development Officer, Humber Seafood Institute

## East Midlands

The visit took place on **Friday 19 October 2012**. The focus of the visit was manufacturing. Members travelled to Derby. They visited Royal Crown Derby Porcelain Company Ltd where they held discussions with:

- Peter Hogarth, Regional Director for the East Midlands, UKTI
- The Hon Hugh Gibson, Chief Executive
- Simon Willis, Sales Director

A luncheon was held with the following:

- Gerry Blacoe, Chair of the East Midlands International Trade Association
- James Chaffer, RA Information Systems
- The Hon Hugh Gibson, Royal Crown Derby Porcelain Company Ltd
- Wendy Hain, East Midlands member of Catalyst UK business ambassadors (also formerly of the Spatial Group)
- Malcolm Hall, Hall-Fast Industrial Supplies Ltd
- Nigel Heldreich, Wheathills

- Sharon Henson, Portpack UK Ltd
- Mike Hunter, CEO, betterlanguages.com Ltd
- Paul Macis, Thorntons plc
- John MacNaughton, Managing Director, Raleigh International Ltd
- Nick Milestone, Construction Director, B & K Structures Ltd
- Geoff Quinn, Director, Buxton Brewery Ltd

Members also visited Smith of Derby Ltd, where they held discussions with:

- Peter Barry, Head of Finance
- Roger Leivers, Chairman
- Kevin Litchfield, Head of Design

# APPENDIX 6: VISITS TO WALES, SCOTLAND, NORTHERN IRELAND AND BRUSSELS

## Wales

The visit took place on **17 December 2012**. Members travelled to Cardiff where they held discussions with the following:

- Mike Hnyda, Head of Trade and Invest, Department of Business, Enterprise, Technology and Science, Welsh Government
- Eleanor Harris, Head of Trade Department of Business, Enterprise, Technology and Science, Welsh Government
- Huw Owen, Head of Policy Appraisal & Economic Analysis, Department of Business, Enterprise, Technology and Science, Welsh Government
- Paul James, International Trade Programmes and Contracts Manager, Welsh Government

and then with

- Bryan Craske, Abergavenny Fine Food Co
- Will Crawford, and Peter Brewin, Concrete Canvas Ltd
- Steve Edmunds, Cottam & Brookes Engineering Co (1985) Ltd
- Steven Goldsworthy, Zip Clip Ltd
- Tom Newman, The Celtic Experience Ltd
- Glynn Pegler, Culture Group
- Keren Winmill, Biotech Services International Ltd

Members visited Concrete Canvas Ltd

## Scotland

The visit took place on **17 January 2013**. Members travelled to Glasgow where they held discussions with the following:

- John Anderson, Entrepreneurial Exchange
- Liz Cameron, Scottish Chambers of Commerce
- Jane Gotts, Scottish Council for Development and Industry (SCDI)

and then with

- Alex Ogilvie , Objective Associates Ltd
- Gordon MacAulay, Ness Clothing Ltd

- Joe Hallwood , TEFL Scotland Ltd

Ed Payne and Carol Beattie of Scottish Development International (SDI) and Helen Smart of the Scotland Office attended both sessions.

## Northern Ireland

The visit took place on **22 January 2013**. Members travelled to Belfast where they held discussions with the following:

- Arlene Foster MLA, Minister of Enterprise, Trade and Investment, and Alastair Hamilton, chief executive of Invest NI, at Stormont

and then with

- Dr Vicky Kell, Maurice Patterson, Kate Gilmore, Janice Kerr, Elaine Curran and Tracy Meharg of Invest NI

and then with

- Elizabeth McCrory of UK Export Finance
- Moira Burke, Exploristics Ltd
- David Craig, Robert Craig and Sons Ltd
- Jarlath Gilmore, Rapid International Ltd
- Dr Hung Soon Chua, Kingspan plc
- Willie McKeown, Yardmaster International
- Ian McKnight, Hall McKnight
- Patricia O'Hagen, Core Systems (NI) Ltd
- Rory Smith, BRS Systems Ltd

## Brussels

The visit took place on **26 November 2012**.

The Committee had discussions with the following:

- Martin Jones, Counsellor and Verity Threlfell, Desk Officer, both from the competitiveness and marketing teams in UKREP (the UK Permanent Representation to the EU)
- Jonathan Brenton, UK Ambassador to Belgium, and Sue Mortimer, UKTI Regional Director, Benelux
- Glynis Whiting, President of the British Chamber of Commerce in Belgium
- Phil Bennion MEP

## APPENDIX 7: VISIT TO GERMANY

The visit took place on **12 November 2012**. Members travelled to Munich. The purpose of the visit was to gain an understanding of how provision for SME exports in Germany, and in particular Munich, compared with that offered in the UK and also to see how a UKTI office operated on the ground.

### Introduction (Frau Dr Ulrike Wolf, Head of Department of Foreign Trade, Foreign Direct Investment and Location Marketing, Bavarian Ministry for Economic Affairs, Infrastructure, Transport and Technology)

Dr Wolf said that one of the roles of the Bavarian Economics Ministry was to support SMEs in their internationalisation. The Bavarian economy was very export oriented. More than 52% of production was exported. Most of it was undertaken by large companies, big brands such as Siemens and Adidas. However, more than 98% of enterprises in Bavaria were SMEs. Their export share was around 32%. There was therefore room for improvement and work was needed to make them more fit for export markets. SMEs in Bavaria tended to be technically very highly developed. They were, in their fields, "hidden champions" and world market leaders.

### Outline of what UKTI do on the ground (Paul Heardman, HM Consul-General, Dr Astrid Ritter-Heinrich, Senior Trade Officer (High Performance Engineering (Automotive)), and Heike Bieber, Senior Trade Officer (ICT)

#### *UKTI Germany*

Mr Heardman explained that there was a UKTI presence in Germany located in Berlin, Düsseldorf and Munich. In total they employed 40 staff, most of whom were locally engaged. Twelve staff were employed in Munich. A sectoral approach had been adopted. This meant that the staff in Munich led on certain economic sectors—ICT, engineering and automotive—not only for Bavaria but for Germany as a whole. Sectors were assigned to consulates on the basis of the character of the economic activity within the region.

The synergy between trade and investment was important to the UK Government. Efforts were being made therefore to ensure that trade and investment were not siloed. Barriers between the two areas had to be avoided so that knowledge of the trade teams and the investment teams could be shared.

Commercial diplomacy was an important aspect of the work of UKTI Germany. An issue which needed to be addressed concerned the perception by German importers about the quality of output produced by British engineering companies. British companies needed to prove that they were of world class standard to compete for business in Germany. The Government's GREAT campaign was an important step in assisting in this.

#### *The German market*

The value of UK goods exports to Germany in 2011 was €39.4 billion, rising to €62 billion for all exports. It was the UK's fourth largest export destination. It was a very developed market. There were 3.6 million German SMEs, 99.7% of all companies. Ninety five percent were family owned which had an implication for their financing and for the business culture. German exports were 41% of GDP.

Bavarian exports were 51% of Bavarian GDP and in 2011 were valued at €160 billion, 75% of which were automotive, engineering and chemicals.

### *How do we help UK SMEs?*

Broadly, UKTI provided the following services: OMIS, broader service deliveries (answering questions outside offering a specific report) and commercial diplomacy.

#### *OMIS*

Dr Ritter-Heinrich explained the OMIS procedure. It could begin in a variety of ways: by email, through a trade show visit or a visit to the UK or via UKTI based in the UK (through the regional International Trade Advisers (ITAs)). The first step was to understand a company's product and what the company wanted to achieve. This could take time, depending on how quickly companies chose to take forward their queries: from a matter of two or three weeks to a year or so. An OMIS form was completed and an official first response offered. A Work Plan would then be devised and Final Report prepared. Follow up actions were subsequently undertaken such as proactively checking whether companies needed more support or information.

OMIS reports were charged for: usually between £1,000 and about £2,600. They took about on average 40 to 60 hours to compile, depending on scale and scope. They were sometimes longer and could then cost about £4,000 to £5,000. They were charged for at the end of the process. If a German company were to seek the same assistance (advice on exporting) from the Chamber of Commerce (IHK), it may be charged for since not all services were included in the IHK fee. It was likely that the charge levied by IHK was higher than that charged by UKTI. If a company wished to invest in Bavaria, advice could be received through Invest in Bavaria[407] at no charge.

#### *Other service deliveries*

Ms Bieber described other service deliveries. They included substantial advice during UK visits and trade fairs in Germany and the UK; provision of substantial information by email (outside of OMIS) (which would not be charged for if it did not require a very substantial amount of work); sector and country presentations at webinars, "Passport to Export" workshops and Export Explorer events; and organisation of receptions at trade shows. An example of a reception at a trade show was the Trade Show Electronica which was due to take place shortly. There would be 150 UK exhibitors. Its purpose was to support UK companies to meet potential business partners and customers, and to raise the UK profile. A networking reception would be held, alongside provision of a business lounge for 1-1 meetings. These meetings would be arranged through online registration and would be charged for.

A range of brochures were produced for UK SMEs interested in exporting to Germany. Officials from UKTI Germany would also go to the UK to give presentations.

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407 The Bavarian Economics Ministry business promotion agency.

### *Strengths of SMEs*

Dr Ritter-Heinrich described what were seen as the traditional strengths of UK SMEs: flexibility, innovation, design and creativity. An example of a UK SME being flexible was provided. It involved a case where a German seat manufacturer had been unable to fulfil an order because of a fire. A UK SME, through its flexibility, hard work and creativity, was able to assist.

### *Challenges for UK SMEs*

Ms Bieber described the challenges for UK SMEs. They included: lack of experience in exporting; lack of resources (financial and personnel); that the company focused on too many markets; strong competition; cultural differences; unrealistic expectations about how quickly a return could be made; and, weakness in product marketing. German companies were oriented to long-term relationships and UK SMEs sometimes underestimated the amount of lead time necessary to develop the right type of relationship.

### *Discussion*

UKTI generally had a target of doubling the number of SMEs helped over the next three years. There were also national and team targets. These targets included OMIS report revenues and targets relating to broader service deliveries. These were metrics designed to measure success in the best way possible. It was recognised however that OMIS revenues were indicative of success in terms of “a means to an end” rather than the end—exporting—in itself. Similarly, other service delivery targets were to do with facilitating success. UKTI success was not measured in terms of contracts signed by UK SMEs although that was the end sought but rather in terms of the extent of their facilitation role. There was a formal feedback process for companies to rate how satisfied they were with UKTI services. But no quantitative analysis of the effectiveness of OMIS reports was undertaken,.

UKTI Germany were asked what steps were taken to ensure that OMIS reports did not simply gather dust. The Committee was told that every effort was made to make entry into a market as easy as possible for SMEs but it was a partnership between UKTI Germany (and the regional ITAs in the UK) and the SMEs themselves. Only so much could be done. It was also sometimes the case that OMIS reports were not taken forward because, for example, the German speaker in the SME had left the company or there has been some other sort of re-organisation that changed the company’s priorities. Some SMEs chose not to report back on how they used the OMIS report.

A question was raised about whether other countries provided OMIS-style reports for their home SMEs. German businesses would use the Chambers networks and those of associated organisations. The Committee was told that, because of the federal nature of government, Germany had no equivalent to UKTI. Several years ago, an organisation called German Trade and Investment (GTAI) was set up.[408]

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408 This is the foreign trade and inward investment agency of the Federal Republic of Germany. Its mission is to promote Germany as a location for industrial and technological investments and to identify investors for the German market. The organization advises foreign companies looking to expand their business activities in the German market. It provides information on foreign trade to German companies that seek to tap into foreign markets.

It advised on inward investment and on foreign trade but did not provide OMIS reports.

On average 15 to 20 OMIS reports were prepared a year by each adviser. UKTI Germany in total produced 184 reports in the last year, 143 in the year before that.

Despite the increased targets for UKTI, including UKTI Germany, no more resources were provided (in fact, a re-structuring had led to a slight reduction in staff in trade and investment). Staff therefore had to be more creative about delivering services, using new technologies (such as the development of webinars).

UKTI Germany were asked about how they reached out to SMEs which ought to be considering exporting (because they had a product which had potential to succeed in export markets). The Committee was told that efforts were made to achieve this by representation at trade shows. Also UKTI Germany advisors regularly held workshops and presentations back in the UK. However, if companies made no attempt to do anything to find out about exporting, UKTI Germany could not reach them. Then it was a matter for the ITAs in the UK although the absence of mandatory membership of the Chambers meant they could not always identify potential companies easily.

In terms of improvements to present UKTI provision (such as TAP and the Passport to Export scheme), more work could be done to educate inexperienced exporters about the realities of exporting and to adopt a strategic approach to exporting decisions. SMEs could make more effective use of trade fairs. They could, for example, prepare for trade shows by using the OMIS report before the trade show and not after.

With regard to the language barrier, although many companies in Germany had capacity to speak in English, being able to speak German was a soft factor that could make all the difference. If a UK company were facing, say, three German competitors, it may well be disadvantaged because being able to speak German encouraged a feeling of safety.

Policy overview of how the Bavarian government supports SME exports (Silke Schmidt, Deputy Head of Division, Foreign Economic Relations, Europe (excl CEE), North America)

### *The Ministry and its partners*

The Department of Foreign Trade, FDI and Location Marketing, under the leadership of Dr Ulrike Wolf, was one of nine departments in the Ministry. It was split into five divisions, four covering different areas of the world and the fifth headed by the Deputy Head of Department responsible, in particular, for Invest in Bavaria, market access and location marketing.

Bayern International was set up in 1995 by the Bavarian State Government in order to promote foreign trade. It was part of a strategic initiative funded by privatisation revenues. It cooperates closely with the government and private partners in encouraging companies to go abroad and to access international markets. It provides a range of services for companies. Other partners include, for example, associations of chambers, Chambers of Commerce (IHK (industry) and Arbeitsgemeinschaft der bayerischen Handwerkskammern (HWK (trade and crafts)) and industry associations.

The Ministry has made efforts to bring companies into clusters—this is described as the Cluster Offensive. High profile clusters have attracted further innovative companies and personnel into the cluster. One goal of Bavaria's cluster-building policies is to enhance the ability of the state's companies to compete in globalised markets.

### *Policy outline*

The export share of Bavaria was 51% in 2011, with SMEs accounting for about 32%. Bavaria has high innovation potential demonstrated by the fact that 28.8% of German patent applications in 2011 emanated from Bavaria and Bavaria had a self-employment rate of 12.1% (compared to a national rate of 10.9%). Eight of the 30 DAX companies[409] are in Bavaria although 99% of Bavarian companies are SMEs.

The Ministry's credo is that: exporting SMEs are more innovative, they are more successful and there was great potential to increase SME exports. Efforts were made to tailor instruments to meet the needs of SMEs. All instruments were generally open to all industries and services, all destinations were considered (distinctions were made between classical destinations, markets of the future and markets with potential in the future), success depended on a mixture of long term planning (looking ahead to, for example, trade missions in 2013 and 2014) and flexibility, and close coordination with partners. The Ministry wanted to intensify the cooperation between science and the economy; to take steps to ensure that qualified employees stayed in Bavaria (to offset the current shortage); and to ensure that the regulatory framework was good for the business environment.

Bavaria's most important trading partner was Austria, followed by China and the USA. Its most important export countries were USA, China and Austria, in that order; and its most important importing countries were Austria, China and Italy, with the USA fourth. Its most important export product was motor vehicles €48.9 billion (2011), followed by electrical engineering €27.9 billion and machinery €26.2 billion. The figures suggested that the UK had a net trade deficit with Bavaria (in 2011, UK exported €4.9 billion worth of exports but imported from Bavaria €9.7 billion worth of imports).

### *Overview – instruments*

Promotion of foreign trade involved preparation for export business (information (internet and events) and individual advice (Go International)); introduction to export businesses abroad (trade missions (about 15 to 20 a year), business trips, the Trade Fair Participation Programme); the Fit for Partnership programme; the availability of (23) contact persons, Bavarian Foreign Representatives, all over the world;[410] and Innovation Vouchers and the Key Technologies Database.

Trade missions under the direction of politicians were organised to markets where politicians are needed as "door-openers" to establish business contacts.

Efforts were made to contact those SMEs which were more difficult to reach by "going to the villages" and inviting all SMEs through the Chambers. All companies were members of the Chambers. Regional events were also put on.

Business trips were arranged, taking delegations to promising markets. The participants have to pay for their flights but the Ministry, together with Bayern

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409 The DAX (*Deutscher Aktien IndeX*, formerly *Deutscher Aktien-Index* (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

410 Including Johannesburg, Bangalore, Tokyo, Ho Chi Minh City, Sao Paulo and in Europe.

International, would arrange the receptions. They will involve cooperation with partners abroad such as Embassies and Chambers. Politicians are not included. They are very sector specific, the Ministry taking the view that the more targeted the better.

The Trade Fair Participation Programme involved (2012) 50 trade fairs in 27 countries. Bayern International would provide an opportunity for companies to pay some contribution towards part of a stand. The Fit for Partnership programme entailed inviting decision makers and managers to Bavaria to be informed about developments and technology, and standards of performance, in areas such as health and environmental technology. Bavarian companies had a chance to present their products and establish business relationships. This programme focuses on Middle and Eastern Europe, Northern Africa, the Commonwealth of Independent States (CIS) and Turkey.

The Fit for Foreign markets – Go International provided coaches (retired business people) with experience in international trade, if possible in the envisaged market, to assist SMEs in establishing in a new market. The companies have to pay towards the coach but it is relatively inexpensive. In a second phase, companies get a reimbursement of 25% of the cost of implemented measures that were jointly developed, up to €10,000. The coaches meet once to year to discuss their experiences and to follow up their activities.

Innovation Vouchers are worth a maximum of €7,500 per innovation and 50% of a product. Their purpose was to link up SMEs with research institutes and companies that were strong in research. The vouchers could be used to support scientific activities in the run-up to development and product-oriented research and development. They can be used with partners abroad, too.

The Ministry provided a Company Database for SMEs which included comprehensive information on Bavarian enterprises, research institutes for technology transfer and networking. It had 20,000 entries arranged by sector and provided a marketing platform for Bavarian companies worldwide at no charge.

The Centre for Foreign Trade in Bavaria (AWZ) was a joint initiative of the IHK and the HWK. The Centre offered services such as international workshops and conferences.

Some financial assistance was provided by the Business Development Bank Bavaria (LfA). The LfA offered financial assistance for orders abroad ("letters of credit") and for investments abroad (credits, loan guarantees and financing of consortia). Companies could not go to the LfA directly but needed to go to their house bank first. The LfA would bear part of the risk

There was also some assistance for those companies needing a bridging loan pending payment of invoices. There were some federal programmes and also the KfW bank. But, as in the UK, delay in payment was an issue.

### *News*

An Export Award was used to encourage SMEs. The winners were not given money but, instead, a two-minute marketing film in German and English which they could embed in their websites, a trophy and the publicity of the event.

The full range of all activities of all Foreign Trade Partners in Bavaria was available, in German, on the internet under www.aussenwirtschaft-in-bayern.de. Features of the webpage included a question and answer system which led SMEs to the relevant support schemes for each phase of internationalisation of a company, and an “export compass” giving an introduction to important topics ranging from export control, finance to intercultural behaviour, a database with all events and activities, and a news section.

### Practical support delivered on the ground via Bayern Innovativ GmbH, a publicly-backed body (Gabriel v Lengyel-Konopi, Head of Technology Marketing)

Bayern Innovativ is a Centre for Innovation and Technology Cooperation. It is a corporation of the State of Bavaria and was set up in 1995. Its objective is networking for open innovation. It is funded by the Bavarian Economics Ministry (40%) and, externally, by fees and projects (60%). The Ministry funding is not taxpayers money as such but a type of public endowment. It has a turnover of €15m. It is based in Nuremberg and has 110 employees (70 of whom are scientific staff). Eleven languages are spoken and seven nationalities represented. Bayern Innovativ is a limited company. 51% of the shares belong to the LfA (state bank). Other German States do not have the same sort of organisation.

The core task of Bayern Innovativ is to bring innovations to market and to make companies more competitive in the international market. A key issue has been how to reach all SMEs. The solution adopted has been to use platforms as a means of bringing companies together and to encourage them to talk to each other. In addition, Bayern Innovativ has a continuous web presence (for example, Web-Portals, E-Letters). Exporting was not a principal task of Bayern Innovativ.

The Chairman of the Supervisory Board is the Bavarian State Minister for Economic Affairs. This is important because it gives the organisation status in the eyes of the companies using its services. The value of the Supervisory Board is that it enables Bayern Innovativ to fully understand what industry wants.

The difference between Fraunhofer Institutes and Bayern Innovativ is that the former are scientific bodies with laboratories whereas Bayern Innovativ is more like a “marriage broker”. Both are publicly funded. There is no issue of duplication with Fraunhofer or with the universities because they tend to be very specialised whereas Bayern Innovativ covers all the sectors.

The first Bayern Innovativ annual congress was held in 1996. Congresses always include an exhibition. About 70 platforms are held annually, with 12,000 participants from 40 countries. Bayern Innovativ organises joint booths at about 15 to 18 international trade fairs in Germany. Small companies can buy a portion of a larger booth at the exhibition. Fees are charged for every event but they are very affordable. Furthermore, if a service is not charged for there is a risk that it will not be taken so seriously. Demand for participation in exhibitions is high.

With regard to protecting innovative ideas, patenting was in many circumstances ineffective—“worthless”—especially, in for example, East Asia. It was also very expensive. The answer was to be fast. Once a product is out, it will be copied. So it is necessary to have another product in the pipeline. The situation in China is slowly improving.

Bayern Innovativ has ten network areas: automotive suppliers, new materials, life sciences, energy, electronics/microtechnology, logistics, timber, textiles MedTech/Pharma and environmental technology.

Bayern Innovativ has a network of 55,000 companies, of which 30,000 are in Bavaria, and 500 scientific institutes, across 50 countries and five continents.

The Bavarian Cluster Offensive (since 2006) was set up by the Bavarian State to further increase co-operation of industry and science in Bavaria and to open up further the potential of supranational and international co-operation. There were 19 clusters with 14 responsible organisations. Bayern Innovativ manages three clusters: Automotive, new materials and energy technology.

In the first year, 90% of the financing of the clusters was provided by the State of Bavaria. Now it is about 50%, the other half is generated by Bayern Innovativ. The funding was used to provide for all elements of the business plan (telephones, staff, projects, platforms) and is now in the region of €250,000 to €350.000 a year.

The key factors for success of Bayern Innovativ were: long-term financial funding—the continuity of Bayern Innovativ was a real strength in that it enables long-term planning and security and the development of relationships; support from the Bavarian government; fostering a close relationship with industry and away from politics; customer-oriented activities—Bayern Innovativ tour Bavaria to consult industry; authority amongst the industry as a result of technology expertise and self-generated revenues; and knowledge transfer across all branches both externally and internally. The success of Bayern Innovativ is demonstrated by the fact that companies are prepared to pay for its services. It had been calculated that industry spent more than €15m a year on participating in Bayern Innovativ congresses (if the cost of the time given up by the individuals from the companies is included).

### Chamber of Industry and Commerce (IHK) for Munich and Upper Bavaria: Chambers of Commerce and Industry and their role and services in German and Bavarian foreign trade promotion (Alexander Lau, Head of Unit Europe, Enterprise Europe Network (ENN) Bavaria department of foreign trade)

The German and British systems of Chambers of Commerce are very different because of their different bases of membership. In Germany, unlike the UK, membership is compulsory (even single person businesses). The fee is not large. For an SME it may about €100 up to about €500 a year, depending on size. In the Munich, 40% of members pay nothing because they are so small. The compulsory membership is however disputed by, for example, very small companies in the service sector.

The Bavarian Chamber of Commerce is the largest in Germany with 370,000 member companies (which is more than one tenth of all German companies). The Munich office has 480 staff and regional offices and the training department make up another 130. Medium sized chambers have about 120 to 150 staff (with perhaps about up to 40,000 member companies).

*SMEs are 98 to 99% of all companies.*

The German Chambers in the north go back to the 17th century and the need for protection from piracy, although they are more largely a development from industrialisation in the 19th century. They are governed by public law. There are about 80 Chambers of Commerce in Germany (of which nine are in Bavaria). They are self-regulating, but controlled by the ministries of the different regional states. Each member company has one vote. The Chambers discharged their duties under the jurisdiction of the regional state and represent their regional business community in its entirety, irrespective of the sector and size of the member companies.

The German Chamber Network abroad is an organisation with 120 AHK offices in 80 countries (for example, there is a German British Chamber of Commerce and Industry with about 40 staff). Those offices are self-funding save for €35m a year provided by the federal government. AHK are the official representation of the German foreign trade promotion in their host countries; member organisations (membership being made up of host country companies), and service providers to companies. In addition, the Free State of Bavaria has installed in key markets 23 "Bavarian Representatives", the majority being among the AHK secretary generals.

Bavaria is a famous location for economic power, with universities and high tech companies, tourism and a high quality of life. A reason for the success of Bavaria is the political stability which it has enjoyed. Bavaria and, in particular Upper Bavaria, has the lowest unemployment rate in Germany and above average buying power. The export rate in Germany is about 48%. In comparison, the average in Bavaria is 54% and for the Munich region it is 73 or 74%. This means that almost 3 out 4 goods produced in the Munich region are exported abroad. Part of the success was because of a number of companies in the area being Hidden Champions. The area also benefited from the presence of key technologies and the cluster initiative.

Bavarian exports to the UK (in 2011, €9,741m) exceed Bavarian imports from the UK (in 2011, €4,856m). This was because of the long lasting relationship between Bavaria and the UK and the export orientation of many Bavarian companies. In 2011, the UK was Bavaria's 6th most important export partner (€9.7bn) (a 3% increase from 2010) and 10th most important import partner (€4.9bn) (a 23.6% increase from 2010). In terms of growth of Bavarian exports in absolute terms, in 2011, the highest was to China (€2,516m)(21.5% increase), and Russia stood at €1,197m (41.7% increase). The main export partner for Bavaria remained, however, the United States.

Qualified staff from abroad are encouraged to come to Bavaria because of a growing gap between supply and demand. As a result, the IHK Foreign Skills Approval (ForSA) centre was established at the beginning of 2012. It is a national competence centre for the evaluation and recognition of foreign vocational qualifications.

The Chambers perform a range of tasks. For example, they address issues concerning the external aspects of economic life such as pollution; assist with vocational training; are responsible for the authentication of foreign trade documentation (such as certificates of trade invoices); and undertake functions relating to corporate social responsibility. They also have a role in EU tasks and EU programmes.

The Chambers assist SMEs by offering basic support through an "Information and Service Centre" and online advice. They also organise conferences and workshops which are well attended and provide a monthly newsletter and a chamber magazine. There is an export prize award with a category applicable to SMEs.

In 2011, the IHK for Munich and Upper Bavaria offered the following services on international issues: authentication of about 200,000 foreign trade documents (a statutory role); 12,000 individual consultancy to companies; 200 events with 8,000 participants; 180 political delegations, meetings and discussions; 40 Go International support measures (on behalf of the Bavarian State); 60 reports, lectures and moderations; and 90 visits to companies. They do not charge for a basic service.

The Chambers also assist the State of Bavaria in the provision of its trade services (for example, with business events and delegations, foreign delegation visits to Bavaria and trade fair participation at joint stands of Bavarian companies).

The Bavarian Chambers are a member of the Enterprise Europe Network (EEN), the SME service network of the European Commission. The EEN is a network of about 600 organisations in Europe (in the 27 member countries) and outside of Europe (in 26 other countries). It is run by DG Enterprise in Brussels. Its main tasks are the assistance of SMEs in Internationalisation, research and innovation, EU programmes, EU legislation and information about the internal market.

Finally, economic success of Germany and especially Bavaria depended on having a mixture of different approaches to SMEs. There was no single solution. There needed to be a diversity of different promotion instruments and institutions. And the direct regional approach to the companies via chambers and other supporting actors was one of the key success factor for the stability of the German economy even in the hard times of the worldwide economic crisis.

### Maccon GmbH (German SME) (Edward Hopper, Managing Director)

Maccon was formed in 1982. It has a turnover of about €8m and a core staff of 40 (mainly engineers and technicians). It is a company which specialises in high-performance application of electric drives. It is involved in the development and manufacture of synchronous and asynchronous motors, and in the marketing and sales of motors, controls and accessories. It deals with small volume, specialised production. It is active in Germany, Europe and Asia, through strategic partnerships. The company has a joint venture in India and dealings in China. Whilst now international, at the start, the company had no intention of going abroad. Maccon is involved in a range of highly specialised projects (such as space electronics and space motors). Awareness of opportunities to participate in such projects tended to be by "word of mouth".

The Bavarian economy is characterised by a preponderance of heavy engineering. This concentration was important to the success of the sector in the area, alongside the brand "Made in Germany". The Mittelstand model in Germany was changing: Mergers and acquisitions were now recognised concepts in Germany.

When asked about the differences between the challenges faced by German and UK SMEs, Mr Hopper said that his impression was that they were very similar although he suggested that Bavaria had the advantage of concentration of production whereas the UK had the advantages of being well-connected throughout the world and of the fact that English was the world's business language.

Availability of finance was a problem for SMEs in Germany. Banks did not understand how to finance business. Maccon had a good relationship with its House bank but, none the less, collateral and a good business case had to be given in return for finance. Banks in Germany used to have a reputation for localism but that was true up until 1990—at that point, banks' responsibility for industrial clients was centralised.

Help provided to German SMEs included: AHK (Deutsche Auslandshandelskammers), ENN (Enterprise Europe Network), KFW, Bayern Innovativ and European Commission FP7 funding for Research and Innovation (which had allowed Maccon to develop useful networks). Other help included the creation of clusters (enabling small companies to talk to large companies), the provision of trade missions (to develop contacts), availability of exhibitions (using joint stands) and technical assistance for the developments of websites.

The web was extraordinarily important for Maccon: 50% of new business came through the web and 50% through existing customers.

Mr Hopper suggested that any way of enabling SMEs to join forces (such as joint stands at exhibitions) improved their effectiveness. Not only because of the beneficial effect of bringing companies with similar or complementary profiles together but it also enabled cost savings.

Where Maccon would like help was with identifying good quality agents in the country to which they wanted to export. Success in the market place depended on such agents and more information on good contacts would be of assistance. Networking was everything.

With regard to finance, there was a state bank, KFW, which was the one place where a company could ask for money without onerous security requirements. Research grants and long-term mezzanine capital were also available. It was a flexible and non-bureaucratic source of finance. It was a development bank rather than one which would be used for financing specific export transactions. There were other sources of federal government finance such as, in Berlin, ZIM[411] (run by AIF) which provided research and development finance. Funding was also provided at state level.

Patenting was not an issue for a business with a niche product. It was very different however for mass market products.

[411] The Central Innovation Programme for SMEs (ZIM) is a nationwide, open technology and market development programme for small businesses and those with cooperating industrial research facilities.

## APPENDIX 8: EXAMPLES OF REGULATIONS IMPOSED BY IMPORTING COUNTRIES

We received evidence about a number of countries and the regulations they impose on imports. The following sets out some of that evidence. It does not purport to be a complete survey.

### Brazil

Griffon Hoverwork Ltd commented that import tariffs were particularly high in some key developing markets, citing experience of Brazil and India.[412] Deltex Medical Ltd said that:

> "In Brazil, for example, it can take between 12–18 months to register a medical device and at a cost of around $30,000 (USD). This includes having to be audited in the UK. Once registration has been granted, there can be up to a 90% import tax on your product, making it difficult to compete locally. We would welcome inter-governmental efforts to streamline such approval processes, with UKTI support to help negotiate the regulatory systems in key UK export markets."[413]

### Canada

The Forum of Private Business noted that: "One of our members, an exporter of cryogenic storage vessels, has found excessive red tape a barrier to accessing some target markets. For example, they been unable to export to the Canadian market because of the bureaucracy involved in its technical licensing requirements".[414]

### China

The ICAEW noted that, in China, problems included selective inward investment regulations, uneven intellectual property enforcement, standardisation issues and limited access to public procurement.[415] CBBC confirmed this. The Council said that the key business challenges facing those in the China market continued to be bureaucracy, securing licences and protecting intellectual property. They also commented that enforcement varies across different cities and regions with poor transparency in the decision-making process. They noted however that despite intellectual property rights being cited as an important factor in China operations, the number of infringements that actually harmed operations was relatively low.[416]

Engineering the Future Alliance suggested that in markets like China and India, offset legislation (which requires foreign companies to use the domestic supply chain in exchange for public sector contracts) and local content procurement policies were a threat to UK SMEs.[417] ADS recommended that increased government to government activity was needed to build relationships between the

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412 Griffon Hoverwork Ltd.

413 Deltex Medical Ltd.

414 Forum of Private Business.

415 ICAEW.

416 CBBC.

417 Offset regulations built in to export deals mean that the prime contractors are under pressure to award sub-contracts to the indigenous industries of those nations. Whilst offset rarely applies directly to UK SMEs, due to their exports being below the high value thresholds at which point offset becomes mandatory, these obligations can have a significant impact on the continued retention of UK SMEs in the prime contactor's supply chains.

UK and these countries to reduce the offset percentage in export deals and ease trade, particularly for SMEs.

The CBBC noted that from their surveys and research, the challenging regulatory environment in China meant that companies will often need help from the British Embassy and government representatives in China to seek advice from their Chinese counterparts. Regulatory changes could often happen at very short notice and it was challenging for SMEs to keep pace.

TeaPigs Ltd supported the need for such advice, stating that they had experienced difficulties in some markets getting their teas in through customs.

> "As an example—We have an importer / distributor based in China who has pre-sold the teas to a number of retailers. He is unable to get the teas in through Chinese customs despite exploring a number of different routes. The products we are importing are already sold in China (black tea, herbal infusions) so they are not banned products. We have consulted with CBBC and UKTI to request advice—we have followed the given guidelines but with no success."[418]

### India

The UKIBC stated that India was a complicated market to access, with significant regional, social, religious, linguistic and commercial differences between and within the 28 States that make up the Indian Union. These complications were amplified for UK SMEs looking to enter the Indian market.[419] The ICAEW noted that India offered opportunities in education and skills, green energy and financial services. These were all sectors in which the UK had notable capabilities. They suggested that the Government should continue to work closely with the EU to reach a free trade agreement with India that would allow UK SMEs to flourish in India in these sectors, and attract further Indian investment into the UK.[420]

### USA

ADS noted that many UK companies were bound by the extraterritorial nature of US export controls, specifically, the International Traffic in Arms Regulations (ITAR). This regulatory regime is a burden. ADS applauded the US government's proposals to reform ITAR and the introduction of the UK/US Defence Trade Cooperation Treaty which aimed to streamline the bilateral exchange of defence articles under certain circumstances.

Melanie Leech of the FDF told us:

> "We have one company at the moment that has just been advised that in order to export £35,000 worth of goods to America it will have to undergo a two-day audit from the American food safety authorities. That is exactly the same audit as if they were exporting £35 million worth of goods, so you can easily see that for an SME that is a disproportionately huge challenge and one that it seems to us is not proportionate to any risks that those products could carry for the US. They are already audited here for food safety and they are audited in every other market that they export to, but there is no mutual recognition of those standards. That would be one area."[421]

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418 Teapigs Ltd.

419 UKIBC.

420 ICAEW.

421 Q334.

## APPENDIX 9: ABBREVIATIONS

The following is a list of abbreviations used in the report. Where possible and appropriate, we have also included a web address.

| Abbreviation | Organisation | Website |
|---|---|---|
| Alliance | Alliance of Sector Skills Councils | http://www.sscalliance.org/ |
| APPG | All-Party Parliamentary Group | |
| BCC | British Chambers of Commerce | http://www.britishchambers.org.uk/ |
| BCIB | Bradford Centre in International Business | http://www.brad.ac.uk/management/bcib/ |
| BExA | British Exporters Association | http://www.bexa.co.uk/ |
| BIS | Department for Business, Innovation and Skills | https://www.gov.uk/government/organisations/department-for-business-innovation-skills |
| BMF | British Marine Federation | http://www.britishmarine.co.uk/ |
| BPE | Business Population Estimates | |
| BRIC | Brazil, Russia, India and China | |
| BRTF | Better Regulation Task Force | http://www.fco.gov.uk/en/test-site/contracts-procurement-toks/toks-test-new |
| BSIA | British Security Industry Association | http://www.bsia.co.uk/ |
| BVCA | British Private Equity & Venture Capital Association | http://www.bvca.co.uk/home |
| CBBC | China-Britain Business Council | http://www.cbbc.org/ |
| CBI | Confederation of British Industry | http://www.cbi.org.uk/ |

| Abbreviation | Organisation | Website |
|---|---|---|
| CFA | Skills Council for Administration | http://www.skillscfa.org/ |
| CHIEF | Customs and Handling of Import and Export Freight | https://www.gov.uk/chief-trader-import-and-export-processing-system |
| CILT | National Centre for Languages | http://www.cilt.org.uk/home.aspx |
| CIP | Competitiveness and Innovation Framework Programme | http://ec.europa.eu/cip/ |
| DEFRA | Department of Environment, Food and Rural Affairs | http://www.defra.gov.uk/ |
| EAMA | Engineering and Machinery Alliance | http://www.eama.info/ |
| EC | European Commission | http://ec.europa.eu/ |
| ECGD | Export Credits Guarantee Department/ UK Export Finance | http://www.ukexportfinance.gov.uk/ |
| EIB | European Investment Bank | http://www.eib.org/ |
| EIP | Entrepreneurship and Innovation Programme | |
| ELAN Survey | Effects on the European Economy of Shortages of Foreign Language Skills in Enterprise | http://ec.europa.eu/languages/documents/doc421_en.pdf |
| EMRS | Export Marketing Research Scheme | http://www.ukti.gov.uk/export/howwehelp/exportmarketingresearchscheme.html |
| EU | European Union | http://europa.eu/index_en.htm |
| FCO | British Foreign and Commonwealth Office | http://www.fco.gov.uk/en/ |

| Abbreviation | Organisation | Website |
|---|---|---|
| FDF | Food and Drink Federation | http://www.fdf.org.uk/ |
| FSB | Federation of Small Businesses | http://www.fsb.org.uk/ |
| GGG | Gateway to Global Growth | http://www.ukti.gov.uk/export/howwehelp/gatewaytoglobalgrowth.html |
| HSBC | The Hong Kong & Shanghai Banking Corporation | http://www.hsbc.co.uk/1/2/ |
| ICAEW | Institute of Chartered Accountants in England and Wales | http://www.icaew.com/ |
| IoD | Institute of Directors | http://www.iod.com/ |
| IOE | Institute of Export | http://www.export.org.uk/ |
| IPO | Intellectual Property Office | http://www.ipo.gov.uk/ |
| IT | Information Technology | |
| ITA | International Trade adviser | |
| LEP | Local Enterprise Partnership | http://www.lepnetwork.org.uk/ |
| LMS | Language Management Strategies | |
| LUMS | Lancaster University Management School | http://www.lums.lancs.ac.uk/ |
| MTA | Manufacturing Technologies Association | http://www.mta.org.uk/ |
| NABA | National Asian Business Association | http://www.nabauk.org/ |
| NED | Non- Executive Director | |
| NICE | National Institute of Health and Clinical Excellence | http://www.nice.org.uk/ |

| Abbreviation | Organisation | Website |
|---|---|---|
| NOS | National Occupational Standards | http://nos.ukces.org.uk/Pages/index.aspx |
| OBRS | Overseas Business Risk Service | http://www.britishmarine.co.uk/what_we_do/international_development/ukti_support/ukti_obrs.aspx |
| OECD | Organisation for Economic Co-operation and Development | http://www.oecd.org/ |
| OGEL | Open General Export Licence | |
| OMIS | Overseas Marketing Introduction Service | http://www.ukti.gov.uk/export/howwehelp/overseasmarketintroductionservice.html |
| PACT | Producers' Alliance for Cinema and Television | http://www.pact.co.uk/home/ |
| PSC | Point of Single Contact | |
| PIMS | Performance and Impact Monitoring Survey | http://www.ukti.gov.uk/uktihome/aboutukti/ourperformance/performanceimpactandmonitoringsurvey.html |
| RBS | Royal Bank of Scotland | http://www.rbs.co.uk/personal.ashx |
| SBA | Small Business Act for Europe | |
| SFEDI | Small Firms Enterprise Development Institute | http://www.sfedi.co.uk/ |
| SIEL | Standard Individual Export Licence | |
| SME | Small and Medium sized Enterprise | |
| SMMT | Society of Motor Manufacturers and Traders | https://www.smmt.co.uk/ |
| SSC | Sector Skills Council | http://www.ukces.org.uk/ourwork/sector-skills-councils |

| Abbreviation | Organisation | Website |
|---|---|---|
| SWA | Scotch Whisky Association | http://www.scotch-whisky.org.uk/ |
| TAEFL | Trade and Export Finance Limited | http://taefl.co.uk/ |
| TAP | Tradeshow Access Programme | http://www.ukti.gov.uk/export/howwehelp/tradefairsexhibitions.html |
| TIGA | The Independent Games Developers Association | http://www.tiga.org/ |
| UKCES | UK Commission for Employment and Skills | http://www.ukces.org.uk/ |
| UKEF | UK Export Finance | http://www.ukexportfinance.gov.uk/ |
| UKFT | UK Fashion and Textile Association | http://www.ukft.org/ |
| UKIBC | UK India Business Council | http://www.ukibc.com/ |
| UKTF | UK Trade Facilitation | |
| UKTI | UK Trade and Investment | http://www.ukti.gov.uk/ |